

# An Empirical Research on Audit Report Timeliness

Hendi<sup>1</sup>, Riksen Sitorus<sup>2\*</sup>

<sup>1,2</sup>Accounting Department, Universitas Internasional Batam, Jalan Gajah Mada, Baloi Sei Ladi, Batam, Kepulauan Riau 29442, Indonesia

\*Corresponding author; Email: [21942023.riksen@uib.edu](mailto:21942023.riksen@uib.edu)

## ABSTRACT

Timeliness is an accounting principle that reflects economic value and relevance. Timeliness in releasing financial statements can provide relevant information and can influence decisions. This empirical study aims to examine the effect of company and audit characteristics on the timeliness of audit reports. This study uses a panel regression analysis methodology on 115 Indonesian companies listed on the Indonesia Stock Exchange from 2017-2021. This study concludes that company characteristics have a significant effect on the timeliness of audit reports. Based on the results of empirical testing, larger audit complexity, firm size, and debt-equity lead to shorter audit delays, on the other hand, negative profits and ownership concentration cause longer delays. The implications lead to more timely reporting and an appropriate decision-making process.

**Keywords:** Timeliness; audit report; determinant.

## INTRODUCTION

The presentation of financial statements based on accounting standards is an absolute requirement for companies in preparing financial statements [6]. It is intended that financial statements have economic value and relevance to the decision-making process [43]. The decision-making process has a significant impact on the business, therefore financial statements must be prepared based on accounting principles [55]. One of the accounting principles that reflect economic value and relevance is timeliness [12] [32] [43]. Timeliness in releasing financial statements is very important hence, to provide relevant information and make strategic decisions [3] [30] [41] [45] [46].

In this regard, many financial reports are released later than the actual time. [29] identify auditing as the cause of delays in the release of financial statements worldwide. Timeliness in financial statements is highly dependent on audit efficiency because financial statements are released after being audited by external auditors [13] [55]. Regardless of the audit results, the auditor's confidence in the information can only be considered beneficial to stakeholders if the information is presented promptly [10]. If there is a delay in the audit, the financial statements will become irrelevant and encourage information asymmetry in the market [18]. Stakeholders are ultimately motivated to take investment decisions without proper verification [28]. The impact of this information has the potential to cause negative consequences, such as the effect of uncertainty or insider trading [23].

Another thing that is of concern in reporting is timeliness as a form of protection for investors [19]. [54] explains that the timeliness of the presentation of financial statements and audit reports is the main prerequisite for improving the stock price of a company. The company can maintain its position in the stock exchange and the company's equity activities can continue to run [22]. In addition, firm value is also closely related to audit reports which have implications for timely financial reporting [20].

The previous study by [2] [21] [35] explained that the timeliness of audit reports has become a concern in the last few decades. In 2016, the *Otoritas Jasa Keuangan* (OJK) or Financial Service Authority restructured regulations regarding reports on depository and settlement institutions [24]. This matter is regulated in the Financial Service Authority Regulation No. 44/POJK.04/2016 concerning the report of depository and settlement institutions which explains that the role of OJK can reach out to the capital market sector which is in line with other sectors. The contents of the regulation not only regulate the reports of depository and settlement institutions, but also the period of financial reporting, the obligation to obtain an opinion on the financial statements, and applicable sanctions.

Empirical research in this field is encouraged to conduct for several reasons. Stock exchange activities in Indonesia are growing very rapidly from time to time. This has an impact on increasing demand to audit financial statements effectively and efficiently [36]. In 2021, the Indonesia Stock Exchange (IDX) imposed sanctions on 23 companies that were late in reporting. This sanction is imposed

for an interim period in September 2020. The sanction contains a fine of Rp 50 million and a written warning. Furthermore, only 4 out of 23 companies submitted audited financial statements [57]. Seeing the number of cases of late reporting, this impact is expected to affect the quality of reporting and information [47]. In fact, capital market activity has begun to increase and attract foreign and local investors to invest [6]. According to a report from [27], direct investment in Indonesia strengthened throughout 2021. Indonesia recorded a higher overall balance and accumulated around \$9 billion in reserves. Then, the allocation of Special Drawing Rights (SDR) also contributed as much as \$6 billion that the government received to be stored as the country's foreign exchange reserves. Thus, the difference in the balance of \$3 billion came from foreign investment in Indonesia in the relevant period.

Events such as regulatory reform and the recent increment of investment then became a new basis for academics to expand studies related to the timeliness of audit reports [18]. Factors that can affect the timeliness of audit reports are estimated to be more varied and diverse [21]. According to [51], the timeliness of audit reports has a close relationship with profitability, solvency, firm size, and audit firm reputation. However, some studies involve unique factors such as recruitment of third-party accounting and internal audit personnel, political connections, religiosity, corporate action, and business strategy [3] [8] [15] [16] [23] [32].

Broadly speaking, audit reports can be influenced by various factors from companies and auditors. Both factors may explain the incentive to delay and expedite audit reports. Company factors are important to observe because the influence of company attributes can directly affect the timeliness of audit reports [56]. Factors from companies that can be studied include company size, profit or loss, debt equity, and ownership concentration. Meanwhile [21] suggests that an understanding of the determinants related to the audit report can be observed through the external auditor. Factors from the external auditor's side that can be examined include the complexity of the audit mission, audit opinion, and audit firm reputation. Therefore, the focus of the research is on the determinants related to the timeliness of the audit report, namely the company's factors, and external auditors.

The timeliness of audit reports is often seen in terms of the audit process only. [44] use an additional index to analyze audit reports until they are released to readers. The index covers the interim period after the audit and the total time it took for the audit report to be released. This research is useful to continue the extension of the literature in this field and is one of the studies that is rarely carried out in the Indonesian context.

