

Beijing, China, October 16-19, 2011

**EMPIRICAL STUDY OF FACTORS AFFECTING THE AUDIT DELAY IN
TELECOMMUNICATION COMPANIES LISTED IN
INDONESIAN CAPITAL MARKET**

By:
Majidah

Institut Manajemen Telkom

General Topic: Auditing

Email: majidah_js@ yahoo.com

Address: Institut manajemen Telkom

Jl. Telekomunikasi No.1 Dayeuh Kolot Bandung – Indonesia

HP: +62818215786

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Abstract

This study aims to empirically examine the various factors that affect audit delay. Factor-factor which consists of profitability, company size, corporate governance mechanism (institutional ownership and public ownership) and leverage were taken into consideration.

This research uses descriptive verification method, and the nature of this research is causality. The unit of analysis is the entire telecommunications company listed in the Indonesian Capital Market. The analytical method used for this study is multiple regression.

The results showed that both simultaneously and partialy that there are no factors that affect audit delay in the telecommunication industry. The average audit delay telecommunication companies is 74.7 less than the deadline of Indonesian capital market regulation that is 90 days.

Keywords: Audit delay, profitability, company size, institutional ownership and public ownership and leverage.

I. INTRODUCTION

1.1 The Background of the study

Accounting information or financial statements is one of the information required by the various parties concerned. Accounting information would be beneficial for users if presented accurately and timelines timely. However, the relevance of accounting information will be reduced, if delivery is not timely, because the timeliness of submission of financial statement is an important factor for the usefulness of financial statements (Givoly and Palmon, 1982).

The obligation to submit timely accounting information is set in the Capital Markets Regulation NO. KEP 80/PM/1996, regarding company's liability registered in the stock market to submit

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audited financial statements to the Securities Exchange commission (SEC) no later than 120 days from the date of expiration of the closing. The regulation was amended by Decision No. KEP/17/PM/2002 by the chairman of the SEC, regarding the obligation to submit periodic financial reports, the annual financial statements accompanied by an independent auditor's report with the prevalent opinion filed with the SEC, no later than the end of the third month, after the date of the annual financial report.

The changes in the decision were aimed to provide faster and more accurate information to the various interested parties including investors about the condition of public companies. Despite existing regulations requiring issuers to submit financial statements no later than 90 days from the closing date, but still there are 92 public companies which were late to submit audited financial statements, so that publication in the media were also late (Utami, 2006). Late submission of audited financial statements of those public companies were handed to the SEC for more than 120 days (Rachmawati, 2008).

Delay in submission of financial reports is a constraint faced by public companies. This can be caused by the level of complexity of the audit, the impact on audit scope and finally in the audit period (Aren et al, 2006). Meanwhile, the financial statement audit requirement aims to provide an opinion on the fairness of financial statements, namely the financial statements presented in accordance with the auditing standard of the Public Accountant (IAI, 2001).

The submission of audited financial reports on time is very important, because of late submission of financial statements would be detrimental to investors. This can increase the asymmetry of market information and indicated the market uncertainty which will lead to rumors.

Research was conducted at the telecommunications company that listed in the Indonesian capital markets, the selection of a telecommunications company as the unit of analysis, because the telecommunications company's business competition in Indonesia is relatively strict, thus affecting the achievement of corporate profits. In studies of audit delay that corporate profits is one factor that affects negatively to the audit delay (Naim, 1999 and Utami 2006), although some other studies have shown that company profits do not affect audit delay (Hosain and Taylor, 1998; Owusu and Ansah, 2000.) Inconsistency of income as a factor causing audit delay, should also be tested in the telecommunications company. Another reason is that the telecom companies were used as unit of analysis, that is because the telecommunications company's business risk is relatively high as indicated by relatively high fixed cost.

This study aims to examine what are the factors that influence audit delay in telecommunications companies. It is considered important, because it can be used as one anticipates information for investment risk.

1.2 Problem Formulation

As outlined in the background of this study, the problems examined are the factors that influence audit delay the telecommunications company listed in Indonesian Capital Market?

