ABSTRACT

This research aims at identifying the factors analysis determining level compliance public companies on timeliness announcement annual financial statement. Two questions of research are as follows: First, the effect of BAPEPAM rule X.K.2 on compliance level public companies of announcement annual financial statements 2001-2002. Second, profitability, financial distress, auditor changes, reporting audit lag, interim financial statements status, and auditor opinion assumed as factors determinant the compliance level public companies on timeliness annual financial statement.

This is an empirical research with sample 705 firm years from 151 public companies from audited annual reports period 1998-2002 that listed on the JSX.

The results with t test paired indicate that statistically significant founded decreasing compliance level after BAPEPAM rule No. X.K.2 applied. Second analysis with logistic regression backward stepwise method for identifying determinant factors level compliance public companies.

Inconsistent with previous studies (e.g., Naim 1999, Ashston 1995, and Halim 2000) analysis identified profitability, financial distress, auditor quality and interim financial report status statistically not significant as the factors determinant level compliance. This study found that auditor changes, audit opinion and audit report lag statistically significant effect on compliance level public companies for BAPEPAM timely reporting (the truth consistent with previous studies such as those of Schwartz and Soo 1986, Whited 1980).

Keywords: Regulatory Compliance, Factors, BAPEPAM Rules

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INTRODUCTION

A. Background

BAPEPAM regulation about the information expression arranged in the Act 8 of 1995 about the submission of audited annual financial statement publication is forceful in nature with the deadline of 120 day from the end of fiscal year until the date of delivering the financial statement which have been audited to BAPEPAM. Since August 14th, 2002 the regulation is replaced with the new regulation with the number X.K.2 relating the obligation of conveying the periodic report which arranges the deadline of conveying the financial statement to BAPEPAM which is determined to be 90 days. The regulation reporting is utilized to ensure that the important information is available to the investors. When the regulation cannot be obeyed or when the time setting does not yield the important information, it can be interpreted that regulation is not effective. This research is motivated by Ainun’s (1999) research concerning the value of time accuracy information of financial statement articulation, the empirical analysis on the information regulation in Indonesia.

This research differs from Ainun’s (1999) research in some cases, such as research method including independent variables, and its research sample. Independent variable employed by Ainun (1999) involves financial variables, and auditor’s opinion. In addition, the sample of Ainun’s (1999) research is limited to the small sample due to the data limitation at that moment (1996-1999). This research is extended by enhancing other variables in the form of quality of auditor, auditor changes, mid-year audit status, and audit report delay.

B. Formulation of the Problem

Ainun’s (1999) research about the compliance to information regulation and its implementation in Indonesia consider the independent variable in the form of company size, profitability, and financial difficulty. The research found that the obedient companies have the higher total asset, sale, return on total assets (ROA), and return on equities (ROE) profit growth compared to the non-compliant companies. ROA represent the single factor in Ainun’s (1999) research which is proved to have the significant influence on compliance to the regulation of time accuracy of financial statement submission.

After seven years of the act 8 of 1995 implementation, the overdue company to submit the financial statement is around 17% from the total of public companies in Indonesia (Nur Ani, 2002). Since there are still a large number of companies which delay their financial statement sub-
mission to BAPEPAM, the proposed research question is.

1. Are there any differences in the public company compliance before and after the settlement of regulation of BAPEPAM No. X.K.2 about the obligation of annual financial statement submission.

2. Do profitability, financial distress, quality of audit, auditor changes, midyear financial statement audit status, auditor’s opinion, and the delay of audit report determine the level of company compliance to the time accuracy of financial statement submission to BAPEPAM.

C. Research Contribution

Investors need the financial statement information of public companies so that the compliance to the regulation of financial statement submission accuracy is an important matter as source of information that can be relied on.

This research is aimed at providing the information about factors determining public company compliance to regulation concerning the timing of reporting to BAPEPAM and BEJ.

THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

A. The Compliance to the Financial Statement Submission to BAPEPAM

The Regulation No. X.K.2 specifying the duration of financial reporting from 120 to 90 day represent the constraint to the compliance of public company. It is due to first, this regulation is in effect in August 2002, ideally, KAP have accepted the assignment letter and have made the audit planning in six-month or nine month before the date of book closing. The implementation of regulation No. X.K.2 means shortening the fieldwork which determine the quality of audit of KAP. Second, most public companies in Indonesia are audited by KAP Big Five, after year-end of book, representing “ a busy period” to KAP to finish the fieldwork and audit report. KAP auditing the public company, particularly KAP Big Five, obviously experience the more workload compared to the previous year due to the shortening of a audit period to 90 days. Both reasons lead to the delay so that the level of the public company compliance to articulate the financial statement of 2002 is reduced compared to 2001. Hence, the proposed hypothesis is.

H0; The level of the public company compliance in reporting of financial statement after the implementation of regulation No. X.K.2 is lower compared to the level of compliance before the implementation of regulation No. X.K.2.
B. Profitability

Management place the profit at the higher priority. They hold a perception that the profit report represents the main picture for measuring the managerial performance. The perception of the management is supported also with the system of reward for the top management which is determined by profit activity. Because of this, management will likely delay the bad-news publication because the management wish to continue or finish various agreement or contract with the stockholders. The delay of bad-news publication imposes the negative effect on the company compliance to articulate the financial statement, so that the hypothesis proposed is that profitability determines the level of the public company compliance to the reporting of annual financial statement to BAPEPAM, more specifically:

Hₐ: The higher the profitability of a company, the more compliant a company will be to reporting regulation of finance information to BAPEPAM

C. Company's Financial Distress

Company's financial difficulty leads to the increase in the possibility of company failure which adds the uncertainty to auditor so that it generates the auditor's suspicion to reliability of financial statement company, because financial distress can motivate the insincerity in the company's management. Based on the assumption that there is a relation between the company's financial difficulty and the public company compliance in reporting the financial statement, hence proposed research hypothesis is:

Hₐ: The greater the amount financial difficulty faced by the company, the lesser the level of the public company compliance to the articulation of annual financial statement to BAPEPAM

D. Auditor Changes

Other reason encouraging the changes of auditor is attributed to the ministerial decree of finance No. 423/EMK/06/2002 about the public accountant service in which it is stated that the public accountant signing the audit report shall only handle the same company for three years maximally, while KAP is limited at five years. This implied the increase in the auditor changes frequency in the public company.

The great array of procedures which are undertaken by a prospective auditor, in course of audit, need the longer time compared to the
time needed by the same auditor who continue the assignment acceptance. This matter results in the long duration of an audit causing also the delay in reporting the financial statement. Based on the description concerning effect of the auditor changes, the hypothesis is as follows:

Ha: The more frequent the auditor changes takes place, the more likely the public company disobeys the regulation concerning the financial statement submission to BAPEPAM.

E. The Duration of Auditing

Though auditor has a number of responsibility to make the articulation of some certain events after date of the balance sheet, but the responsibility is viewed to have ended after the audit of the financial statement is terminated. Ideally the signing is conducted before the end of a period of financial statement submission which has been audited by along with its auditor report to BAPEPAM.

The auditor who wants to accept the assignment and audit report completion the trace in a very early time it expected the articulation of financial statement to BAPEPAM will be more earlier, based on the mid-year financial statement and the delay of audit report which is attributed to the timing of reporting the financial statement public company to BAPEPAM. Hence the hypothesis is as follows:

Ha: A public company with the status of interim financial statement which is audited might be improved its compliance in reporting of annual financial statement to BAPEPAM

Ha: Delay of audit report progressively might be degrade the public company compliance level in reporting of annual financial statement to BAPEPAM.