## Agency Theory

Several theories can explain the timeliness of audit reports in a company. Agency theory explains the contract between the principal and the agent, which is a theory that explains that the agent is given the authority to act or make decisions on behalf of the principal [26] [44]. One form of the agent's responsibility is to present the company's financial statements. The financial statements provide information to the principal regarding the financial position, results of operations, changes in capital, and cash flows of the company during a certain period. This agency relationship also orders another party (in this case an auditor or independent agent) to perform services on behalf of the principal and examine the company's financial statements [6] [31] [36]. [42] and [7] explained that company agents who are in line with the principal can reduce audit risk and produce audit reports faster.

The audit delay is closely related to agency theory because the company can request the auditor to further examine the company's liabilities and profitability. These components then become independent variables in the study, such as debt-equity, profit, and company size. These variables are considered to influence the timeliness of the audit report as the dependent variable.

## Signaling Theory

In contrast to agency theory, signaling theory links the company and shareholders. Signals are steps taken by a company to influence shareholders about how management views the company's prospects. The signal given is in the form of performance information that has been carried out by management to realize the expectations of the owner of the company [35]. Generally, information that is beneficial to the company's image tends to be conveyed quickly to the public. If the information provided by managers can convince and benefit the public, then stock prices can change. However, if financial information gives a bad impression, it can affect shareholder decisions and the share price of the company.

Signaling theory provides a clear relationship between audit delays. Management interaction with shareholders is something that needs to be considered because management tends to speed up or delay information being conveyed to shareholders. [31] reveal that the duration required by management to publish financial statements gives a different signal to investors. Publication in a short time means good news while publication that is slower is referred to as bad news. Therefore, this

study uses independent variables such as audit opinion, profit, and debt-equity to analyze the effect on the timeliness of audit reports.

### **Auditor-Client Management Negotiation Theory**

[34] observe audit delays through the management of the relationship between auditors and clients. The study found that when the auditor conducts a meeting as a form of reconciliation of the client's financial statements and the auditor's findings, the client can show 2 types of responses. These responses are known as proactive and reactive responses. Clients who show a reactive response tend to doubt the auditor's decision. These clients generally assume that the financial statements that have been prepared are following applicable accounting standards. Another response shown by this client is asking the auditor to re-verify the financial statements. This reactive response is considered to be one of the causes of audit delays. In contrast to the reactive response, the proactive support the auditor's findings and considers that the auditor is equal to a "consultant". This way, audit delays can be reduced, and encourage timely financial reports.

This proactive-reactive relationship can be found in certain phases when auditing financial statements. [34] explain that the audit process consists of a planning phase, a fieldwork phase, and an audit completion phase. The fieldwork phase is the phase that is most vulnerable to causing a reactive relationship. [22] explained that the reactive relationship caused obstacles to the audit process carried out so that the aim for timely audits could not be met.

### **Audit Report Timeliness**

The timeliness of the audit report has a close relationship with the company's financial statements. The timeliness of the report can be determined by how quickly the audit process is carried out. According to [44], the deadlines generated by the audit process can have implications for the quality of the information reported. Therefore, the timeliness of the audit report needs to be observed more carefully.

The timeliness of the audit report is divided into two subsections, which are known as audit delays and interim periods. Two subsections of the timeliness of the audit report also contribute to corporate reporting. The interim period is defined as the number of days from the date of signature of the audit report to the date of publication of the company's financial statements. The total period is the

number of days from the closing date of the book to the publication date of the company's financial statements. The total period can also be shown as the accumulation of audit delays and interim periods [44].

### **Hypothesis Development**

#### ***The Effect of Audit Mission Complexity on Audit Report Timeliness***

The complexity of the audit mission is the level of complexity of the audit practice [24]. Generally, this practice depends on the operational factors of the company or the account of the statement of the financial position being audited. The more complex these factors, the longer the audit delay [9].

One of the factors that can increase the level of complexity of the audit mission is the accounts recorded in the statement of financial position. Accounts that have a relationship with the financial statements can have a material impact on the fairness of the report [5]. This claim is also supported by [18], stating that audit mission complexity in the context of contingencies has an effect on the timeliness of the audit report and has a significant impact. The meta-analysis conducted proves that there are two significant positive effects, while the other five studies prove that they are not significant. [29] stated that the complexity of the audit mission in the context of conventional auditing also requires special attention, and proper verification procedures, and causes delays.

Inventory and accounts receivable are types of accounts that can increase the complexity of the audit mission [31]. Contingent assets verification can involve many stages depending on the company being audited. [5] stated this process can involve price/unit tests, physical tests, confirmation, and calculation of turnover. Auditors are required to check whether there is obsolescence or unusual costs in the change in the turnover rate. Turnover not only needs to be watched out for when it is at a low level but also a satisfactory level. This is because fluctuations or benchmarking that can be shown by turnover numbers can indicate errors or misstatements. These two mistakes make the asset contingent figures appear to be correct. The same thing can be found in receivables where the receivables themselves can also be affected by warranty. All these things must be analyzed by the auditor and require adequate preparation. Therefore, the increasing number of inventories and receivables requires a longer time to be audited [11] [18] [29].

However, the complexity of the audit mission according to [25] can contribute to speeding up the audit process itself. More complex companies

generally have high standards of reporting and accurate management systems. The presence of these two factors can help the auditor in carrying out his duties. On the other hand, auditors generally analyze the nature of the company in advance and prepare the most appropriate, effective, and efficient plan for the company being audited. The planning can be in the form of detailed procedures, the right team and scheduling, and preparing strategies. Furthermore, the capability and readiness of the auditors before carrying out their duties are also supporting factors in accelerating the audit.

H1: There is a significant effect between audit mission complexity and audit report timeliness

### ***The Effect of Audit Opinion on Audit Report Timeliness***

An audit opinion is an opinion given by an auditor on the audited financial statements [6]. This opinion can only be generated through adequate audit evidence. Five types of audit opinions can be given by the auditor [5]. Those opinions are unqualified opinion, unqualified opinion with explanatory paragraph, qualified opinion, adverse opinion, and disclaimer of opinion.

