CHAPTER II

LITERATURE REVIEW

2.1 Agency Theory

The concept of agency theory is the relationship or contact between principal and agent. Principal employs agents to perform tasks for principal interests, including delegating authorization of decision-making from principal to agent. Agency relationship is a contract between the manager (agent) and the principal of the agency relationship sometimes creates problems between managers and shareholders (Anthony, 1995).

Conflict that occurs because humans are economic beings who have the nature of selfish interests. Shareholders and managers have different goals and each wants their goals fulfilled, the result of which is the appearance of a conflict of interest.

Shareholders want a bigger and quicker return on their investments while managers want their interests accommodated by giving them the most compensation or incentives for their performance in running the company.

The application of agency theory can be realized in the work contract that will regulate the proportion of rights and obligations of each party while still taking into account the overall benefit. A work contract is a set of rules governing profit sharing, returns and risks approved by principals and agents (Scott, 1997).

The agency theory uses three assumptions of human nature: human beings are generally self-interested, human beings have limited thinking about the bounded rationality, and humans always avoid risk (risk averse).

The agent is motivated to maximize the contractual fee received as a means of fulfilling his economic and psychological needs. Conversely, principals are

motivated to enter into contracts or maximize returns from resources for their prosperity with ever-increasing profitability. These conflicts of interest continue to increase as principals cannot monitor the activities of the day-to-day agents to ensure that agents work in accordance with the wishes of shareholders. Instead, the agent itself has more important information about the capacity of the self, the work environment, and the company as a whole. This is what triggers the onset of information imbalance between principal and agent. This condition is called as information asymmetry.

The existence of irregularities between the decisions taken by the agent and the decision that will improve the welfare of the principal will cause losses or reduction of the principal welfare, the value of money arising from the existence of such deviation is called residual loss (Meckling, 1976).

The existence of information asymmetry can encourage the agent to hide some unknown information of the principal to maximize profit for the agent. Agencies can be motivated to report information that is not actually to the principal, especially if the information relates to agency performance measurement.

Ali (2007) said that managers who have been authorized to manage the company are responsible for maximizing principal profits and reporting responsibilities through the media of financial statements. For the manager's performance, management compensation is provided in accordance with the agreed contract. Thus, there are two different interests within the company to achieve or maintain the desired level of prosperity.

The essence of Agency Theory or agency theory is the proper design of contracts to align the principal and agency interests in the event of a conflict of interest.

2.2 Variable

2.2.1 Audit Delay

The delay audit implies that the financial statements are presented at a time interval, meaning to explain changes within the firm that may affect the user at the time of making predictions and decisions. If such information is not delivered on time will cause the information to lose its value in influencing the quality of the decision. Some notions of audit delay or timeliness of financial reporting as follows:

Subekti (2005) that the time difference between the date of financial statements with the date of audit opinion in the financial statements that indicate about the length of time audit completion conducted by the auditor. This difference is often called audit delay.

Utami (2006) Audit Delay is the length of time for audit completion as measured from the closing date of the financial year, up to the date of completion of the independent audit report. Aryati and Maria (2005) define audit delay is the time frame for completion of annual financial statement audit, measured by the length of days required to obtain independent auditor's report on the audit of the company's annual financial report, from the closing date of the company's fiscal year as of 31 December to the date listed on the independent auditor's report. Based on the above statements, it can be concluded that the definition of audit delay is the length of time the completion of the audit as measured by the time difference between the closing date of the company's book year as of December 31 till the date contained in the independent audit report.

2.2.2 Size Company

Size Company can be defined as a scale in which small companies can be classified in various ways such as expressed in total assets, stock market values, and others. Decision of the Chairman of Bapepam no. Kep. 11 / PM / 1997 mentions small and medium-sized companies based on assets (wealth) are legal entities that have total assets of not more than a hundred

billion, while large companies are legal entities with total assets above one hundred billion.

Rochimawati (2008) company size is a measure of the company that shows the size of the company. Company size is characterized by several sizes including total sales, total assets, log size, number of employees, market value of company, and book value of company. This study uses the total log of assets owned by the company as the size of the company.

