DIPONEGORO JOURNAL OF ACCOUNTING *Volume 12, Nomor 3, Tahun 2023, Halaman 1-15*
http://ejournal-s1.undip.ac.id/index.php/accounting *ISSN (Online): 2337-3806*

Auditor's Reputation, Auditor's Industry Specialization and Audit Report Lag: Testing the Role of Audit Committee as Moderating Variable (Empirical Study on Manufacturing Companies Listed on the IDX in 2019 and 2020)

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ABSTRACT

The purpose of this research is to examine the influence of auditor reputation and auditor industry specialization on audit report lag, using the audit committee as a moderating variable. The dependent variable in this study is audit report lag. The independent variables in this study are auditor reputation and auditor industry specialization. In addition, this study uses the audit committee as a moderating variable. The study population consists of manufacturing companies listed on the Indonesian stock exchange in 2019 and 2020. The data was analyzed using descriptive statistical analysis and regression analysis with the SPSS 25 program. The findings show that, auditor reputation and auditor industry specialization have a significant impact on audit report lag. This research also shows that audit committees can moderate the relationship between auditor reputation and audit report lag, but it does not prove that audit committees can moderate the relationship between auditor industry specialization and audit report lag.

Keywords: Audit Report Lag, Auditor Reputation, Auditor Industry Specialization, Audit Committee

INTRODUCTION

Financial statements show management responsibility to stakeholders which describe a company's performance over a specific time period. Before being submitted to the users of financial statements, financial statements should be presented in high quality since users of financial statement information require complete, transparent, and on time information. For this reason, financial statement should be audited by an independent auditor. Alkhatib & Marji (2012) state that audited financial statements are the most credible source and standard of accounting information available to external users. Relevance, faithful representation, comparability, verifiability, timeliness, and understandability are the qualitative criteria of accounting information that financial information should have in order to be valuable (Ikatan Akuntansi Indonesia 2016).

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To retain the information in the financial statements' relevancy, financial statements must be delivered to the public on time. The timely submission of financial reports to the public is a sign that the company is providing investors with information that will help them make business decisions. Nevertheless, there are challenges to delivering financial statements on time and in accordance with standards in place, one of which is that financial statements must be audited by independent public accountants.

The length of time it takes for the audit process to be finished affects how quickly financial statements are delivered. This is because the financial statements cannot be released until the audit is conducted (Johnson, 1998). But there is always a grace period from the entity's closing year to the audit report's release date. The number of days between the end of the company's fiscal year and the day the auditor signs the audit report is known as the "audit report lag" (Rusmin & Evans, 2017). Empirical research of audit report lag is necessary since the longer the audit report lag period, the more negative it is. This is because delays in the release of information will increase decision uncertainty.

According to data obtained from the Indonesia Stock Exchange, there were 40 companies that submitted their financial reports late in 2018, but this number dropped to 26 companies in 2019. However, with 53 companies, the number rose dramatically once more in 2020. Then in 2019, there were 6 companies suspended by the IDX for being late in submitting audited financial statements as of December 31 and in 2020, IDX suspended 23 companies for the same reason.

As shown in a number of previous research, the public accounting firm's characteristic had an impact on how quickly audit reports were completed. In previous research (Habib & Bhuiyan, 2011), an area of study that has not gotten much attention, the role of auditor industry specialization in determining audit report timeliness is explored. It is expected that industry-specialist auditors will be able to perform a more efficient audit and finish the audit engagements more quickly than non-specialist auditors. Industry-specific auditors were shown to improve audit quality, according to the arguments made by Craswell (1995); Balsam (2003); Khrishnan, (2003); Chen (2005); and Gul (2009). The phrase auditor specialist refers to auditors who have acquired extensive experience and knowledge by often auditing clients in related industries. Therefore, industry-specialist auditors are probably better able to perform more efficient audits and finish the audit engagements faster than non-specialist auditors.