Auditors conduct audits for a longer time and carry out audit procedures as best as possible on a qualified opinion [33]. Auditors are reluctant to litigation that could arise in the future. The credibility and accountability of the opinion must be proven with sufficient and adequate evidence [47] [53]. The auditor also needs to provide solutions for discrepancies contained in the financial statements. The solution is discussed in a meeting to resolve the discrepancy [23].

H2: There is a significant effect between audit opinion and audit report timeliness

### ***The Effect of Audit Firm Reputation on Audit Report Timeliness***

The reputation of the audit firm is the level of credibility, size, and quality of the public accounting firm. Audit firms that have larger resources, complete facilities, and qualified experts can complete audits faster [29] [38]. Audit firms that have good qualifications and can use the system can also complete audits better and more accurately [3] [24] [37]. The greater the reputation of the audit firm, the more effective and efficient the audit will be [33] [49].

An audit firm with international quality such as Big4, apart from having complete facilities and infrastructure, is considered to have a high reputation pressure. Big4 is the accounting service that has the highest revenue and wide market

share. Big4 itself consists of Klynveld Peat Marwick Goerdeler (KPMG), Pricewaterhouse Coopers (PWC), Deloitte, and Ernst & Young (EY). If an audit firm with international quality cannot provide decent audit services, then this can have an impact on the reputation of the audit firm that has been built [43]. Thus, the reputation of the audit firm can reduce the potential for audit delays.

Although international firms are likely to produce better timeliness, this claim is not always consistently proven. [25] revealed that international audit firms believe that their reputation and credibility are protected. The reason is that the audit firm prioritizes disclosure requirements over audit timeliness. Therefore, the auditor performs more audit efforts which subsequently leads to a longer audit duration. This finding is also supported by [52] who found a significant negative effect on audit firm reputation.

H3: There is a significant effect between audit firm reputation and audit report timeliness

### ***The Effect of Company Size on Audit Report Timeliness***

Larger company sizes are also considered to have complete facilities and systematic internal controls [29] [43]. Strong internal control can facilitate the work of auditors when auditing financial statements [19]. Both things can support the auditor's work to be faster, more effective, and more efficient. Company size can be measured through the company's assets. Larger company assets indicate that the company can use higher-quality audit services, such as Big4 [6]. Thus, the more assets the company has, the more likely it is to release a timelier audit report.

In contrast to the statement above, [31] and [56] argue that the larger the size of the company is closely related to the complexity within the company. These companies have large transactions which make the verification process more difficult. These transactions are not only of great value but also have a very high frequency. Therefore, company size can be a driving factor for audit delays.

H4: There is a significant effect between company size and audit report timeliness

### ***The Effect of Debt Equity on Audit Report Timeliness***

Debt equity influences the timeliness of the audit report. The higher proportion of debt can have implications for financial difficulties. Similar to an audit opinion, a company with a financially unstable condition can also have an impact on stakeholders. In this regard, the company's management has also delayed the release of financial statements [29].

Auditors are also more skeptical of the financial statements of companies experiencing financial difficulties [21] [56]. This reason is based on skepticism about internal control, the level of misreporting, and financial difficulties. [13] confirm that companies that are in a financial crisis can encourage auditors to examine their operations more carefully. To create confidence for users of financial statements, auditors need a longer time to audit [2] [24].

According to another point of view, the high proportion of debt is the driving factor for the faster release of the report. Transparency of financial reports is very much needed by stakeholders, one of which is creditors [19]. Increased corporate debt can cause pressure to publish financial statements more quickly [33].

H5: There is a significant effect between debt equity and audit report timeliness

### ***The Effect of Profit on Audit Report Timeliness***

Profit affects audit delays. Profit implicitly reveals the effectiveness of overall management [6] [29]. Stakeholders, especially investors, need this information to assess the company's performance [19]. In contrast to debt equity, profit is considered good news and can attract potential investors [24] [35]. Companies also tend to ask auditors to speed up the audit process [33]. [31] explain that high profit is news that must be immediately conveyed to the public because it can increase trust in the company. Therefore, the company strives to issue financial reports on time.

Profit can not only be studied in terms of positive returns but also can be analyzed from the negative side. [48] argues that losses are equated with bad news for stakeholders. This perception encourages management to delay the publication of financial statements and motivates auditors to carry out a more thorough audit process. The role of management in delaying the audit process can be done through slower scheduling [10] [56]. Meanwhile, according to [52] and [7], profits that show negative results can increase the possibility of fraudulent reporting and are closely related to the sustainability of the company. As a result, the auditor seeks to conduct a more rigorous and thorough audit of the company.

H6: There is a significant effect between profit and audit report timeliness

### ***The Effect of Ownership Concentration on Audit Report Timeliness***

Ownership concentration is the level of distribution of a company's share ownership. The concentration of ownership that is centered on management and major shareholders generally has a relatively low urgency of information [47]. In contrast to this statement, a more dispersed level of

concentration provides an impetus for disseminating information from the company promptly [29].

A significant concentration of ownership in the company has several effects on the timeliness of the audit report. According to the research of [14], the concentration that is centered on the majority has rights over the company, including regulating management actions. [31] suggest that ownership that is not evenly distributed is generally associated with poor reporting. This is supported by [25], who says that a significant concentration of ownership tends to access company internal information using ownership rights. Thus, ownership concentration can cause delays in the timeliness of audit reports.

Companies with less concentrated ownership have higher financial reporting quality than more concentrated ownership [9] [11]. The public has limited access to financial information and only receives information from financial reports [25]. Companies must ensure that their interests are protected. Therefore, a higher level of ownership spread is considered to encourage companies to release reports more quickly [2]. This action can give confidence to the stakeholders and is considered capable of meeting the expectations of the parties.