F. The Quality of Auditor

Delay in completing the financial statement can be influenced by management or auditor, or also represents the interaction from both. The report credibility is improved by the relation with the well-known auditor, usually this matter is approximated by KAP which is affiliated with KAP Big Five. Besides, big KAP socializes the timing regulation to its client before accepting the designation. Based on the effort to maintain the credibility of KAP Big Five affiliation with the compliance of public company becoming its client in reporting of annual financial statement to BAPEPAM, the following hypothesis is proposed:

Ha: The higher the quality of an auditor the more likely the public com-
pany comply with the regulation about reporting of annual financial statement to BAPEPAM

G. Types of Auditor Opinion

According to the public accountant professional standard of Section SA 110, target of audit to the financial statement by an independent auditor in general is to express the opinion about the commonality in all matters which are material, financial position, result of efforts, equity change, and cash flow, according to accounting principles prevailing in Indonesia. Auditor report represents the medium to auditor to express its opinion or if necessary, not to express an opinion, as independent side, auditor is not allowed to take the side of the interest of any party and is not to be influenced and also have to be free from every obligation to his/her client and do not have a certain interest with its client (IAI, 1994).

Opinion type, other than common without exemption represent the bad news to the management, hence the management is hesitated to accept the opinion, with this condition, it is possible that the management will re-negotiate with the auditor in order to expand the procedure and to collect the more evidences, and this leads to: the delay of the audit report. The hypothesis is as follows:

H0: The public company accepting the opinion other than common opinion without exemption tend to degrade its compliance in reporting the financial statement.

RESEARCH METHOD

A. Sampling and Method of Data Collecting

Sample is chosen based on the criteria determined, that is, companies takes as sample is the companies enlisted in BEI form the year of 1998 and publicize consistently their annual and mid-year financial statement from 1998 up to 2002. The Data of financial statement is obtained from Indonesia Capital Market Directory, center the reference of capital market in Jakarta Stock Exchange and other data which is available online at sites the regulation about financial reporting and the data from the companies delivering their annual report is obtained from BAPEPAM.

B. Variable and its Measurement

B.1. Dependent

Companies are not in compliance if they delay their financial reporting after date specified by regulator. Compliant companies are mea-
Independent variables in this research is profitability, this ratio measures the company's ability in producing the profit of sale rate, capital stock and some certain asset. The financial distress indicates the company's financial health, which is measured from long-term debt ratio to the total asset. The auditor changes in this research uses the nominal scale, if there is a auditor changes in the year of research, the code of 1 is given, and in contrast, the code of 0 is given to the company when there is no auditor changes. The variable of audit quality in this research represents the variable using the nominal measure, for the KAP of which affiliates with KAP is Big Five, the code 0 is attributed, and the code 1 is attributed when it affiliated with the other KAP.

The measure for the variable of midyear financial statement status is code 0 when the financial statement is audited fully by auditor. But if the midyear financial statement submitted to Bapepam without being audited, it is given with the code 1. The measure utilized for the lately of audit report in this research is the nominal scale, code 0 when the signing of auditor report happened before the period of submitting the financial statement ends, and code 1 when the auditor report signing happened after the course of a period of submitting of financial statement to Bapepam. The measure of opinion type of nominal auditor uses the nominal measure with the code 0 for the type of fair opinion without exemption and the other opinion type is given with code 1.

C. The Model of Hypothesis Testing

First hypothesis is tested by using the test t of correlated sample. The other Hypothesis testing, from Ha2 to Ha8 the descriptive statistics is used to show the general tendency of the sample. The other analysis tools to strengthen the sample descriptive statistics is by using t-test on the free sample.