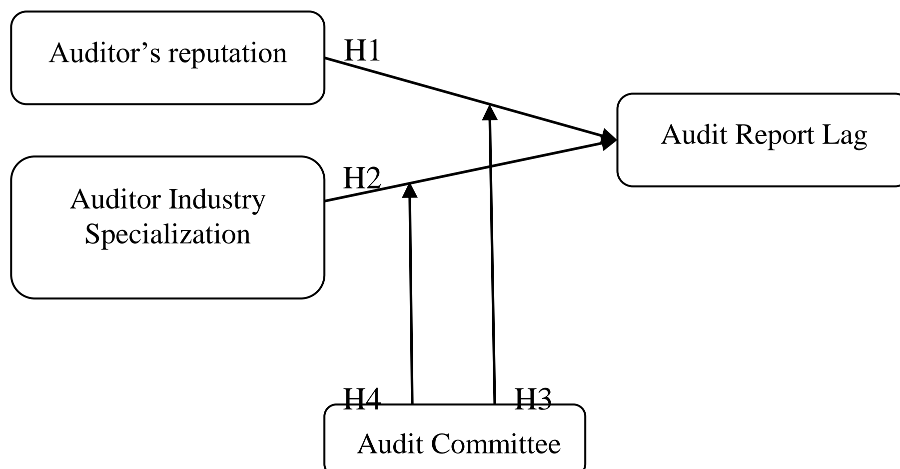
In addition, the big 4 audit firms measured the relationship between audit report lag and auditor reputation. It can be argued that large auditing companies are more likely to

conduct a high-quality audit because they have more resources (Palmrose, 1986b), are more at risk for brand reputation (Francis & Wilson, 1988), and have higher-quality staff (Chanet, 1993b). To put it another way, Big 4 auditors are expected to deliver a quicker, more effective service that will result in shorter audit reporting lags.

The objective of this research is to examine previous research about audit report lag. Previous research by Rusmin & Evans (2017) has a limitation because it ignores situational variables. Therefore, the researcher included the audit committee as a moderating variable. The audit committee is adopted because it is considered that it can affect the relationship between auditor reputation and auditor industry specialization on audit report lag. The existing literature has shown how fundamental the audit committee is to the corporate governance framework. The timely publication of audited financial statements can be impacted by an effective corporate governance systems, such as the efficiency of the audit committee's activity (Nelson & Shukeri 2011). The audit committee meeting can be used to proxy the audit committee's activity within a year. When compared to infrequent meetings, audit committee meetings are predicted to increase monitoring more successfully. This study was carried out in Indonesia using data from manufacturing companies. This study examines the external factors and audit report lag using Rusmin & Evans (2017) findings as a basis of reference. The three factors used to determine the effect on audit report lag are the reputation of the auditor, the auditor's industry specialization (big 4 Public Accounting Firm auditors and non-big 4 Public Accounting Firm auditors) and audit committee as moderating variable.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Figure 1 Theoretical Framework



Jensen & Meckling (1976) describes an agency relationship is a contractual arrangement in which one or more people (the principal) hire one or more people (the

agent) to fulfill a task on his behalf and which necessitates the transfer of some decision-making authority to the agent. Agency theory is built on the idea that agents have access to more knowledge than principals have, and this information asymmetry makes it difficult for principals to effectively monitor whether their interests are being appropriately served by agents (Adams, 1994). Crowther & Seifi (2011) describe that information asymmetry has two distinct but related components:

1. Adverse selection, a situation when the owner cannot be certain that the management made the best decision given the available information since the principle is unaware of the agent's decision.
2. Moral hazard, arises when the agent being dishonest so there is an inevitable temptation for managers to avoid working to the terms of the agreed employment contract.

Agency theory is essential because one way to manage the conflict of interest between the agent and the principal is through audit. This issue is thought to be resolved by the audit process's systematic and objective procedures. Due to the amount of audit report lag (ARL), which should be lower to avoid agency conflicts, the company must enter into a contract with a public accounting firm that will audit the company's financial statements.