Aryati (2005) in his research stated that the size of the company as measured by total assets has a significant effect on audit delay. This influence is indicated by the greater the value of a company's assets the shorter the audit delay and vice versa. Large companies are expected to complete the audit process faster than small companies. This is due to several factors: large-scale management firms tend to be given incentives to reduce audit delays as they are closely monitored by investors, capital and government watchdogs. Thus, the size of the company is the size or amount of assets owned by the company. The state desired by the company is the net profit after tax because it is to increase its own capital. Larger companies tend to have higher public demand for information than smaller companies. Public demand for high information on the company allows the growth of confidence in the products produced by the company. Such trust can improve the business continuity of the company. The better the size of the company will be proxied with the higher total assets owned by an entity, the more likely the company to use the services of KAP the big four.

2.2.3 Audit Committee

According to the National Committee on Corporate Governance Policy, the Audit Committee is a committee of one or more members of the Board of Commissioners and may request outside parties with the skills,

experience and other qualities required to achieve the objectives of the Audit Committee.

Tugiman (1995), the definition of the Audit Committee is a group of persons selected by a larger group to do certain work or to perform specific tasks or a number of members of the Board of Commissioners of the client company responsible for assisting the auditor in maintaining his independence from management.

In the Decree of the Minister of State-Owned Enterprises No. Kep-103 / MBU / 2002, the meaning of the Audit Committee is not explicitly stated, but basically states that the Audit Committee is a body under the Board of Commissioners of at least one Commissioner, and two experts who is not an independent BUMN employee who is independent in the performance of his duties or reporting and is directly responsible to the Commissioner or the Supervisory Board. This is in line with the Decree of the Chairman of Bapepam Number: Kep-41 / PM / 2003 stating that the Audit Committee is a committee established by the Board of Commissioners in order to assist in carrying out its duties and functions.

2.2.4 Implementation of International Financial Reporting Standards

IFRS is an international accounting standard issued by the International Accounting Standards Board (IASB). The International Accounting Standards (IAS) is composed by four major international organizations: The International Accounting Standards Board (IASB), the European Commission (EC), the International Capital Market Organization (IOSOC), and the International Accounting Federation (IFAC). The International Accounting Standards Board (IASB), formerly known as the International Accounting Standards Commission (AISC), is an independent institution to develop accounting standards. This organization

has the goal of developing and encouraging the use of high-quality, and comprehensible, global accounting standards.

In 2011, all major countries have adopted IFRS with various variations. Actually, IFRS implementation in Indonesia has been started gradually since 2007, but will be fully implemented in 2012, "said Rudi. As for the non-existent financial recording standards set forth in IFRS such as sharia accounting, accounting for SMEs and accounting for nonprofit organizations will be developed independently by IAI.

International Financial Reporting Standards (IFRS) are a Principle-based Standard, Interpretation and Framework (1989) adopted by the International Accounting Standards Board (IASB).

The IFRS structure is considered a principle based on the standard set in that they set broad rules and dictate special care. International Financial Reporting Standards consist of:

1. International Financial Reporting Standards (IFRS) - standard issued after 2008.
2. International Accounting Standards (IAS) - standard issued before 2001.
3. The interpretation is derived from the International Financial Reporting Interpretive Committee (IFRIC) - published after 2001.
4. Interpretation of Standing Committee (SIC) - published before 2001.
5. Basic Framework of Preparation and Presentation of Financial Statements (1989)

   Benefits of Using International Standards consisting of the use of financial accounting standards can improve accuracy in assessing the performance of the company as reflected in the financial statements, the possible comparison between companies domiciled in two different

places, IFRS Implementation Constraints in Indonesia there are 4 aspects that can be an obstacle to the application of IFRS in Indonesia:

A. aspects of the social environment.
B. aspects of the organization's environment.
C. Aspects of the Profession environment.
D. Aspects of individual environment.

2.2.5 Ownership Public

Saleh (2004) states that the ownership structure is very important in determining the value of the company. There are two aspects of ownership to consider: ownership by outsiders and by insiders or company management. The concentration of outside ownership can be measured by the percentage of ownership of the largest share owned by outsider ownership's. The concentration of internal ownership can be measured by the percentage of ownership of the largest share owned by insider ownership's.