D. Classic Assumption

As is the regression model, the research using the model of logistic regression requires some classic assumption examinations. The Classic Assumption examination which must be fulfilled includes the existence of autocorrelation, multicollinearity and the research disobeys the assumption of normality and heteroscedasticity for the examination of logistic regression.
ANALYSIS OF RESEARCH RESULT
A. The data description of Compliant and Non-compliant Companies

Descriptive Statistics explains the independent variable of comparison of obedient company and non-compliant companies shown in the following table:

**Table 4.1 Descriptive statistics of compliance and non-compliance companies**

<table>
<thead>
<tr>
<th>Group of companies</th>
<th>ROA</th>
<th>Year</th>
<th>AUD KUAL TAS</th>
<th>AUD CHARA</th>
<th>AUD INT</th>
<th>AUD OPINI</th>
<th>AUD SIGNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliant Companies</td>
<td>Average</td>
<td>0.032</td>
<td>0.20</td>
<td>0.198</td>
<td>0.194</td>
<td>0.961</td>
<td>0.058</td>
</tr>
<tr>
<td></td>
<td>Standard deviation</td>
<td>0.313</td>
<td>0.243</td>
<td>0.399</td>
<td>0.396</td>
<td>0.953</td>
<td>0.235</td>
</tr>
<tr>
<td></td>
<td>Frkt. Of Variable dummy 0</td>
<td>80.2</td>
<td>80.50</td>
<td>3.9</td>
<td>94.3</td>
<td>99.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Frkt. Of Variable dummy 1</td>
<td>19.8</td>
<td>19.50</td>
<td>96.1</td>
<td>3.8</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Non-compliant Companies</td>
<td>Average</td>
<td>-0.041</td>
<td>0.177</td>
<td>0.215</td>
<td>0.309</td>
<td>0.978</td>
<td>0.367</td>
</tr>
<tr>
<td></td>
<td>Standard Deviation</td>
<td>0.361</td>
<td>0.242</td>
<td>0.413</td>
<td>0.413</td>
<td>0.464</td>
<td>0.146</td>
</tr>
<tr>
<td></td>
<td>Frequency of variable dummy 0</td>
<td>78.4</td>
<td>69.1</td>
<td>2.2</td>
<td>63.3</td>
<td>85.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Frequency of variable dummy 1</td>
<td>21.6</td>
<td>30.9</td>
<td>97.8</td>
<td>36.7</td>
<td>14.4</td>
<td></td>
</tr>
</tbody>
</table>

Tables 4.1 indicates that obedient companies have the higher level of ROA mean than non-compliant companies with the significant difference, this matter indicate that the obedient companies have the higher level of average profitability than the non-compliant companies. Result of this research partially supports the view that the performance of company’s finance influences the public company compliance behavior in reporting the annual financial statement. This is consistent with the research of Whittred (1980); Givofy and Palmon (1982); Schwartz and Soo (1996) and Ainin (1999).

Concerning the variable of financial distress there are differences between obedient companies and non-compliant company, but this difference is not statistically significant, this is because the financially trouble companies indicated by the large gearing, accepting pressure from stake-
holder and regulator to submit the timely financial statement so that both companies with low financial distress and companies with severe financial distress do not influence the behavior of compliance of company manager in reporting the financial statement.

The quality of audit for the compliant and non-compliant companies show no statistical differences. It is argued that KAP which is assumed to have the high quality in auditing 79% company sample does not have the relation with the level of public company compliance because the delivery of audited financial statement to BAEPAM is conducted by the companies themselves.

The auditor changes in the compliant company and non-compliant company show the statistical differences. This difference indicates that the auditor changes has the relation with the level of compliance of public companies. The designation of the new KAP leads to the longer period of audit due to more procedures in understanding of company's characteristics, and internal control compared to the audit of familiar client.

The status of interim financial statement and the audit report delay have the statistically significant difference between the obedient company and non-compliant company because the duration of an audit determines the readiness of the financial statement moment which will be reported to BAEPAM. A delay in the audit of the financial statement leads to the delay in the submission of the financial statements, thus it decreases the level of the public company compliance.

The obedient company and non-compliant company have the statistically significant difference in audit opinion they accepted. This difference may be caused by the public company getting opinion other than common opinion and try to delay its financial reporting to conduct the negotiation of audit expansion until the auditor has complete evidences used to change their opinion.