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1.3 Objectives and Benefits of Research

The purpose of this study was to examine factors that influence audit delay. Meanwhile, the expected benefits in this study were; (1) investors can obtain a description of factors causing delays in the publication of audited financial statements; (2) provide input to the capital markets regulator to consider the dominant factor is having an effect on audit delay in making the regulation of financial reporting and; (3) a reference to a similar study.

II. THEORETICAL STUDY AND RESEARCH HYPOTHESES

2.1 Theoretical Studies

2.1.1 Audit Delay

Timely financial reports need to make the company's attention, because of late submission of financial reports will reduce its usefulness and relevance (Mamduh in Almilia and Setiady, 2006). The submission of financial statement will be useful in making business decisions. Delay in publication of audited financial statements timeliness can be caused partly by a period of the audit process on those statements.

Audit completion time range starting from the closing fiscal year until the date of issuance of the audit report referred to as the audit of the audit report lag or delay (Dyer and McGough, 1975). In the meantime, it is said that audit delay is the length of time from a company's fiscal year-end to the date of the auditor's report (Ashton, William and Elliott, 1987; Carslaw and Kaplan, 1991; Ahmad and Kamarudi, 2001).

From the several previous studies showed that there was a difference in average audit delay. The difference can be caused due to the difference in capital market regulations in each State. The average audit delay of 62.53 days (Ashton, Willingham and Elliot, 1987), the average audit delay (Hossain and Taylor, 1998) 148 days. Meanwhile the average audit delay in some studies in Indonesia, were about; 84.45 days (Halim, 2000), 84.16 days (Utami, 2006) and 76.63 days (Rachmawati, 2008). Based on some of the research results, it can be said that the audit delay trend in Indonesia is less than 90 days.

2.1.2 Allegedly Various Factors Affecting Audit Delay

2.1.2.1 Profitability

Profitability is the company's ability to generate profits by using the total assets owned (Brigham and Ehrhardt, 2005). Companies that suffered losses tend to begin the audit process more slowly than usual, so it will be any delay in submission of financial statements (Carslaw and Kaplan, 1991). Companies that suffered losses are bad news for the market and vice-versa. Several studies have shown contradictory results, namely profitability has no effect on audit delay (Hosain and Taylor, 1998; and Owusu and Ansah, 2000); in the meantime, the research Na'im (1999) showed that the level of profitability is the only factor affecting the accuracy of

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financial report, or in other words a negative effect on audit delay.

2.1.2.2 Company Size

The size of the company can show how much information contained in it and reflects the awareness of the importance of information management (Almillia and Setiady, 2006). Management of large companies have the incentive to reduce the backlog of audits, as monitored closely by investors, employees, creditors, governments, so that large companies tend to face higher pressure to announce an early audit reports (Dyer and McGough in Utami, 2006). Meanwhile, a different opinion stating that the large size of the company related to the number of audit samples to be taken and the audit procedures performed increasingly widespread, so will the longer audit delay (Boynton and Kell, 1996).

2.1.2.3 Corporate Governance Mechanism

OECD (2004) and FCGI (2001) defines corporate governance as a set of rules that define the relationship between shareholders, managers, creditors, governments, employees and stakeholders inflammation other internal and external relating to the rights and obligations, or in other words, it is a system that directs and controls the firm (OECD, 2004; FCGI, 2001). Meanwhile, corporate governance is a mechanism which can be used for the control of managers in a company (Shleifer and Vishny, 1997). Corporate governance mechanism is one of a relatively effective way to reduce conflicts of interest in order to achieve company goals. Corporate governance is a control mechanism in a company which among others consists of the structure of ownership and control conducted by the board of commissioners (World Bank, 1999). Thus it can be said that corporate governance mechanisms will encourage more transparent information.

Corporate governance mechanism in this study consisted of institutional ownership and public ownership.

A. Institutional Ownership

Jensen and Meckling (1976) states that institutional ownership has a very important role in minimizing the agency conflict between managers and shareholders. The presence of the institutional investors were considered to becoming an effective monitoring mechanism in every decision taken by the manager. Companies with large institutional ownership indicates its ability to monitor management. The greater the institutional of ownership, the more efficient the utilization of the company assets (Faizal, 2004). Efficiency of utilization of company assets, indicating that the company is profitable. It tended to encourage companies to hasten the publication of audited financial statements, in order to respond either by the market. Thus it can be said that institutional ownership affects negatively on audit delay.