Company ownership by outsiders has great power in influencing companies through mass media in the form of criticism or comments that are all considered public or public votes. The existence of the concentration of outside ownership has the effect of the outsiders, thus changing the management of the company which originally went according to the wish of the company itself has its limitations (Ali: 2008).

From these statements can be concluded that companies whose level of public ownership is higher will be more likely to be timely in delivering its financial statements.

2.3 Previous Research

Jumratul (2014) examines "The Influence of Company Size, Audit Committee, Implementation of International Financial Reporting Standards, and Public

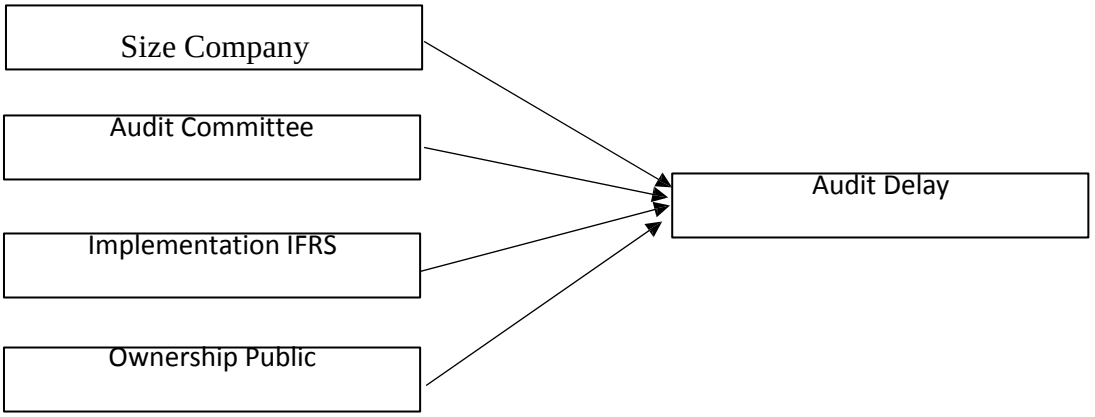
Ownership on Audit Delay". The result of this research is that audit committee variable and public ownership have an effect on audit delay. While firm size variables and implementation of International Financial Reporting Standards have no effect on audit delay.

Table 2.1 Comparison of Previous research

Researchers (Years)	**Title**	**Result Research**
Silvia Agruningrum (2012)	Pengaruh Profitabilitas, Leverage, Kompleksitas Operasi, KAP Reputasi Dan Komite Audit Terhadap Audit Delay	The results of this study prove that the average audit delay that occurs is equal to 74.854 days with a standard deviation of 13.885. The variable that affects the audit delay is only the leverage variable. While profitability variables, complexity of company operations, reputation of KAP, and audit committee do not affect audit delay.
Siti Mualimah (2014)	Pengaruh Ukuran Perusahaan, Komite Audit, Implementasi Standar Pelaporan Keuangan Internasional (IFRS), Kepemilikan Publik	The firm size, IFRS and solvency implementation have significant effect on audit delay, while audit committee and public ownership variables have no effect on audit delay.

	dan Solvabilitas Terhadap Audit Delay	
Jumratul Haryani (2014)	Pengaruh Ukuran Perusahaan, Komite Audit, Penerapan Standar Pelaporan Keuangan Internasional dan Kepemilikan Publik Terhadap Audit Delay	The test results show that audit committee and public ownership variables affect audit delay. While firm size variables and implementation of International Financial Reporting Standards have no effect on audit delay.
Puspa Avinda Dwi Septiana (2015)	Pengaruh Penerapan IFRS, Karakteristik Perusahaan, dan Kualitas Auditor Terhadap Audit Delay	The analysis results show firm size, leverage, and auditor quality significantly affect audit delay at different levels. Company size variables negatively affect audit delay. Two the remaining other variables are insignificant. The variable is an implementation IFRS and loss announcement.

2.4 Theoretical framework



Graph 2.1 Theoretical Framework

2.5 Development of Hypotheses

The temporary hypothesis in this study is firm size variables, audit committee, application of International Financial Reporting Standards, public ownership and profitability effect on audit delay.