B. The Classic Assumption Testing

The multicolinearity testing is shown from the variant of inflation factor (VIF), when VIF>10, the multicolinearity prevails. Result of multicolinearity logistics regression testing is shown in tables 4.2. The table indicated that there is no multicolinearity among the independent variables.
Tabel 4.2 The results of multicollinearity logistic regression testing

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1.034</td>
</tr>
<tr>
<td>GEAR</td>
<td>1.008</td>
</tr>
<tr>
<td>AUDKUA</td>
<td>1.034</td>
</tr>
<tr>
<td>AUDCHA</td>
<td>1.047</td>
</tr>
<tr>
<td>AUDINT</td>
<td>1.019</td>
</tr>
<tr>
<td>AUDOPINI</td>
<td>1.052</td>
</tr>
<tr>
<td>AUDSIGNT</td>
<td>1.014</td>
</tr>
</tbody>
</table>

The testing used to detect whether auto-correlation is found is Durbin-Watson test. The result of the testing indicates that there is no auto-correlation since the value of the Durbin-Watson resides between 2 to 2, that is 1.76.

C. Result of hypothesis 1 testing

Hypothesis 1 testing uses the t-test for two coupled sample. This research attempts to determine whether the decrease in the level of compliance is found in the company sample for the year of 2001 before the implementation of the regulation of No.X.K.2 and for the year of 2002 after the implementation of the regulation. The result is represented in Table 4.3.

Table 4.3 the Result of T-test on the compliance level from 2001 in 2002

<table>
<thead>
<tr>
<th>Paired Samples Test</th>
<th>Paired Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
</tr>
<tr>
<td>PAIT TARUNDY -</td>
<td>1505</td>
</tr>
</tbody>
</table>

Table 4.3. shows that T-value is -4.221 with p < 0.05 and with one-side test, t-table is -1.655; since t value < t-table, Hypothesis 1 cannot be rejected.
D. Discussion of Hypothesis 1 Testing Result

Hypothesis 1 which expresses that there is a decrease in the level of the public company compliance after applying of regulation No. 5.K.2 cannot be rejected. In 2002, there is a decrease in the public company compliance due to the implementation of BAPPEPAM regulation about the submission of financial statement articulation from 120 days, reduced to 90 days. The shorter duration of reporting, and the delay of the new regulation socialization delay after a period of a designation became one of the factors causing the delay of the reporting of public company’s annual financial statement.

E. The Other Hypothesis Testing

E.1. Result of Other Hypothesis Testing

The initial stage of the examination uses the logistic regression conducted by using all independent variable because all independent variable have got away the multicollinearity test and auto-correlation test. Stepwise (conditional) technique is used to select the independent variables and then discharge one by one, starting from the least significant variable, so that the most significant variable is found. The testing of logistics regression yielded the test of Nagelkerke R square, the Hosmer and Lemeshow test and significance test for every independent variable. The value of the Hosmer and Lemeshow test shall indicate the significant result since probability > 0.05 that is equal to 0.944; and the value of the Chi Square < Chi Square is tables of (0.005 < 3.84146)

Table 4.4 The result of other hypothesis testing with Logistic Regression model of two category
F. Discussion of Other Testing Result

F.1. Profitability

The argument explains why profitability does not influence the public company compliance to the articulation of financial statement to BAPEPAM is that the company management does not use the low level of profitability as the reason not to comply with the regulation of the annual financial statement articulation, because it is possible that the public company manager performance is not assessed in the basis of the public company profitability level. This research supports the research of Ashton (1986) and Dyer and McHugh (1975).

F.2. Financial Distress

The significance level of gearing ratio is 0.19 so that this gearing doesn't have the influence on the public company compliance in submitting financial statement punctually. Based on this matter, hypothesis 3 which expresses that the more severe the financial distress a company faces the lower the level of compliance of the company will be, is rejected.

F.3. Auditor Changes

A large number of procedures which is gone through by a prospective auditor need the longer time compared to the time needed by a familiar auditor, so that this auditor changes does not get out of the expense and benefit of auditor changes to the client company if it is seen from the timing of financial statement submission. Thereby hypothesis four expressing that the higher the frequency of auditor changes, the more likely the public company decrease its compliance to the submission of the annual financial statement to BAPEPAM cannot be refused.