B. Public ownership

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Public ownership is ownership of the general public of shares of public companies (Hilmi and Ali, 2008). Public ownership is less likely to be involved in day-to-day business affairs of the company. Meanwhile, as shareholders are concerned to know the rate of return on their investment. Therefore, they need information that helps them in making investment decisions.

Public ownership has less direct control role within the company. However, having a relatively large force to influence the company through the mass media in a way to submit comments and criticism against the company, which can form public opinion on the company (Saleh, 2004). Therefore, the management is required to do well in presenting performance information in a timely manner, due to timeliness in financial reporting will affect the economic decision making. Thus we can say that public ownership is a negative effect on audit delay.

2.1.2.4 Leverage

Leverage is the use of assets and source of funds by a company that has a fixed expense (fixed load). Leverage can indicate the level of financial distress of a company. The higher the total debt to total asset ratio reflects the financial risk and high risk company (Utami, 2006). The condition is bad news for the company, so management will delay the submission of financial reports. Thus, leverage has a positive relationship with audit delay. However, some of the results showed no effect on the leverage audit delay (Carslaw and Kaplan, 1991; Hosain and Taylor, 1998; Naim, 1999).

2.2 Research Hypotheses

Referring to the theoretical study, the hypothesis of this study are as follows:

- H0: profitability, company size, corporate governance mechanisms and leverage does not affect simultaneous and partial the audit delay
- H1: profitability, company size, corporate governance mechanism and the leverage effect simultaneous and partial audit delay.

III. RESEARCH METHOD

This study is descriptive and verification research. The research nature is causality (Sekaran and Bougie, 2010). The unit of analysis of this research are telecommunication companies listed in the Indonesian Capital Market listing, i.e. there are 5 companies. Thus it can be said that the research data is the study of the population. A 2-year study period, namely from 2008 to 2009.

The definition of operational variables in this study can be explained as follows:

- 1) Profitability (X_1); is company profitability by using the total assets owned. Variables measured profitability by using return on assets with a formula $ROA = \frac{EAT}{Total\ Assets}$
- 2) Company size (X_2); company size describes the size of the company. Company size in this study were measured by using the log. of sales, rather than using the log. of assets. Reasons for not using the log. of assets, it is assumed that there are assets that are not productive (non-

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performance assets) in the unit of analysis, so it does not reflect the actual assets used in generating the return.

- 3) *Corporate* governance mechanisms; corporate governance, which serves to control the corporate performance management to achieve effective and efficient. Corporate governance component consists of (a) Institutional ownership (X_3) was measured by the proportion of institutional ownership of the total ownership and (b) public ownership (X_4) was measured by the proportion of public ownership of the total ownership.
- 4) Leverage (X_5); use of source of funds that bear a fixed expense due to the use of source of funds. Leverage measured by the formula: $Debt\ to\ total\ assets = \frac{Total\ Debt}{Total\ Assets}$
- 5) Audit delay (Y); range of audit completion time starting from the closing fiscal year until the date of issuance of audit reports. Closure of Books is December 31, 2xxt. Completion date of the auditor's report, the date printed on the auditor's report, namely 2xxt +1.

All research variables using the same measurement scale, i.e. the ratio scale. Therefore, this study is causal and the method of analysis used in this study is multiple regression analysis with the equation as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Description:

Y = Audit delay

X_1 = profitability

X_2 = Company size

X_3 = Institutional ownership

X_4 = Public ownership

X_5 = leverag

α = Konstanta

β = Koefisien regresi

e = error

This study uses multiple regression analysis, therefore it is necessary to make the classical assumption which include normality test, multicollinearity, heteroscedasticity and autocorrelation. Meanwhile, the hypotheses in this research consists of testing hypotheses simultaneously using a partial F test and the test using t test.

Statistical hypothesis in this study are as follows:

H_{1.1}: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5 \neq 0$; Various factors affect the significant simultaneous audit delay.

H_{1.2}: $\beta_{i=1,2 \dots 5} \neq 0$; Various factors affect the significant partial audit delay.

