

# Audit Committee, Contingency Factors, and Audit Report Lag: Evidence from Mining Company in Indonesian Stock Exchange

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## Abstract

This study is to examine the effect of audit committee and the company's contingency on audit report lag and test the moderation effect of the contingency variable on the influence of the audit committee on audit report lag. The sample of this study are mining companies listed on the Indonesia Stock Exchange during the year 2013-2015. The number of observations made is 84 cases. This research uses variance-based structural equation model (SEM-PLS). The period of audit report lag that occurred in mining companies listed on the Indonesia Stock Exchange based on the results of research is between 17 days to 273 days. The result shows that audit committee and contingency company influence to audit report lag. The results show that audit committees have negative effects on audit report lag, while contingency factors have a positive effect on audit report lag. The results also show that the contingency variable of the company has a moderation effect on the influence of the audit committee on audit report lag.

**Keywords:** audit report lag, audit committee, contingency factors

## 1. Introduction

Public companies are companies that have an obligation to communicate its financial statements to investors. The purpose of the communication of these financial statements is to provide accountability for funds invested by investors in the company. The financial statements are also used as a measure of assessment and supervision of manager performance in maximizing the prosperity of investors (Jamaan, 2008). Thus, financial statements communicated to the public must have a high degree of reliability.

Audits on financial statements is one way to create and ensure that the information presented on financial statements can be relied upon by investors. Audits on financial statements may result in financial statements generated by the company free from any form of deviation due to agency problems that occur. Mills (1990) states that agency issues can be reduced by conducting monitoring activities such as audits. Accordingly, any financial statements communicated by the company to the public are required to be audited.

The company's obligation to conduct financial statement audit is set forth in the Decision Letter of BAPEPAM no. X.K.6 year 2006. The BAPEPAM decision letter requires all publicly-listed companies to submit financial statements in accordance with accounting standards and audited by public accountants. The decision letter of BAPEPAM also requires public companies to be able to submit audited financial reports on time in accordance with the specified.

The obligation to communicate audited financial statements to public companies in Indonesia has resulted in the problem of delay in the delivery of financial statements of companies. This problem is evidenced by the existence of sixteen companies that get sanction from the Indonesia Stock Exchange in 2015. BEI announcement letter SPT 005-006 year 2016 states that there are eighteen companies that must get a fine and suspension due to delays in delivering audited financial statements. Table 1 below presents a list of companies that are late in delivering financial statements for 2015.

**Table 1**  
**Delayed List of Audited Financial Statements**

<b>Firm's Name</b>	<b>Sector</b>
PT Borneo Lumbang Energi dan Metal Tbk	Mining
PT Berau Coal Energy Tbk	Mining
PT Buana Listya Tama Tbk	Transportation
PT Bumi Resource Tbk	Mining
PT Bakrieland Development Tbk	Property & Real Estate
PT Energi Mega Persada Tbk	Mining
PT Eterindo Wahanatama Tbk	Manufacture
PT Global Teleshop Tbk	Retail
PT Capitalinc Investment Tbk	Financial
PT Skybee Tbk	Retail
PT Trikonsel Oke Tbk	Retail
PT Inovasi Infracom Tbk	Telecommunication
PT Permata Prima Sakti Tbk	Mining
PT Garda Tujuh Buana Tbk	Mining
PT Sekawan Intipratama Tbk	Manufacture
PT Siswani Makmur Tbk	Manufacture

Source: BEI Announcement Letter (2016)

Table 1 shows that companies that are late in submitting financial reports are dominated by mining sector companies. Mining companies that get sanction from BEI are six companies. Thus, the issue of delay in financial statements is a problem that is as good as for companies in the mining sector. The problem of delay in the publication of the company's financial statements is due to the audit report lag that occurs in the mining sector companies.

Audit report lag can cause late financial statements because independent audit report is a mandatory requirement in the delivery of financial statements. Audit report lag is the time required for auditors to produce independent audit reports (Knechel and Payne, 2001). Thus, an overly long report lag report will cause the company to be late in delivering its financial statements. Serious lag audit report problems to mining companies can be solved by knowing the influencing factors.