H7: There is a significant effect between ownership concentration and audit report timeliness

## **RESEARCH METHOD**

### **Population and Sample**

The type of data contained in the study is quantitative data. The object of research is 115 manufacturing companies listed on the Indonesia Stock Exchange for the year 2017-2021. The sampling method in this study uses a purposive sampling technique. The test conducted in this study was carried out according to every proxy from the dependent variable. The first proxy which models audit delay has a final sample of 551 with 24 outliers. Furthermore, the second and third proxy modeling interim and total period have 547 with 28 outliers.

**Table 1.** Sampling Results

	Audit Delay	Interim Period	Total Period
Manufacturing company listed in IDX	171	171	171
Not listed since 2017	(25)	(25)	(25)
Damaged or incomplete data regarding research requirements	(31)	(31)	(31)
Total eligible company	115	115	115
Period of observation		5 years	
Total sample	575	575	575
Outlier data	(24)	(28)	(28)
Final data	551	547	547

Source: processed secondary data, 2022

## Definition of Operational and Measurement Variables

### *Dependent Variable*

The dependent variable studied in this study is the timeliness of the audit report which is proxied by audit delay, interim period, and total period. Audit delay is measured by the logarithm of the number of days between the closing date of the book and the date of the auditor's signature on the audit report of the financial statements [44]. The results from the difference between the two dates are an indication of the delay in the audit report [19] [21] [29] [33]. The variable of the interim period of the audit report is measured by the number of days between the date of the auditor's signature on the audit report and the date of publication of the company's financial statements [44]. The date of publication of the company's financial statements is the date listed on the IDX page for downloading company reports. The difference obtained between the two dates can be referred to as the intermediate period. The total variable for the audit report period is the logarithm of the difference between the closing date of the book and the publication date of the company's financial statements [44]. This variable can indicate the time required for a company audit report to be published.

### *Independent Variables*

The independent variables included in this study consist of the company's and auditor's factors. These variables are the complexity of the audit mission, audit opinion, audit firm reputation, firm size, debt equity, profit, and ownership concentration. Further explanation for each measurement will be shown in the following passages.

The audit mission complexity variable is proxied by the composition of the statement of financial position, which is measured by the company's inventory and receivables. Several studies reveal that measurement can be done by dividing the total value of inventories and receivables by the company's total assets [9] [29] [49]. The greater the ratio obtained, the more complex the audit will be [8]. These results have an impact on a longer audit process.

An audit opinion is proxied by a qualified opinion. The qualified opinion requires stronger audit evidence to support the auditor's opinion. This has implications for a more detailed audit process. The measurement of opinion can be measured through a dummy variable. The dummy variable will be coded "1" if a company gets a qualified opinion and coded "0" for other audit opinions [6] [24] [29] [32] [40].

An audit firm reputation is considered a determinant regarding audit report timeliness. An international audit firm has high resources, adequate expertise, and technology. These factors can support the audit process and are considered capable of increasing the effectiveness and efficiency of the audit. Measurement of the audit firm reputation can be measured through a dummy variable. The dummy variable will be coded "1" if a company uses an international audit firm and code "0" for a local audit firm [29] [41] [44] [50].

Company size in this study is proxied by company assets. The more assets are owned by the company, meaning that the company is considered capable of using higher quality audit services. Thus, delays in audit reports can be minimized. The measurement for this variable is calculated through the logarithm of the company's total assets [3] [17] [26] [29] [45].

The high proportion of debt in a company can encourage management to delay the release of financial statements. Management action also influences audit work. This effect can have an impact on a longer audit process. The measurement for this variable is calculated using total debt divided by total assets [16] [22] [29] [38] [47].

Companies that generate negative profits during the year tend to experience delays in audit reports. Measurement of this variable is done with a dummy variable. The dummy variable will be coded "1" if a company generates negative profits and coded "0" if the company generates profit [28] [33].

Centralized ownership concentrations tend to experience higher audit report delays. Measurement of this variable is done with a dummy variable. The dummy variable will be coded "1" if an individual has company ownership that is concentrated above 5% and a code "0" if company ownership is not concentrated [9] [46].

### *Control Variable*

Additional audit changes were added as a control variable. This variable is measured by a dummy variable. The dummy variable will be coded "1" if there is a change of auditors in the company and coded "0" if there is no change of auditors in the company [40].

### *Data Analysis Technique*

The method of data analysis and hypothesis testing in this study is panel regression analysis. The statistical test in this study was carried out through two statistical programs. The SPSS program is used specifically for descriptive statistical

testing of frequencies and outlier data testing. The Eviews program was used in descriptive statistical testing, panel regression testing, Chow test, Hausman test, Lagrange Multiplier test, F test, t-test, and the Goodness of Fit test (Adjusted R Square). The regression model for each proxy is shown as follows:

$$AUDLAG = \alpha_0 + \alpha_1 INVENT\_TRAD_{it} + \alpha_2 AUOP_{it} + \alpha_3 INAUD_{it} + \alpha_4 FSIZE_{it} + \alpha_5 DEBT_{it} + \alpha_6 PROFIT_{it} + \alpha_7 CONCENT_{it} + \alpha_8 AUDCHG_{it} + \varepsilon_{it} \quad (1)$$

$$INTERIM = \alpha_0 + \alpha_1 INVENT\_TRAD_{it} + \alpha_2 AUOP_{it} + \alpha_3 INAUD_{it} + \alpha_4 FSIZE_{it} + \alpha_5 DEBT_{it} + \alpha_6 PROFIT_{it} + \alpha_7 CONCENT_{it} + \alpha_8 AUDCHG_{it} + \varepsilon_{it} \quad (2)$$

$$TPERIOD = \alpha_0 + \alpha_1 INVENT\_TRAD_{it} + \alpha_2 AUOP_{it} + \alpha_3 INAUD_{it} + \alpha_4 FSIZE_{it} + \alpha_5 DEBT_{it} + \alpha_6 PROFIT_{it} + \alpha_7 CONCENT_{it} + \alpha_8 AUDCHG_{it} + \varepsilon_{it} \quad (3)$$