IV. RESULTS AND DISCUSSION

The result showed statistical description, as shown in table 2 as follows:

Tabel.2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	10	-.22	.12	.0008	.10861
Size	10	5.73	7.81	6.8723	.73972
Insti.Own	10	.40	1.00	.6899	.21312
Public Own	10	.00	.60	.3101	.21312
Leverage	10	.41	1.04	.7770	.19798
Audit Delay	10	37.00	132.00	74.7000	29.69493
Valid N (listwise)	10				

Profitability is minimum at -0.22, and maximum at 0.12, a mean of 0.0008 and standard deviation of less than 1. This shows that FREN suffered losses among the largest telecommunications industry in 2008 were analyzed, as for the highest profit in the year 2008-2009 is TLKM, while the standard deviation of less than 1, means the profitability of the telecommunications industry in Indonesia is relatively not varied.

Company size minimum is at 5.73 and a maximum of 7.81 with a mean of 6.8723 and standard deviation of less than 1. Company size means the telecommunication industry in Indonesia is relatively not varied.

Institutional ownership is the minimum maximum of 0.4, a maximum of 1, a mean of 0.6899 and standard deviation of less than 1. Institutional ownership is BTEL lowest, the highest is AXIATA XL. Institutional ownership is the telecommunication industry in Indonesia is relatively not varied.

The public ownership is at a minimum of 0.0023, a maximum of 0.6000, a mean of 0.3101 and standard deviation of less than 1. Public ownership is the AXIATA lowest, the highest is BTEL. Public ownership of the telecommunication industry in Indonesia is relatively varied.

Leverage minimum is at 0.41, a maximum of 1.04, a mean of 0.7770 and standard deviation of less than 1. This indicate that financial risk was lowest for BTEL, the highest is Axiata XL. Leverage increases risk profit variability, that is if it turns out company profits lower than on fixed assets (including interest expense), then the use of leverage will reduce the share holder value. Financial leverage the telecommunication industry in Indonesia is relatively not varied.

Audit the minimum delay of 37 days, maximum of 132 days, a mean of 74.7 days and more than 1 standard deviation. Audit conducted by the lowest ISAT delay and highest TLKM, the average audit delay does not exceed the end of the Indonesian Capital Market regulation that is 90 days, however in the year 2008 audit delay TLKM 132 days, so the data audit delay is relatively varied.

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In multiple regression analysis, it is necessary to make the classic assumption in order to obtain a good regression model. The result of classic assumption test and regression analysis can be seen in the appendix.

- a) Test of multicollinearity; Value Variance Inflation Factor (VIF) for variable profitability and company size above 5, means having a multicollinearity problem. Meanwhile, institutional variables have a minimum tolerance value of 0.000, so there is no VIF value, therefore, be excluded variables. Thus the variables these are free from multicollinearity problems, leverage and public own. Both these variables that can be done with regression on audit delay.
- b) Test of Autocorrelation; value of Durbin Watson (DW) DW 2.295 compared to the table with the level of sig. 5%, $k = 2$ and $n = 10$, then the obtained value of dL table = 0.697 and $du = 1.641$. DW over and above dL and du ($k-du = 2-1.641 = 0.359$). If DW is larger than DU, then there is no autocorrelation.
- c) Test of normality, normality tests performed with plot diagrams and histograms, indicating that there is a normal distribution of data. It is eligible parametric statistics.
- d) Test Heteroscedasticity; results standardized plot of residuals (Y axis) with the standardized predicted value (X axis) shows do not form a regular pattern. It means that heteroscedasticity did not happen.

Based on the classic assumption test, a multiple regression model does not meet the assumption of collinearity, the variables of profitability and company size. Another case is that there is excluded variable, namely institutional ownership variable, this happens because the variable institutional ownership and public ownership have a negative relationship. Based on the classic assumption test, then made improvements to the regression model, so that independent variable used in this study was only public ownership and leverage.

According to analysis revised, note the coefficient of determination (R^2) of 0.338 with the significant level of 0.236. It means that simultaneous of public ownership and leverage can not affect or could not explain the audit delay. But other factors are not examined more dominant by 0.662 or 66.2%.