This objective of this study is to identify and verify the factors that influence audit report lag. This research will be conducted on mining companies listed on Indonesia Stock Exchange from 2013 to 2015. Selection of mining companies because of the amount of late submission of financial reports that high in 2015. Thus, the results of this study are expected to provide a source of reference information as one of the problem solving audit report lag that occurred. This research will prove the influence of the audit committee and the contingency factor in audit report lag. This study will also prove the existence of moderation effects of contingent factors on the influence of the audit committee on audit report lag. Based on the explanation, the research question is as follows:

1. Does the audit committee affect the audit report lag?
2. Does contingency factors affect the audit report lag?
3. Does the contingency factor have the ability to moderate the audit committee's influence on audit report lag?

## **2. Literature Review & Hypothesis Development**

### *2.1. Agency Theory*

Agency relations is a relationship that occurs between the investor and the manager of the company. Agency relationships that occur in the company is always not free from the existence of agency problems. Jensen and Meckling (1976) stated that in the agency relationship there are two problems of conflict of interest and asymmetric information. Problems that occur in this agency relationship is caused because basically company managers have human nature that is self-interest and risk averse (Eisenhardt, 1989). Thus, the financial statements used as a basis for decision-making by the investor need to be audited to avoid agency problems.

### *2.2. Contingency Theory*

Contingency theory is a theory based on the assumption that the company's control system can not be applied to the entire organization in every situation. Fisher (1998) states that the form of a control system is determined by the organizational context. Thus, the control system will be effective if adapted to the context of each organization. Mintzberg (1979) states that there are four kinds of factors that need to be considered in the application of control systems such as age and size of the company, environment, technology, and strength.

### *2.3. The Effect of Audit Committee on Audit Report Lag*

Audit Committee is a party established to supervise the company's activities to reduce the occurrence of agency problems. BAPEPAM Regulation No. IX.I.5 of 2012 states that the audit committee is responsible for ensuring corporate compliance with regulations relating to corporate activities. Thus, the activities of the company in accordance with applicable rules will cause the company's financial statements free of misstatements and items that are not fair. Conditions such financial statements will lead to a faster audit process is completed, so the report lag audit time will be short.

The influence of the audit committee on the audit report lag has been proven in several studies. Nor et al (2010) states that the size and activities of the audit committee may shorten the lag audit time. Hashim and Rahman (2011) stated that the independence and competence of the audit committee has a negative influence on audit report lag. Apadore and Noor (2013) also stated that the size of the audit committee has a negative impact on audit report lag. Based on the explanation of the theory and the results of previous research, the first hypothesis of this study are as follows:

**H1: Audit Committee had an effect on Audit report lag**

### *2.4. The Effect of Contingency Factor on Audit Report Lag*

Audit of financial statements in the process must pass a testing procedure that involves testing the company's internal controls. Thus, the process of auditing the financial statements will be influenced by different forms of corporate control based on contingency factors. Mintzberg (1979) states that the size and age of the company is a contingency factor that needs to be considered in the application of internal control systems. Thus, the audit of financial statements will be influenced by the size and age of the company.

Company size can basically affect the audit process of financial statements because it can affect the complexity of the task of the auditor. Company size determines the level of complexity of operational, variability, and corporate transactional integrity (Kurniawan, 2011). Thus, firms with larger sizes will cause the auditor to take longer to audit the financial statements. The age of the company may affect the audit process of the financial statements because the internal controls in the company that have long been operating differ from the internal control of the newly operating company. Apriyanti and Santosa (2014) state that the companies that have long started operations longer will have a more organized internal control system.

The influence of firm size and firm age has been proven by several studies. Karang (2015) and Lestari (2015) state that firm size has a positive effect on the company's audit delay. Banimahd et al (2012) stated that the company's age had a positive effect on audit report lag. Apriyanto and Santosa (2014) stated that the company's age had an effect on audit delay. Based on the explanation of previous theories and research, the second hypothesis of this study are as follows:

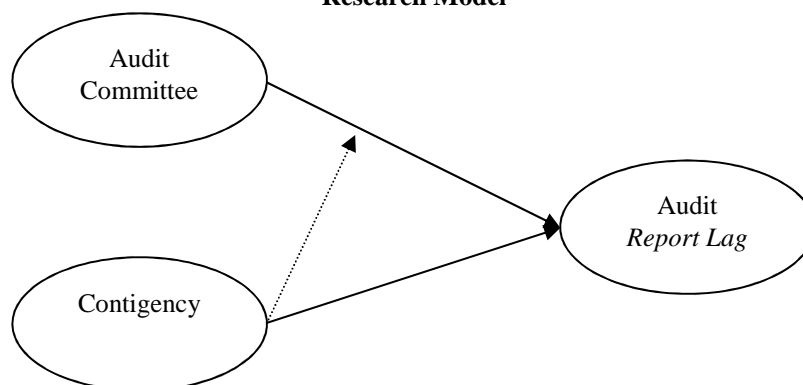
**H2: Contingency Factor had an effect on audit report lag**

### *2.5. Moderation Effect of Contingency Factor on The Relationship Between Audit Committee and Audit Report Lag*

Audit Committee is a party that performs supervision on companies related to accounting activities and financial information company. BAPEPAM Regulation No. IX.I.5 of 2012 states that the audit committee is responsible for reviewing financial information, internal auditor examination, and accounting process. Thus, an audit committee that performs well will be able to make the company's financial statements free of misstatements and unnatural items. Conditions such financial statements will facilitate the process of auditing financial statements, so that the audit report lag time to be short. The function of the audit committee is closely related to the company's internal control. The internal control form is influenced by four contingency factors (Mintzberg, 1979). Based on the theoretical explanation, the third hypothesis of this study is as follows:

**H3: Contingencies Factor moderate the influence of the audit committee on audit report lag**

**Figure 1  
 Research Model**



### 3. Research Method

#### 3.1. The Type of Research

The type of this research is a quantitative research that aims to find the facts of the cause of the phenomenon. This research begins with testing of hypotheses, analysis of test results, and conclusions.

#### 3.2. Population and Sample

The population in this study is a mining company listed on the Indonesia Stock Exchange in 2013-2015. The sample was chosen by using purposive sampling. The criteria used for the selection of research samples include:

1. Mining companies listed on the Indonesia Stock Exchange in succession during 2013-2015
2. The Company has data available and accessible on the Indonesia Stock Exchange website
3. The Company presents all the data needed for research

#### 3.3. Type and Source of The Data

This research uses secondary data in the form of annual report and finance of mining company in 2013 until 2015. This research data obtained at the official website of Indonesia Stock Exchange is [www.idx.co.id](http://www.idx.co.id)

#### 3.4. Data Collection Technique

The research data collecting is done by documentation technique. Documentation techniques are performed on company data in the form of annual and financial reports from 2013 to 2015.

#### 3.5. Operational Definition of Variables

The variables in this study are audit report lag, audit committee, and contingency company. The measurements of each variable are as follows:

**Table 2 Operational Definition of Variables**

Research Variable	Measurement
<b>Audit Report Lag (ARL)</b>	The difference between days from December 31 to date of issuance of independent audit report
<b>Audit Committee (KA)</b>	
The Number of Member (KA1)	The number of audit committee member
Financial Expertise Level (KA2)	The percentage of audit committee members with a financial or accounting background
Meeting Frequencies (KA3)	The number of meetings conducted by the audit committee within a year
Gender Proportion (KA4)	The percentage of female members in the audit committee
<b>Contingency (K)</b>	
Firm Size (K1)	Logaritma natural of total asset
Firm Age (K2)	The number of years of operation of the company since its establishment up to the year of research

#### 3.6. Data Analysis

This research uses variance-based structural equation model (SEM-PLS). The data analysis process is done by using WarpPLS ver 5.0 software. Testing to be conducted in this research are among others:

##### 3.6.1. Testing Outer Model

Testing outer model is done by looking at the value of factor loading and p value of each size that make up the

variable. The loading factor and p value values of each of the minimum variable sizes are 0.4 and less than 0.05 (Solihin and Ratmono, 2013: 66). Non-compliant sizes will be removed.

#### 3.6.2. Goodnes of Fit Testing

The goodness of fit test is based on three values: Average Path Coefficient (APC), Average R Square (ARS), and Average Variance Inflation Factor (AVIF). The significance value of APC and ARS should be less than 0.05 and the value of AVIF should be less than 5.

#### 3.6.3. Inner Model Testing

The inner model test is based on R square and Q square values. The high R square values and the Q square values of more than zero indicate that the research model is good.