The Influence of Auditor's Reputation on Audit Report Lag

The reputation of the auditor or public accounting firm shows the level of public trust. In agency theory, both the principal (owner) and the agent (manager) incur costs in order to avoid harming one another (Adams, 2011). To minimize the probability of the management violating the contract, the principal monitors costs by having the financial statements audited by an external auditor. Auditors' reputations can be categorized into big 4 and non-big 4 audit firms. The size of the public accounting firm is shown by the high quality of services that will have an impact on the audit's completion time.

Research by Rusmin and Evans (2017) shows that auditor reputation has a negative effect on audit report lag, which indicates that the big 4 public accounting firm reduces the audit report lag and appears to significantly provide outcomes quickly. This result is supported by Big 4 audit firms' investments in employee expertise, technology, and resources that serve as the foundation for improving audit quality. Other studies by Owunsu & Leventis (2006) and Leventiset al. (2005) found that companies audited by the Big 4 KAP have a shorter audit report lag than those audited by non-big 4 firms. Based on the description above, the research hypothesis can be formulated as follows:

H1: Auditor reputation has a negative effect on audit report lag.

The Influence of Auditor’s Industry Specialization on Audit Report Lag

Due to the various accounting issues that each company faces, every company has different audit needs. In agency theory, a third party, such as an independent auditor, is required to mediate the interests of managers acting as agents and owners acting as principals (Michael & Rohman, 2017). Good quality auditors are able to identify the causes of financial statement delays, reducing the risk of problems in the agency such as information asymmetry. Specific knowledge about an industry that is owned by the auditor's industry specialization is a significant factor that companies should consider when selecting an independent auditor.

Habib and Bhuiyan (2011) argue that compared to auditors without an industry specialization, industrial specialization auditors need less time to become familiar with the client's financial reporting system and to resolve complicated problems. Additionally, Rusmin and Evans (2017) come to the conclusion that auditors with industry specialists can perform audits rapidly and effectively. With particular skills and knowledge, the auditor is capable of influencing the client's characteristics. Based on the description above, the research hypothesis can be formulated as follows:

H2: Auditor’s Industry Specialization has a negative effect on audit report lag.

The role of Audit Committee in moderating the relationship of Auditor Reputation and Audit Report Lag

The high quality of a public accounting firm's services demonstrates its size, which will have an impact on the audit completion time. The entity must establish corporate governance in order to reduce the business risk of the company because an entity's risk determines the audit risk. The audit committee is responsible to the board of commissioners for the implementation of monitoring and attempt to keep updated about accounting problems faced by the company. According to agency theory, the audit committee was established to monitor management performance. Executive meetings with external parties, such as commissioners, senior management, chief internal auditors, and chief external auditors, are also authorized by the audit committee.

Warrad (2018) argue that there is no connection between the audit committee and the lag in the audit report. However, Ogoune et al. (2020), found a negative and statistically significant link between the audit committee and the delay in the release of the audit report. This means that the frequency of meetings results in a reduction in audit report lag. According to the first hypothesis, the audit report lag will be negatively impacted by the reputation of the auditor. This research will determine whether the audit

committee meeting moderate the relationship of auditor reputation on audit report lag. Based on the description above, the research hypothesis can be formulated as follows:
H3: Audit Committee moderate the relationship between Auditor's Reputation and Audit Report Lag.

The role of Audit Committee in moderating the relationship of Auditor Industry Specialization and Audit Report Lag

The production of high-quality, dependable audits is anticipated to be possible with the use of specialized public accounting services and a qualified audit committee. According to agency theory, the audit committee can be used as a monitoring mechanism to enhance company reporting quality, lessen information asymmetry, and decrease irregularities and unreliable disclosures (Hassan, 2016). In agency theory, it is suggested that larger groups can profit from the ideas, knowledge, and skills of individual members, improving the group's capacity for control and supervision (Raimo, 2021; Cornett, McNutt, & Tehranian, 2009; Lipton & Lorsch, 1992).