The results of this study show that public ownership does not affect audit delay, but it can be an indication that their response (public ownership) ought to be corrected for the company to be more timely in the submission of audited financial statement. Thus the corporate governance mechanism through public corporate ownership, should improve accountability and transparency in capital markets.

The results of this study shows that the leverage does not affect the audit delay. The findings are in line with the results of research Carslaw and Kaplan (1991), Hosain and Taylor (1998) and Naim (1999). But the leverage effect is negative, it is contradictive with Utami (2006) statement, that the high leverage is bad news for the company so, management will delay the submission of financial reports. The results of this study indicated that the leverage to encourage companies to immediately publish audited financial statement. Thus indicated that the high leverage to encourage companies to be more efficient, so it will be profitable. Profitable companies that want to hasten the publication of financial statements for their positive response by the market.

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V. CONCLUSIONS, IMPLICATIONS AND LIMITATIONS

5.1. Conclusion

Based on the analysis, it can be concluded that:

- 1) The results of this study simultaneously and partially not affect audit delay.
- 2) Although the partial leverage does not affect the audit delay, but it has a negative direction, thus have an indication that the high leverage to pressure for public company to perform better, so it is more profitable for submission of audited financial statements can be on time.

5.2. Implication

Implication of these results is that investors look at a company that is late in submitting the audited financial statement. It is possible that the public company experiencing financial problems, especially loss.

The implications for the company is late submission of audited financial statements, can be bad for the company due to complaints and criticism of public ownership is published.

Implications for regulators in the capital market is low on clarity of enforcement including, sanctions that affect public company which comply with the capital markets regulation.

5.3 Limitation

Although this study was to enter corporate governance variables that have not been much studied by researchers in this topic. But the limitation of this study is that there is relatively little data used which are selected from industry and research period of only 2 years old. The reason for the study period which is relatively short, as a result of relatively rapid technological influence, then the changes occurring in the telecommunication industry is also relatively fast, so that it has impact the data used in this study.

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Appendix
Research Data

No	Company Name	X1	X2	X3	X4	X5	Y
1	TLKM	0.1164	7.783116	0.6926	0.3074	0.517865	132
2	ISAT	0.0363	7.270891	0.7929	0.2071	0.657625	37
3	XL AXIATA	-0.0005	7.081391	0.9977	0.0023	0.848276	54
4	BTEL	0.0160	6.342876	0.4309	0.5691	0.405324	83
5	FREN	-0.2228	5.864411	0.713	0.287	0.848408	86
6	TLKM	0.1162	7.81021	0.525	0.475	0.93539	98
7	ISAT	0.0272	7.264653	0.7929	0.2071	0.93917	49
8	XL AXIATA	0.0624	7.136912	0.9977	0.0023	1.036993	41
9	BTEL	0.0086	6.438162	0.3959	0.6041	0.74727	76
10	FREN	-0.1523	5.73028	0.5601	0.4399	0.833394	91

First Result Before Classic Assumption
Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Leverage, Size, Public Own, Profitability ^a	.	Enter

a. Tolerance = .000 limits reached.

b. Dependent Variable: Audit Delay

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.713 ^a	.508	.115	27.93840	2.700

a. Predictors: (Constant), Leverage, Size, Public Own, Profitability

b. Dependent Variable: Audit Delay

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4033.329	4	1008.332	1.292	.385 ^a
	Residual	3902.771	5	780.554		
	Total	7936.100	9			

a. Predictors: (Constant), Leverage, Size, Public Own, Profitability

b. Dependent Variable: Audit Delay

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Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-231.364	242.160		-.955	.383		
	Profitability	-266.864	224.170	-.976	-1.190	.287	.146	6.835
	Size	45.095	34.303	1.123	1.315	.246	.135	7.424
	Public Own	99.015	57.080	.711	1.735	.143	.586	1.706
	Leverage	-44.212	55.210	-.295	-.801	.460	.726	1.378