#### 3.6.4. Hypothesis Testing

Hypothesis testing is based on coefficient value and p value. The research hypothesis will be accepted if the value of p value is less than 0.05. The moderation effect test is done if the independent variable has influence on the dependent variable, whereas if the independent variable has no effect on the dependent variable then the moderation test can not be done. This moderation testing process is based on the Baron and Kenny rules.

### 4. Result

#### 4.1. Sample Description

This research is conducted at mining companies listed in Indonesia Stock Exchange from 2013 to 2015. The following sample selection process that has been done is presented in table 3.

**Table 3 Sample Selection Process**

<b>Keterangan</b>	<b>Number</b>
The Number of Firm that Listed on BEI 2013-2015	39
Total Company Data Unavailable and Inaccessible	(8)
Number of Companies that don't provide Complete Research Data	(3)
Number of Companies that Used as Sample	28
Number of Observation	84

Source: data processed

Table 3 shows that the number of mining companies that listed on Indonesian Stock Exchange (IDX) during 2013 to 2015 are 39 companies. Not all mining companies listed on the IDX provide complete and accessible data for this study. There are eight companies which have an inaccessible data, while the companies that don't provide the complete data for this study are three companies. Thus, the number of mining companies used as samples in this study were 28 companies with a total of 84 cases during 2013 to 2015.

#### 4.2. Audit Report Lag (ARL)

Audit report lag is a dependent variable on research. Table 4 below presents the minimum, maximum, and mode values of the reporting timeframe of the mining company's lag report used in this study.

**Table 4 Audit Report Lag**

<b>Tahun</b>	<b>Minimal</b>	<b>Maximal</b>	<b>Modus</b>
2013	17	143	87
2014	40	179	86
2015	22	273	90

Source: data processed

The period of audit report lag from the mining companies used as the samples in this study is too long. The period of audit report lag from the sample are between 17 to 273 days during 2013 to 2015. Thus, this period of audit report lag can be the cause of the delay in the financial reporting.

#### 4.3. Audit Committe (KA)

The audit committee in this study was measured using the number of members, the level of financial expertise, the number of meetings, and the proportion of gender. Table 5 below presents the minimum, maximum, and mode values of each of the mining company audit committee sizes used in this study.

**Table 5 Audit Committee**

Criteria	Minimal	Maximal	Modus
<b>The Number of Member:</b>			
Year 2013	3	6	3
Year 2014	2	4	3
Year 2015	2	4	3
<b>Financial Expertise Level:</b>			
Year 2013	0%	100%	100%
Year 2014	0%	100%	100%
Year 2015	0%	100%	100%
<b>Meeting Frequency:</b>			
Year 2013	2	57	4
Year 2014	2	41	5
Year 2015	2	61	5
<b>Gender Proportion:</b>			
Year 2013	0%	33%	33%
Year 2014	0%	33%	33%
Year 2015	0%	33%	33%

Source: data processed

The minimum number of audit committee member is three people. This is in accordance with BAPEPAM regulation No. IX.I.5 2012. Table 5 shows that the minimum number of audit committee member in 2014 and 2015 is not on accordance with the BAPEPAM regulation. However, the maximum and mode value indicates that the number of audit committee members of the sample in this study is in compliance with BAPEPAM regulation.

Audit committee must have one person who has competence in finance and accounting. This provision has been regulated in BAPEPAM regulation No. IX.I.5 2012. Table 5 shows that there are still mining companies that have audit committees with members who don't have financial expertise. This is indicate from a minimum value that is 0% in financial expertise indicator during 2013 to 2015. However, table 5 also shows that there are an audit committee that has members with very high financial expertise that is 100%. This indicates that all audit committee members have financial expertise. There are more than one samples that have an audit committee members with financial expertise of 100%.

Audit committee must meet at least four times a year. This has been regulated in BAPEPAM regulation No. IX.I.5 2012. Table shows that meeting frequencies from audit committee during 2013 to 2015 are between 2 to 61 times in a year. The minimal value of audit committee's meeting frequency in this study is still not in accordance with BAPEPAM regulation. However, the maximum and mode value of the audit committee's meeting frequency in this study are in accordance with BAPEPAM regulations. This indicates that most of audit committees from the sample have conducted meetings with the specified amount.

Table 5 shows that the proportion of female members in the audit committee of this study is between 0% to 33%. This indicates that the audit committee of the mining companies in this study is mostly male. The female members of the audit committee in this study is one-third of audit committee members. This condition maybe reasonable because this study using mining companies that employ more men than women.