Notes:

- $\alpha_0$  : Constant
- AUDLAG* : Audit Delay
- INTERIM* : Interim Period
- TPERIOD* : Total Period
- INVENT\_TRAD*: Audit Mission Complexity
- AUOP* : Audit Opinion
- INAUD* : Audit Firm’s Reputation
- FSIZE* : Company Size
- DEBT* : Debt Equity
- PROFIT* : Profit
- CONCENT* : Ownership Concentration
- AUDCHG* : Audit Changes
- i* : 1, 2, 3, 4, 5, 6, 7, 8, 9, 10... 115
- t* : 2017, 2018, 2019, 2020, 2021
- $\varepsilon$  : Error Term

## RESULTS AND DISCUSSION

### Results

#### Descriptive Statistics Tests

**Table 2.** Descriptive Statistics for Audit Delay

	Min.	Max.	Mean	Std. Dev
<i>AUDLAG</i>	36.000	191.000	88.584	23.696
<i>INVENT_TRAD</i>	0.049	0.797	0.365	0.157
<i>FSIZE</i>	25.216	32.820	28.554	1.495
<i>DEBT</i>	0.076	2.183	0.471	0.286
<i>VALID N</i> (listwise)	551			

Source: Processed secondary data, 2022

**Table 3.** Descriptive Statistics for Interim Period

	Min.	Max.	Mean	Std. Dev
<i>INTERIM</i>	0.000	61.000	11.049	12.129
<i>INVENT_TRAD</i>	0.049	0.797	0.365	0.157
<i>FSIZE</i>	25.216	32.820	28.573	1.497
<i>DEBT</i>	0.076	2.183	0.472	0.286
<i>VALID N</i> (listwise)	547			

Source: Processed secondary data, 2022

**Table 4.** Descriptive Statistics for Total Period

	Min.	Max.	Mean	Std. Dev
<i>TPERIOD</i>	43.000	210.000	100.698	25.892
<i>INVENT_TRAD</i>	0.049	0.797	0.365	0.365
<i>FSIZE</i>	25.216	32.820	28.554	1.495
<i>DEBT</i>	0.076	2.183	0.471	0.286
<i>VALID N</i> (listwise)	547			

Source: Processed secondary data, 2022

The sequence of the table above shows that audit delays range in value from 36 to 191 days. The average value of this variable itself recorded a value of 88,584. The average value of the audit delays of the analyzed companies is 89 days. This finding is consistent with the limit set by OJK, which is a maximum of 90 days from the company’s closing date. This finding indicates that the majority of companies engaged in this sector have fairly good compliance with the established regulations. If the effectiveness and efficiency of audits increase in the future, then the value of this audit delay can certainly be better.

As for the pre-publication or interim period, several companies did record a delay, which is equivalent to 11 days, and some even recorded no delay at all. However, the maximum value of this variable reaches 61 days. Overall, the total period required to publish the audit report is 101 days with values ranging from 43 days to 210 days. Based on these results, companies need a fairly brief time before publication. However, the total period required to release the audit report only requires an additional 1-2 weeks from the completion of the audit process.

The audit mission complexity variable recorded the lowest level of audit difficulty at 4.9%. On the other hand, the maximum value is 79.6% and the average is around 36%. Assuming that the standard audit mission complexity is 50%, this value is still at a low level. Company size had the lowest score at 25.22, while the highest value was recorded at 32.82. The average value of the company size under study is around 28. The debt-equity variable has a minimum value of 7.6% and a maximum of 218.3%. Despite having an unusual maximum value, the average value of this variable did not reach half ratio, which is about 47%. This means that companies in the manufacturing sector fund less than half of their assets using debt and are still within reasonable limits.

Based on the results shown in the table above, most of the sample with a total of 98.9% received an unqualified opinion. These companies also appoint auditors with international standards, which is about 93% of the sample. In terms of profit, 23% of the sample experienced a loss in the operational year. The concentration of ownership was recorded at 27.8% in the study sample and around 47% experienced auditor changes throughout the year.

**Table 5.** Frequency Statistics for Audit Delay

	Category	Freq.	%
<i>AUOP</i>	1	6	1.1%
	0	545	98.9%
<i>INAUD</i>	1	514	93.3%
	0	37	6.7%
<i>PROFIT</i>	1	129	23.4%
	0	422	76.6%
<i>CONCENT</i>	1	153	27.8%
	0	398	72.2%
<i>AUDCHG</i>	1	259	47.0%
	0	292	53.0%

Source: Processed secondary data, 2022

**Table 6.** Frequency Statistics for Interim Period

	Category	Freq.	%
<i>AUOP</i>	1	6	1.1%
	0	541	98.9%
<i>INAUD</i>	1	511	93.4%
	0	36	6.6%
<i>PROFIT</i>	1	127	23.2%
	0	420	76.8%
<i>CONCENT</i>	1	152	27.8%
	0	395	72.2%
<i>AUDCHG</i>	1	258	47.2%
	0	289	52.8%

Source: Processed secondary data, 2022

**Table 7.** Frequency Statistics for Total Period

	Category	Freq.	%
<i>AUOP</i>	1	6	1.1%
	0	541	98.9%
<i>INAUD</i>	1	511	93.4%
	0	36	6.6%
<i>PROFIT</i>	1	127	23.2%
	0	420	76.8%
<i>CONCENT</i>	1	152	27.8%
	0	395	72.2%
<i>AUDCHG</i>	1	256	46.8%
	0	291	53.2%

Source: Processed secondary data, 2022

The results of these frequencies show that although parts of this sample suffer losses, change auditors, and appoint local audit firms, the results of the opinions given are dominated by unqualified opinions. If it is associated with audit report timeliness, it takes 101 days as a whole, which is quite a positive thing from audit performance in Indonesia. This is because the research period is influenced by uncertainties such as the COVID-19 pandemic which makes the audit process difficult during the related period.