F.4. Auditor's Quality

Hypothesis seven expresses that the higher the quality of an auditor the more likely a public company complies with the regulation of the annual financial statement submission to BAPEPAM is refused. It is argued that KAP Big Five as the measurement of quality KAP in this research represents the KAP having the frequency of 79.9% from the total sample. The deadline of financial reporting which shall be finished simultaneously becomes one of the factor influencing a period of overload of high-quality auditor, so that the audit might not be completed on time.

F.5. The Duration of Auditing

Hypothesis five expresses that the status of interim financial state-
ment determines the public company tendency to be obedient in the submission of the annual financial statement to BAPEPAM is rejected. The significance level of interim financial statement status is equal to 0.52 so that it cannot determine the level of company compliance. The argument supporting the positive coefficient direction is that the companies which do not audit the midyear financial statement have the probability of 37.5% not to be obedient in the submission of financial statement to BAPEPAM because the company auditor conducts the audit earlier to financial statement of the company. The interim financial statement is voluntary in nature so that it does not motivate the company to audit the financial statement.

Auditor as a party getting the obligation to execute the audit according to the public accountant profession standard is demanded to be professional in their work. To preserve the credibility of KAP, the auditor is motivated to complete every step of an audit. Based on the description, hypothesis six which maintains that the delay of the audit report tend to decrease the public company compliance level to the submission of annual financial statement to BAPEPAM cannot be rejected.

P.6. Auditor Opinion

The result of this research differs from that of Ainun’s (1999) research which states that the delay in reporting or non-compliance behavior do not relate to the auditor opinion. Based on the result testing, hypothesis eight which states that the public company accepting opinion type other than common opinion without exception experiences the decrease in the compliance level cannot be rejected.

CONCLUSION, LIMITATION, AND IMPLICATION OF THE RESEARCH

A. Conclusion

This research examines the factors determining public company compliance to timing of the submission of financial statement to BAPEPAM. The time period considered is five year from 1998 to 2002 with the total sample of 755. This research investigates whether there is difference in the public company compliance after and before the implementation of a new regulation with the number X.K.2. In addition it also examines whether profitability, financial distress, quality of audit, auditor changes, midyear financial statement status, auditor opinion, and delay of audit report determine the company compliance to the timing of financial statement to BAPEPAM. Taken as a whole, the result of this research gives the empirical evidence as follows:
1. Hypothesis one which uses T-test for the doubled sample, cannot be rejected because statistically there are reductions in the level of the compliance after applying of regulation of BAPEPAM No. X.K.2
2. The result of logistics regression cannot reject the $H_0$, $H_1$, and $H_2$ so that the variable determining the level of the public company compliance to the submission of the timely financial statement are variables of auditor changes, opinion of auditor and delay of auditor report. Meanwhile, $H_3$, $H_4$, $H_5$, and $H_6$ are rejected so that the variables of profitability, financial difficulty, midyear financial statement status, and quality of auditor don't have the influence on the compliance to the submission of the financial statement
3. The significant research variables are applicable in order to understand the probability of the public company compliance to the submission of annual financial statement

II. The Limitations of the Research
1. Midyear financial statement Status variable merely uses the nominal scale as the measure to find the auditing with the ideal designation time. It is desirable to the nominal scale in examining the financial statement and delay in the audit reporting. Thus, the obtained data are more accurate to capture the real duration the audit is conducted.
2. The Data obtained is only limited to data which is publicized to BEJ up to May 31st 2003, so that the method of data selection cannot be at random.

C. The Contribution and the Future Implication
Auditor changes affects the non-compliance of the public company in reporting the financial statement. The more obvious regulation and penalty to non-compliance should not only implemented in BAPEPAM but also in BEJ, so that it is expected that the compliance to the timing of financial statement reporting is increased.

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