Habib et al. (2019) argue that a regularly convened audit committee will be able to make complex financial reporting decisions, solve internal control flaws, limit queries from external auditors, and shorten the auditors' workday. . The second hypothesis predicts that auditor specialization will have a negative impact on audit report lag. This study will look at whether the presence of an audit committee meeting can moderate the relationship between auditor industries specializations on audit report lag. According to the description given above, the research hypothesis can be formulated as follows:
H4: Audit Committee moderate the relationship between Auditor's Industry Specialization and Audit Report Lag.

RESEARCH METHODOLOGY

This research uses three types of variables: the dependent variable, the independent variable, and the moderating variable. The audit report lag is used as the dependent variable. Auditor's reputation and auditor's industry specialization are used as the independent variable. Meanwhile, the audit committee is the moderating variable.

Operational Variable

1. Audit Report Lag

   Adopting the research by Abdillah et al. (2019), the length of the lag report audit is measured by calculating the days from the company's book's closing date (January 1) to the day the auditor named in the company's audited financial statements signs the independent auditor's report.

2. Auditor's Reputation

   A dummy variable is used to measure auditor reputation, based on research from El-Dynasty & Elmer (2021), companies audited by the big 4 public accounting firms will receive a score of 1, while other companies would receive a score of 0.

3. Auditor's Industry Specialization

   Market share, according to research by Rusmin & Evans (2017), is used to identify specialist auditor if it have a 30% market share in a specific industry. This indicates that, among all auditors, the auditor with the largest market share is classified as a specialist auditor. A dummy variable based on market share is utilized in this research as the measurement to determine audit industry specialization. An auditor who specializes in a certain industry will receive a score of 1, whereas auditors who do not will receive a score of 0.

   $$MS_{ik} = \frac{\sum_{j=1}^{Jik} Total\ Assets\ ijk}{\sum_{k=1}^{K}\sum_{j=1}^{Jik} Total\ Assets\ ijk}$$

   Description:
   i: audit firm index
   j: client firm index
   k: client industry index
   J_{ik}: number of clients using audit firm i's services in industry k
   Total $Asset_{ijk}$: total assets of client j audited by audit firm i in industry k.

4. Audit Committee

   Audit committee is measured by the number of meetings conducted by the audit committee during the fiscal year (Lajmi & Yab, 2021).

Sample Selection

The sample are choose based on purposive sampling with some criteria that are in accordance with the research objectives. The sample criteria include:

1. A manufacturing company listed on the IDX has published its complete audited annual financial report for 2019-2020.
2. Manufacturing companies that use the rupiah currency in the financial statements.
3. Annual reports on manufacturing enterprises contain the variables required for the study.

Analytical Method

The analytical method used in this research is Moderated Regression analysis (MRA). The moderated linear regression models that can be formulated is as follows:

1. ARL = α + β1REPUT + β2SPEC + β3AC + β4REPUT*AC + β5SPEC*AC + e

Description:

ARL: Audit report lag

α: constant

β: regression coefficient

REPUT: Auditor's reputation

SPEC: Auditor industry specialization

AC: Audit committee

e: error

RESULT AND DISCUSSION

Description and Research Object

Table 1 Population and Sample

Sample Criteria	Total
Manufacturing companies listed on the IDX in 2019 and 2020	206
Manufacturing companies that do not publish a full audited annual financial report	(7)
Companies that report financial statements in foreign currency	(29)
Manufacturing companies that do not provide complete data according to the research variables.	(27)
Research Sample	143
Total (143 x 2)	286

Descriptive Statistic Test

Table 2 Descriptive Statistic

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ARL	286	29,00	338	102.311	41,90361
AC	286	0	34	5,8391	4,71600
Valid N (listwise)	286				

Source: Secondary data processed with SPSS, 2023

Table 2 describes the descriptive statistics of all variables expressing the mean, median, maximum, minimum, and standard deviation The dependent variable, audit report lag (ARL), is shown in the table and has a minimum value of 29, indicating that the auditor can complete the financial statement audit of the company in just 29 days. The auditor takes the longest to audit the company's financial statements, lasting 338 days. The audit committee variable (AC) represented by the number of audit committee meetings in a year has an average of 5.8 audit committee meetings in a year, or 6 meetings if rounded up. This is in compliance with OJK Regulations No. 55/POJK.04/2015, which states that the audit committee must meet at least once every three months.