**Model Selection Tests**

**Table 8.** Chow Test

Effects Tests	Audit Delay	Interim Period	Total Period
<i>Cross-section F</i>	0.0000	0.0003	0.0000
<i>Cross-section Chi-square</i>	0.0000	0.0000	0.0000

Source: Processed secondary data, 2022

Chow test on the dependent variable of audit delay, interim period, and total period explains that the regression model that can be used is FEM (Fixed Effect Model). The value of each chi-square cross-section in the table above shows a probability value lower than 0.05. Testing the selection of the best regression model can be continued on the Hausman test so that the choice of the regression model becomes more accurate.

**Table 9.** Hausman Test

Test Summary	Audit Delay	Interim Period	Total Period
<i>Cross-section random</i>	0.0108	0.0000	0.2449

Source: Processed secondary data, 2022

The table above provides information that through the Hausman test, the best regression models for research are FEM and REM. The probability value of the results of this test on the total period variable is 0.2449. This value is above 0.05 so the regression model still cannot be determined, and it is necessary to carry out further testing, namely the Lagrange Multiplier test. Different from the previous proxy, audit delays and interim periods show numbers 0.0108 and 0.0000 which are lower than 0.05. Therefore, the best regression model for these two variables is FEM and there is no need to continue the process of selecting another model.

**Table 10.** Lagrange Multiplier Test

Test Summary	Total Period
<i>Breusch-Pagan</i>	0.0000

Source: Processed secondary data, 2022

The chosen model for total period is based on the table above. The results obtained for testing the selection of the best regression model on the total period variable is REM. The test value shown in the Breusch-Pagan line is 0.000 and does not exceed the test criteria, which is 0.05.

**Hypothesis Tests**

**Table 11.** F Test

Test Summary	Audit Delay	Interim Period	Total Period
<i>Cross-section random</i>	0.0000	0.0000	0.0000

Source: Processed secondary data, 2022

The results of the F test in the table above show that the entire probability value of the model is less than 0.05. The probability value in this F test explains that the timeliness of the audit report can be affected simultaneously by independent variables consisting of the complexity of the audit mission, audit opinion, audit firm reputation, firm size, debt equity, profit, ownership concentration, and audit changes.



**Table 12.** t Test for Audit Delay Model

Variables	Coef.	Std. Error	t	Sig.
<i>(Constant)</i>	1.3550	0.4933	2.7469	
<i>INVENT_TRAD</i>	-0.1304	0.0593	-2.1989	0.0284*
<i>FSIZE</i>	0.0208	0.0171	1.2167	0.2244
<i>DEBT</i>	0.1523	0.0356	4.2805	0.0000*
<i>AUOP</i>	0.1500	0.0929	1.6158	0.1069
<i>INAUD</i>	-0.0556	0.0369	-1.5064	0.1327
<i>PROFIT</i>	0.0453	0.0120	3.7694	0.0002*
<i>CONCENT</i>	-0.0142	0.0316	-0.4486	0.6540
<i>AUDCHG</i>	0.0064	0.0071	0.9009	0.3681

\*Significant at 5% level

Source: Processed secondary data, 2022

The results of the t-test showed that several variables are proven to be able to affect audit delays. The complexity of the audit mission (*INVENT\_TRAD*) with a coefficient value of -0.1304 has a significant effect on audit delays. The significance value of the test results for this variable is 0.0284 which is below 0.05. Debt equity (*DEBT*) has a significant effect with a value of 0.0000 and a coefficient of 0.1523 on audit delays. Loss or negative profit (*PROFIT*) also has a significant effect because it recorded a value of 0.0002 with a coefficient of 0.0453. The other variables do not have a significant impact on audit delays because the significance value is above the criteria value of 0.05.

**Table 13.** t Test for Interim Period Model

Variables	Coef.	Std. Error	t	Sig.
<i>(Constant)</i>	37.3833	69.1850	0.5403	
<i>INVENT_TRAD</i>	-10.1541	8.3127	-1.2215	0.2226
<i>FSIZE</i>	-0.9429	2.3970	-0.3933	0.6942
<i>DEBT</i>	-18.6218	4.9980	-3.7258	0.0002*
<i>AUOP</i>	10.6073	12.9773	0.8174	0.4142
<i>INAUD</i>	9.8983	5.2380	1.8920	0.0592
<i>PROFIT</i>	2.5269	1.7127	1.4754	0.1408
<i>CONCENT</i>	9.1859	4.4599	2.0596	0.0400*
<i>AUDCHG</i>	1.2725	0.9974	1.2758	0.2027

\*Significant at 5% level

Source: Processed secondary data, 2022

Based on the regression results, two variables can affect the interim period. Debt equity has a significance value below 0.05, which is 0.0002 with a coefficient of -18.6218. The second variable is ownership concentration (*CONCENT*) which has a significance value of 0.0400 and 9.1859 in terms of coefficients. The other variables have no significant effect on the interim period because the significance value does not meet the criteria.

The table above shows that two variables have a significant impact on the total period. The company size (*FSIZE*) shows a significance value of 0.0000 with a value of -0.0201 as the coefficient. Next, the loss has a significance value below 0.05, which is 0.0000. This variable has a coefficient with a value of 0.0479. The remaining variables have no significant impact related to the significant value that does not meet the criteria.