a. Dependent Variable: Audit Delay

Excluded Variables^b

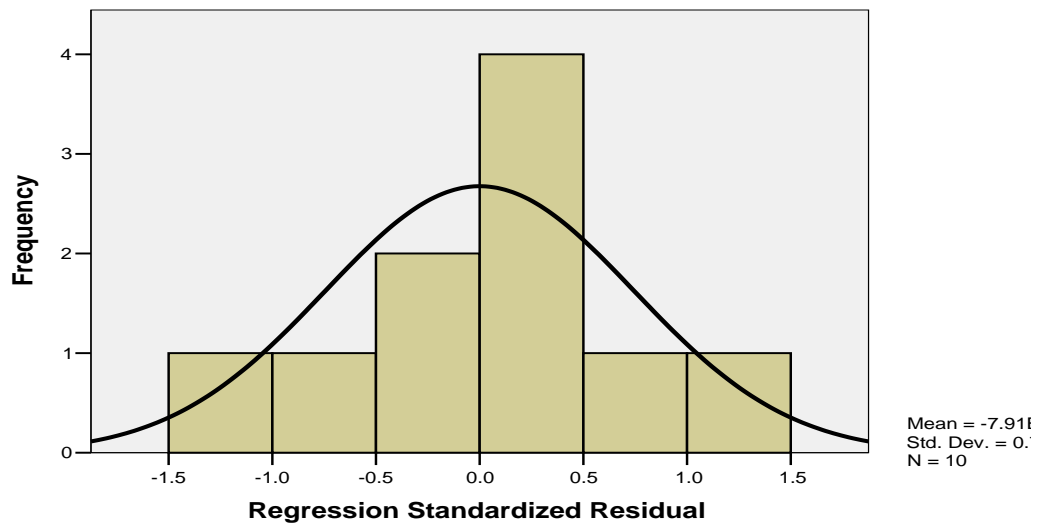
Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	Inst.Own	. ^a000	.	.000

a. Predictors in the Model: (Constant), Leverage, Size, Public Own, Profitability

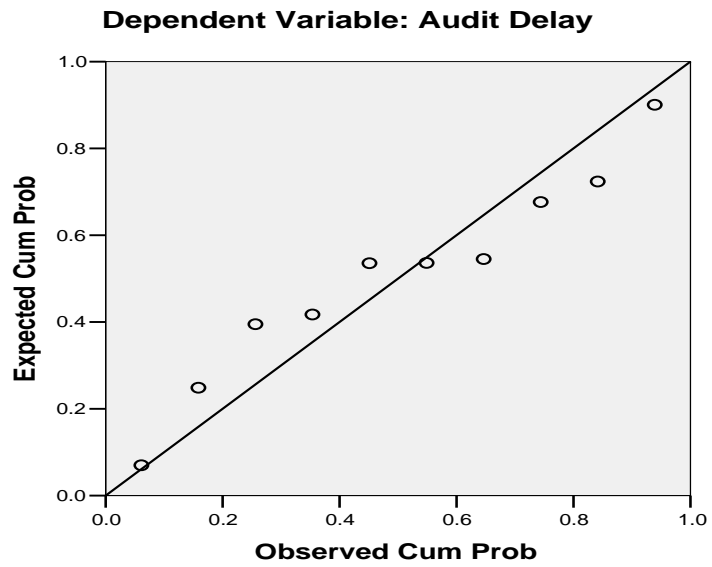
b. Dependent Variable: Audit Delay

Histogram

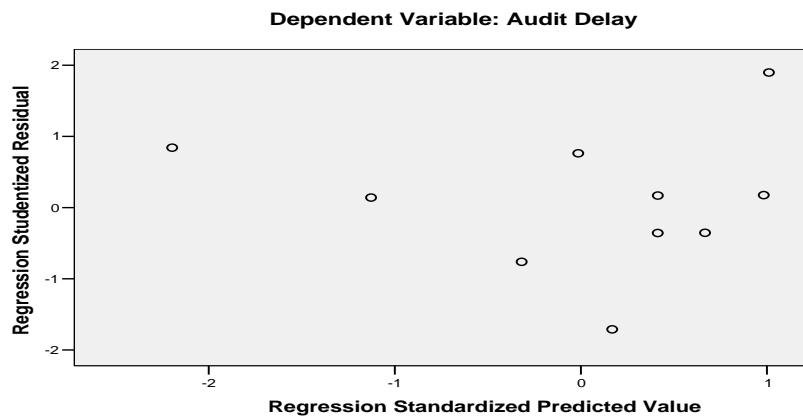
Dependent Variable: Audit Delay



Normal P-P Plot of Regression Standardized Residual



Scatterplot



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Revised of Regression Analysis