Table 3 Frequency Distribution of Auditor Reputation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non-big four	202	70,6	70,6	70,6
	Big four	84	29,4	29,4	100,0
	Total	286	100,0	100,0	

Source: Secondary data processed with SPSS, 2023

Table 3 shows that the sample is dominated by companies audited by non-big four accounting firms or 70% of manufacturing companies while 29% of manufacturing companies audited by big four accounting firms.

Table 4 Frequency Distribution of Auditor Industry Specialization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non-specialist auditors	246	86,0	86,0	86,0
	Specialist auditors	40	14,0	14,0	100,0
	Total	286	100,0	100,0	

Source: Secondary data processed with SPSS, 2023

Table 4 demonstrates that the sample is dominated by auditor non-specialist with 86% of manufacturing companies compared to 14% of specialist auditors.

Multicollinearity Test

The VIF (Varian Inflation Factor) number can be used to determine that no variable has a VIF value greater than 10 or a tolerance value lower than 0.10. Thus, it can be said that either the multicollinearity assumption has been met or there is no multicollinearity issue.

Autocorrelation Test

The Durbin-Watson test (DW) determines whether data is free of autocorrelation if the value is $dU < d < 4 - dU$. According to the autocorrelation test findings, Durbin Watson's value is 2.009. Based on the DW table with a significance level of 0.05, dL = 1.6697 and dU = 1.7846. Because the value is $1,7846 < 2,009 < 2,2154$, it can be concluded that there is no autocorrelation.

Heteroscedasticity Test

According to the results of the heteroscedasticity assumption test, there were no signs of heteroscedasticity because the significance value for all variables was not significant with a p-value > 0.05

Normality Test

The Kolmogorov-Smirnov Test statistical method was used to conduct the residual normality test. Kolmogorov-residual Smirnov's normality test gives a significant value of 0.214. It is clear from the output that the regression model's residuals are normally distributed because the Asymp.Sig test value is greater than the threshold value (0.05).

Simultaneous Significance Test (F test)

A significance value of 0.000 ($\alpha < 0.05$) was discovered using the F test findings. Hence, it can be stated that the variables auditor's reputation, auditor industry specialization, audit committee, the interaction of REP*AC, and the interaction of SPEC*AC variables all simultaneously have a significant impact on the Audit Report Lag variable.

The Coefficient of Determination Test (R2)

The value of R Square (R2) in the table is 0.413, it can be concluded that the auditor's reputation, auditor industry specialization, audit committee, the interaction of REP*AC variables, and the interaction of SPEC*AC variables have an influence of 41.3%, while the remaining 58.7% are influenced by other variables outside the model that impact audit report lag.

T-Test

Table 5 T-Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	184,838	10,188		18,143	,000
	REP	-31,684	15,454	-,253	-2,050	,042
	SPEC	-43,537	19,302	-,257	-2,256	,026
	AC	2,243	,854	,267	2,624	,010
	REPxAC	2,513	1,131	,329	2,221	,028
	SPECxAC	-2,530	2,073	-,134	-1,221	,224

a. Dependent Variable: ARL

Source: Secondary data processed with SPSS, 2023

Based on table 5 the moderated regression equation in this research may be stated as follows: ARL =184.838 - 31.684 REP - 43.537 SPEC + 2.243 AC + 2.513 REP*AC – 2.530 SPEC*AC

Discussion

The Influence of Auditor's Reputation on Audit Report Lag

The first hypothesis (H1) propose auditor's reputation has a significant and negative effect on Audit Report Lag is accepted. Based on the results of the regression analysis,

there is a significant relationship between the Auditor's reputation and Audit Report Lag, as illustrated by the coefficient value of -31,684 and significance value of 0.042 for the impact of the Auditor's reputation on Audit Report Lag. The empirical finding indicates that companies audited by a big four accounting firm will have a shorter audit report lag, whereas a company audited by a non-big four accounting firm will have a longer audit report lag.