**Table 14.** t Test for Total Period Model

Variables	Coef.	Std. Error	t	Sig.
<i>(Constant)</i>	2.5536	0.1407	18.1461	
<i>INVENT_TRAD</i>	-0.0431	0.0382	-1.1292	0.2593
<i>FSIZE</i>	-0.0201	0.0048	-4.2060	0.0000*
<i>DEBT</i>	0.0323	0.0214	1.5115	0.1312
<i>AUOP</i>	0.1066	0.0571	1.8676	0.0624
<i>INAUD</i>	-0.0095	0.0240	-0.3937	0.6939
<i>PROFIT</i>	0.0479	0.0110	4.3529	0.0000*
<i>CONCENT</i>	0.0082	0.0143	0.5753	0.5653
<i>AUDCHG</i>	0.0072	0.0072	1.0005	0.3175

\*Significant at 5% level

Source: Processed secondary data, 2022

**Table 15.** Goodness of Fit Test

Test Summary	Audit Delay	Interim Period	Total Period
Adjusted R Square	0.5359	0.2009	0.0919

Source: Processed secondary data, 2022

The table above provides an interpretation that the variables included in this study were only able to explain the dependent variable respectively at 53.59%, 20.01%, and 9.19%. There are percentages of 46.41%, 79.99%, and 90.81% of variables that are not included in the research model. Each of these dependent variables can be explained by other variables not included in this study such as corporate governance, corporate action, restatement, and other variables.

## Discussions

### *Effect of Audit Mission Complexity on Audit Report Timeliness*

Based on the results of hypothesis testing, the complexity of the audit mission has a significant effect on audit delays at a significance level of 5 percent with a negative influence. This represents an opposite relationship between complexity level and delay. This significant result conveys that the higher the level of complexity of the audit mission, the less likely the audit delay will be. Because all samples are manufacturing companies that have been listed in IDX, the auditor will use the best strategy to audit the company, regardless of the difficulty level of the audit itself. Therefore, even if a company has a high level of difficulty, delays that occur can be minimized. The complexity of the audit mission can encourage the auditor to carry out more detailed procedures. This level of complexity increases along with the increase in the number of inventories and accounts receivable so the auditor on duty must carefully examine the two accounts. Therefore, the increasing number must be able to be overcome by the auditor such as conducting

adequate scheduling and strategy before starting the audit mission. The auditor is required to understand the adequate accounting system and the nature of the industry faced to optimize the audit mission. This is referred to as the planning stage for the audit and serves to increase the effectiveness and efficiency of the audit mission.

The results of the research on the effect of this variable are consistent with previous research from [18] [21] [24] [25] who state that this variable has a significant effect on the timeliness of the audit report. Apart from being anticipated with a decent planning, the complexity of the audit mission is also generally carried out with a larger number of audit staff and using strategic audit procedures. Thus, a greater level of complexity is directly proportional to more timely audit reporting.

### ***Effect of Audit Opinion on Audit Report Timeliness***

The three regression models show that audit opinion has no significant effect on audit report timeliness. The audited companies need to review the audit findings in a meeting with the auditors. The findings were well received by the company and immediately followed up by the company's management. Thus, regardless of the type of opinion given by the auditor, the company still publishes financial statements on time.

Research results for the effect of this variable on audit delays are also consistent with studies by [4] [13] [47]. The audit opinion is also associated with the company's reputation because obtaining a standardized opinion can influence stakeholders. However, based on the results of statistical tests, this stereotype does not apply instead, transparency is prioritized to protect stakeholders.

This result can be explained by the ACM theory. The meeting between the auditor and management can show a different response from management. Following the regression result, the reactions shown are likely to support the auditor's decision. This reaction is associated with the proactive type, which is an action that justifies the findings of the auditor. This reaction does not create conflict in the auditor-client relationship but rather increases synergies to resolve problems that arise during the audit [34].

### ***Effect of Audit Firm Reputation on Audit Report Timeliness***

An international audit firm reputation has no significant effect on audit delay, interim period, and total period. which states that the reputation of the audit firm has no significant effect on audit report

timeliness. The reputation of an audit firm that has qualified auditing capabilities is not able to affect the length of the audit conducted on the company. Thus, one of the underlying analyzes of this is that the length of the audit process is more influenced by the company's innate factors than the audit firm itself.

The results of the research on the influence of these two variables are consistent with the research of [1] [7] [10] [31] [48] [52] [56]. Although audit firms are said to have good capacity and experience in auditing, these advantages are still not effective in accelerating the publication of corporate audit reports. Furthermore, local audit firms are still selected by public companies despite of low reputation.

Referring to the results of the descriptive test, there is a figure of 93% for the sample that uses the services of an international audit firm. The majority of these samples do not always have good timeliness. The average timeliness value is 99-100 days. This figure still exceeds the regulatory limit, which is 90 days.

### ***Effect of Company Size on Audit Report Timeliness***

Referring to the table of regression results, company size does not have a significant effect on the audit process only, but the timeliness of the audit report. Companies that have a larger size generally have expectations from the company's shareholders or owners. This expectation is an indirect pressure on the company so that the company's management tends to accelerate the release of the company's financial statements. Large companies also have good and integrated internal control. Based on these two factors, the audit process can take place more effectively and efficiently.

This research is consistent with research conducted by [2] [6] [14] [17] [19] [21] [29] [31] [33] [52] [56] which states that the firm size variable has a significant effect on the timeliness of the audit report. Company size can provide an initial indication of companies that have good facilities and infrastructure to support the audit process. The two largest examples of company size, such as PT Indofood Sukses Makmur Tbk and PT Indofood CBP Sukses Makmur Tbk, have a value of Rp 179.356.193.000.000 and Rp 118.066.628.000.000 respectively in 2021. The two companies recorded a total time that was still within the applicable regulations, which was 90 days. The recorded range for the two companies is between 79-90 days, which indicates that the size of the company influences the length of the company's audit reporting.

### ***Effect of Debt Equity on Audit Report Timeliness***

Debt equity has a significant effect on the timeliness of audit reports, namely for proxies for audit delays and interim periods. The results of the study on the influence of these two variables are consistent with the research of [13] [23] which state that debt-equity has a significant effect on audit delays. Signaling theory explains that a piece of information can give a certain meaning to the stakeholders. In this case, a high or low proportion of debt equity can cause different effects depending on the recipient of the information.