2.5.1 The influence of Company Size to Audit Delay

Company size will cause long audit delay. This is based on the assumption that larger companies will be more complex so that auditors have to take more samples so it will take longer to obtain evidence that supports the opinions it will provide. The complexity of the audit is based on the individual's perception of the difficulty of an audit task (Bustaman: 2010).

Ajmi (2008), stated that large companies with large total assets tend to be able to maintain the quality of their financial statements so that it will shorten the audit delay experienced by the company. Based on research conducted Yulianti (2011), said that the size of the company affects audit delay.

The result of previous research conducted by Jumratul (2014) is the value of significance on firm size variables greater than the standard value of partial test value with this stated that the firm size variable is rejected, this means that the firm size variable has no effect on audit delay.

The influence of the size of the company in question is the greater the size of the company then the company will reduce audit delay. Based on the above discussion then the hypothesis of this study is:

H1: Company size influences audit delay

2.5.2 The influence of Audit Committee to Audit Delay

The audit committee is responsible for monitoring the planning and implementation and then evaluating the audit results to assess the feasibility and capability of internal controls, including overseeing the process of preparing financial statements. Under Bapepam regulations, every company go public is required to form an audit committee consisting of at least 3 people. The more the number of audit committees the audit delay will be shorter. Mumpuni Research (2011) obtained the result that the number of committee members had an effect on audit delay.

Marsono (2013), in his research he tested several factors that affect the audit delay one of which is the existence of the audit committee. The results of his research showed a significant positive effect in line with Bapepam regulations on the number of committees. Weak internal control is one of the causes of long audit delay (Ettredge et al., 2006).

The result of previous research conducted by Jumratul (2014) is the value of significance on the audit committee variable is smaller than the standard value of partial test value with it is stated that audit committee variable accepted, this means that audit committee variables affect audit delay.

H2: Audit Committee has an effect on audit delay

2.5.3 The influence of Implementation of International Financial Reporting Standards to Audit Delay

Companies in Indonesia that implement IFRS will tend to experience audit delay. This is because companies that have implemented IFRS are required to make extensive disclosures, thus requiring more time and effort in conducting audits (Hoodgendoorn, 2006). In addition, Carlin et al. (2009) states that the complexity of IFRS is not only in accounting treatment, but also on the difficulty of complying with detailed reporting. The results of research conducted Margaretta and Soepriyanto (2011), states that the application of IFRS does not affect the delay in the timing of financial statement achievement with the direction of positive regression coefficient. The meaning of this research is the application of IFRS resulted in the higher level of delay in the delivery of financial report.

Delay in submitting the financial statements becomes one indication that the company has a long audit delay, because before the published financial statements must first be audited. The research conducted by Che-Ahmad (2012) tested the application of IFRS, where the result stated that the implementation of IFRS in Malaysia extended audit delay experienced by the company because the complexity of IFRS caused the time needed for auditors to audit financial statements to be relatively longer.

The result of previous research conducted by Jumratul (2014) is that the significance value of the International Financial Reporting Standards measure is greater than the value of the partial value test standard. It is stated that the International Financial Reporting Standards expectation variable is accepted, it means that the International Financial Reporting Standards have no effect on audit delay.

H3: Implementation IFRS influence to audit delay.

2.5.4 The influence of Public Ownership to Audit Delay

The ownership of shares by external parties causes the company's movement in the management to be limited due to the pressure given by the market associated with the improvement of the performance of the company and its compliance with applicable regulations. All activities of the company will be monitored and monitored so that every action taken by the company will be responded through criticism or comment. The delay audit may affect the timeliness of financial reporting that affects the level of uncertainty based on information from the publication (Kartika, 2009).

The delay in the publication of financial statements may indicate a problem in the company's financial statements, thus requiring a longer time in completion of the audit (Febrianty, 2011). The owners of the investment will indicate bad news if the company is late publishing which will affect the future investment decisions. Thus, it can be concluded that the tendency of management wants auditors to quickly complete their tasks in order to publish financial statements immediately to occur in companies that have a large proportion of public ownership.

The result of previous research conducted by Jumratul (2014) is the value of significance on the variable of public ownership is smaller than the value of the partial value test standard with it stated that the variable of public ownership is accepted, this means that the public ownership variable affects audit delay.

H4: public ownership influence to audit delay.