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Leverage, Public Own(a)	.	Enter

a All requested variables entered.

b Dependent Variable: Audit Delay

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.581 ^a	.338	.149	27.39586	2.295

a. Predictors: (Constant), Leverage, Public Own

b. Dependent Variable: Audit Delay

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2682.368	2	1341.184	1.787	.236 ^a
	Residual	5253.732	7	750.533		
	Total	7936.100	9			

a. Predictors: (Constant), Leverage, Public Own

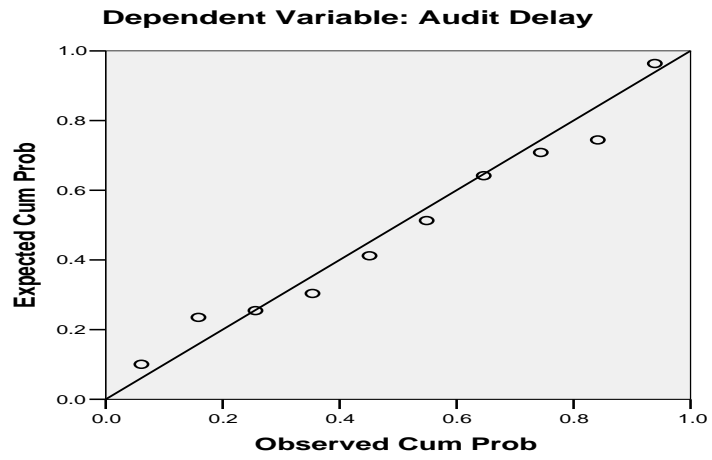
b. Dependent Variable: Audit Delay

Coefficients^a

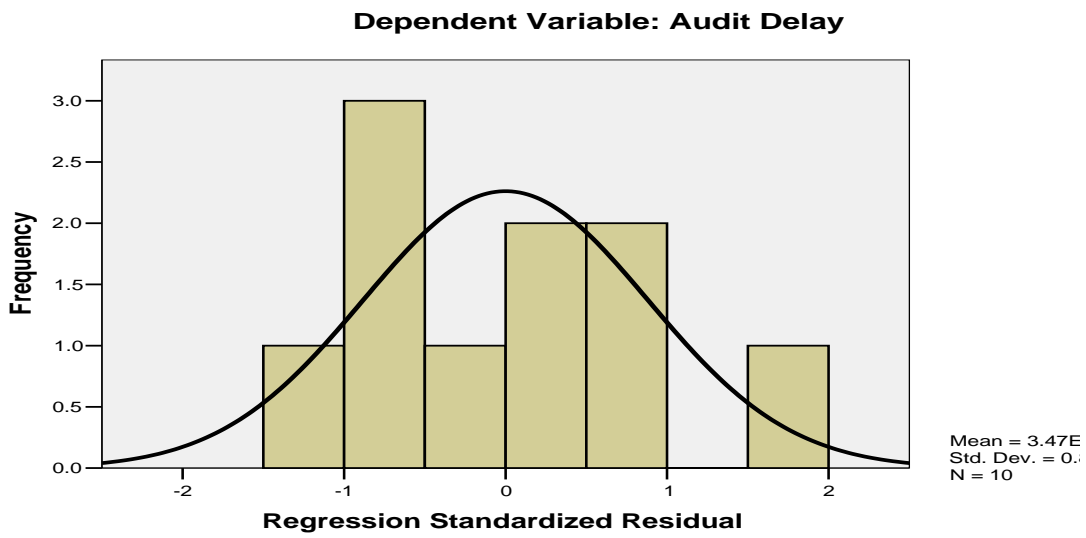
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	79.984	50.292		1.590	.156	-38.937	198.906		
	Public Own	62.748	48.575	.450	1.292	.237	-52.113	177.610	.778	1.285
	Leverage	-31.848	52.290	-.212	-.609	.562	-155.495	91.800	.778	1.285

a. Dependent Variable: Audit Delay

Normal P-P Plot of Regression Standardized Residual



Histogram



Scatterplot

Dependent Variable: Audit Delay