A high proportion of debt equity refers to high doubt by auditors about the company's sustainability in the future. These doubts were able to increase the auditor's skepticism and initiate an independent auditor to perform more detailed audit procedures on the company. Management also has the urge to immediately publish the audit report because creditors are considered to have an interest in the company. Therefore, the higher the proportion of company debt, the smaller the company's interim period.

### ***Effect of Profit on Audit Report Timeliness***

The regression results show that profit has a significant effect on the timeliness of the audit report. The results of the research on the influence of this variable are consistent with the research of [6] [7] [10] [13] [19] [21] [29] [33] [54] [56] who stated that profit had a significant effect on audit delays. In line with signaling theory, profit implicitly signifies news (which can be good or bad depending on the results reported by the company) that is received by the company's stakeholders. Profitable companies tend to speed up the audit process and make every effort to inform the capital market of the results. On the other hand, companies that earn negative profits are more likely to delay audit results. In addition, profits that show negative results can increase the possibility of fraudulent reporting and are closely related to the sustainability of the company. As a result, the auditor seeks to conduct a more rigorous and thorough audit of the company. Thus, profit influences determining the length of the audit process in the company.

### ***Effect of Ownership Concentration on Audit Report Timeliness***

As for the ownership concentration variable, it only has a significant effect on the interim model. The results of the study on the influence of these two variables are consistent with the research of [21] [44] which state that ownership concentration has a

significant effect on the timeliness of audit reports. The concentration of ownership that is centered on the majority tends to provide flexibility in regulating management actions. Ownership concentration that reaches a significant level can also open access for company shareholders to company internal information so that the urgency to publish financial statements does not become a pressure for company management. Thus, the concentration of ownership can cause delays in audit reports.

### ***Additional Analysis on Audit Report Timeliness Model***

The effects of delays can be examined based on audit report proxies from audit delays, interim periods, and total periods. The proxies for audit delays are the most dominant cause of delays with 3 total factors, namely the complexity of the audit mission, debt equity, and profit. The level of model fit if viewed from the  $R^2$  also occupies the highest percentage among other proxies. In other words, as with the findings of research on this topic, the audit process is a major cause of delays rather than management interruptions. This finding is consistent with the research by [44] which revealed that audit delays are the main cause of delays in the timeliness of audit reports.

The interim period is more influenced by parties who are not directly involved in the audit mission, such as management or creditors. This implicitly indicates that this period causes delays that are not as large as audit delays (with an  $R^2$  level of 20.09%). On the other hand, the total period shows more general results that affect the whole audit timeline, such as firm size and profit variables. These two variables explain that the amount of time required to release an audit report is influenced by the readiness of the company's infrastructure, the systems installed in the company, and the role of management.

## **CONCLUSION**

This study measures and analyzes the effect of the determinant variable on the timeliness of the audit report which is the dependent variable. The complexity of the audit mission, audit opinion, audit firm reputation, firm size, debt equity, profit, and ownership concentration are independent variables of the study. Meanwhile, audit change is the control variable in this empirical study. The research sample is companies that are included in the classification of the manufacturing sector listed on the Indonesia Stock Exchange for the 2017-2021 period. This study analyzes various aspects that can cause variations in audit reporting and the following are the results of the regression analysis,

The complexity of the audit mission proved to have a significant effect on the timeliness of the audit report. This level of complexity increases along with the increase in the number of inventories and accounts receivable so the auditor on duty must carefully examine the two accounts. The audit opinion is not proven to have a significant effect on the timeliness of the audit report. Opinions and audit findings can be well received by the company and immediately followed up by company management so that audit reports can be published promptly. The reputation of the audit firm is not proven to have a significant effect on the timeliness proxy of the audit report. The advantages possessed by international audit firms are not able to increase the effectiveness and efficiency of audits.

Firm size has been shown to influence two proxies for the timeliness of audit reports, namely the interim period and the total period. Large-scale companies have good technology and internal control so that the pre-publication preparation period can be executed optimally. Debt equity and profit proved to have a significant effect on the timeliness of the audit report. The proportion of debt-equity, both high and low, can affect the length of the audit process in the company. Likewise, profits, gains, or losses experienced by the company can affect management actions to speed up or slow down the audit process. The concentration of ownership has a significant effect in the interim period. Ownership Concentration that reaches a significant level can also open access for company shareholders to company internal information so that the urgency to publish financial statements does not become a pressure for company management.

This study concludes that company characteristics have a significant effect on the timeliness of audit reports. Nevertheless, with the rapid development of publicly traded companies, the demand for audits on financial statements has greatly increased. In addition, a better understanding of the factors that influence audit delays can improve the efficiency of audit work. The implications lead to more timely reporting and an appropriate decision-making process. From a practical point of view, auditors can take more mature steps in dealing with the nature and complexity of the company's audit mission, such as in terms of the number of personnel, understanding, and strategies to reduce the level of audit difficulty caused by asset contingencies. Not only in terms of auditors, but management needs to maximize the company's facilities and infrastructure to support the audit process. Each of these factors can affect the timeliness of the audit report, from the audit process to the release of the report to stakeholders.

Moreover, this research can be the basis and development for further research on this topic, especially in Indonesia.

The following are the limitations of the research conducted; the research sample is only limited to companies engaged in the manufacturing sector, and the measurement of research variables is limited to a few types, such as the use of logarithms on the audit delay variable and the total period as the dependent variable; The timeliness variable of the audit report cannot be fully explained by the variables of audit mission complexity, audit opinion, audit firm reputation, firm size, debt equity, profit, ownership concentration, and audit change which are the variables of choice in this study.

Based on the results of this study, the researcher submits several recommendations for future empirical research. These recommendations include subsequent research that can initiate a wider scope and contain a different field, such as operational differences in the agro-industry, tourism, and sports sectors. Subsequent research can apply more varied measurements to the variables contained in the study. Similar research in the future can add other factors such as corporate governance, corporate action, restatement, or the level of operational complexity so that the timeliness of the audit report as the dependent variable can be better explained.

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