The finding confirms the arguments explain in the agency theory. The principal issues monitoring costs with external auditors to reduce the chance of manager violations. Thus, the company must sign a contract with an accounting firm to audit its financial statements. This research supports the findings of Rusmin & Evans (2017), which discovered that the auditor's reputation has a significant effect on the audit report lag and has a negative correlation with 177 firms or 43% total that worked with the big 4 accounting firms.

The Influence of Auditor's Industry Specialization on Audit Report Lag

The second hypothesis (H2) auditor industry specialization has a significant and negative effect on audit report lag. With a coefficient value of -47,537 and a significance value of 0.026 the impact of the auditor's industry specialization on audit report lag is significantly correlated with audit report lag. The empirical finding shows that companies audited by industry specialists have a shorter audit report lag than companies that are not audited by industry specialists.

The finding explain the arguments stated in the agency theory, which holds that one of the best ways to deal with problems that emerge in an agency is to have a third party. This is also consistent with research done by Habib and Bhuiyan (2011) and Badawy et al., (2019), which shows that specialized industry auditors take less time than non-specialized auditors to examine client financial reporting and solve complicated accounting problems.

The Role of Audit Committee in Moderating the Relationship of Auditor Reputation and Audit Report lag

The third hypothesis (H3) audit committee strengthens the influence of the auditor's reputation on audit report lag is accepted. The audit committee variable is able to moderate the impact of the Auditor's reputation on Audit Report Lag because the interaction between the REP*AC variable and Audit Report Lag has a coefficient value of 2,513 and a significance value of 0.028. The frequency of audit committee meetings can moderate the relationship between auditor reputation and audit report lag.

In accordance with the agency theory a monitoring organization is necessary in order to reduce risks associated with the output of financial statements. The more regularly audit committee meetings are held with internal and external auditors, management, and the board of commissioners, the more likely it is that the audit committee will be able to solve existing financial problems.

The Role of Audit Committee in Moderating the Relationship of Auditor Industry Specialization and Audit Report Lag

The fourth hypothesis (H4) the audit committee strengthens the effect of auditor industry specialization on audit report lag is rejected. Testing the effect of the interaction of SPEC*AC on Audit Report Lag gives a coefficient value of -2,530 with a significance value of 0.224; because the significance value is greater than 0.05, the audit committee variable is unable to moderate the effect of auditor industry specialization on Audit Report Lag.

It contradicts the previously stated agency theory that the frequency of audit committee meetings is capable of monitoring specialist auditors in performing audit activities in accordance with good procedures. The number of audit committee meetings has no effect on the relationship between industry specialization auditors and audit committees regarding audit report lag. Kaaroud et al., (2020) state that with more issues being found at more meetings of the audit committee, the search for solutions may take longer, extending the audit report lag.

CONCLUSION

This study aimed to examine the influence of auditor reputation and auditor industry specialization on audit report lag by including audit committees as a moderating variable in research on manufacturing companies listed on the Indonesia Stock Exchange in 2019-2020. As an outcome, it can be concluded that auditor reputation and auditor industry specialization has a significant and negative impact on audit report lag. Audit committee also moderates the relationship between auditor's reputation and audit report lag however audit committee is unable to moderate the relationship between auditor industry specialization and audit report lag.

This study can be used to evaluate companies' performance. However this research has several limitation. The adjusted R square (R2) value is 0.413, indicating that the variables in this research only explain 41.3% of the dependent variable. This is because there are still many influences from variables outside the regression model in this research, resulting in a low adjusted R square value. Researchers only examine at manufacturing companies on the

IDX, which unable to represent all of the companies on the IDX. Also lack of control variables to narrow the research.

Several factors must be considered when conducting and developing study on audit report lag, including future researchers can use other various sector firms on the Indonesia Stock Exchange and extend the year of observation to see long-term patterns.

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