#### 4.4. Contingency Factor (K)

The company's contingent variables in this study were measured using firm size and firm age. Table 6 below presents data from each of the company's contingencies shown from the minimum, maximum, and mode values.

**Table 6 Contingency Factor**

Criteria	Minimal	Maximal	Average
<b>Firm Size:</b>			
Year 2013	7,58	17,95	12,66
Year 2014	7,63	17,86	12,68
Year 2015	7,79	17,67	12,82
<b>Firm Age:</b>			
Year 2013	3	45	22,5
Year 2014	4	46	23,5
Year 2015	5	47	24,5

Source: data processed

Table 6 shows that the firm size of this study is firm 7,58 until 17,67 during 2013 to 2015. The firm size in this study is the natural logarithm of total assets. Table 6 also shows that the firm size from the sample in this



study is increasing every year during 2013 to 2015. This is indicated by the increase of minimum, maximum, and average value in natural logarithm of total assets.

Table 6 also shows that age of the companies in this study at least 5 years old and the longest is 47 years old. This indicate that the companies in this study is the companies that has long been engaged in operation and have enough experience to run good operation.

#### 4.5. Outer Model Testing

The first test is an outer test model based on the loading factor value and p value of each variable size. Table 7 shows the results of outer model testing that has been done.

**Table 7 Outer Model Testing**

Ukuran	KA	K	ARL	p value
KA1	(0,817)	0,148	0,018	<0,001
KA2	(-0,215)	0,612	-0,421	0,019
KA3	(0,890)	0,123	0,067	<0,001
KA4	(-0,387)	0,256	0,427	<0,001
K1	-0,300	(0,670)	0,056	<0,001
K2	0,300	(0,670)	-0,056	<0,001
ARL	0,000	0,000	(1,000)	<0,001

Source: Output WarpPIs

The loading factor value in Table 7 is indicated by the numbers present in the brackets. Outer model test results show that the size of the audit committee that qualifies the test outer model only KA1 and KA3. Thus, the audit committee is only explained by the size of the audit committee members and the number of audit committee meetings. The number of audit committee (KA1) can explain about audit committee variabel of 66,75% (squared of 0,817), while the meeting frequency can explain audit committee variable of 79,21% (squared of 0,89). Therefore, number of audit committee and meeting frequency can be included in subsequent test.

Outer model test results also show that the size of the contingency of the company entirely meets the specified outer model test requirements. Thus, the company's contingencies can be explained by the size of the company and the age of the company. Firm size and age can explain about contingency variable of 44,9% (squared of 0,67). Therefore, firm size and age can be included in subsequent test.

#### 4.6. Goodness of Fit Testing

The second test is the test of goodness of fit. This test is based on three values: APC, ARS, and VIF. This test is performed to determine the level of matching research data with a model based on the significance of APC and ARS. This test also aims to determine whether there are symptoms of multicollinearity in research models based on VIF values. Table 8 below presents the results of the goodness of fit test.

**Table 8 Goodness of Fit Testing**

Criteria	Value	p value
Average Path Coefficient (APC)	0,434	<0,001
Average R Square (ARS)	0,352	<0,001
Variance Inflation Factor (AVIF)	1,015	-

Source: Output WarpPIs

Table 8 shows that the values of APC, ARS, and VIF in this study have met the specified requirements. Thus, the research data is in accordance with the research model and does not occur multicollinearity.

#### 4.7. Inner Model Testing

The next test is the inner model test. This test is based on the value of R square and Q square. The result of inner model test shows that the value of R square and Q square in this research is 0,35 and 0,348. Thus, the independent variables in this study can explain the variant changes of the dependent variable by 35% and have a good predictive value that is more than zero or 34.8%.

#### 4.8. Hypothesis Testing

The last test carried out is testing the research hypothesis. The hypothesis to be tested in this study there are three hypotheses. The hypothesis  $H_1$  and  $H_2$  is a test of the direct influence of audit committees and contingency factors on audit report lag. The hypothesis  $H_3$  is a test of the moderation effect of contingency factor on the influence of the audit committee on audit report lag. Table 9 below presents the results of hypothesis testing performed.

**Table 9 Hypothesis Testing**

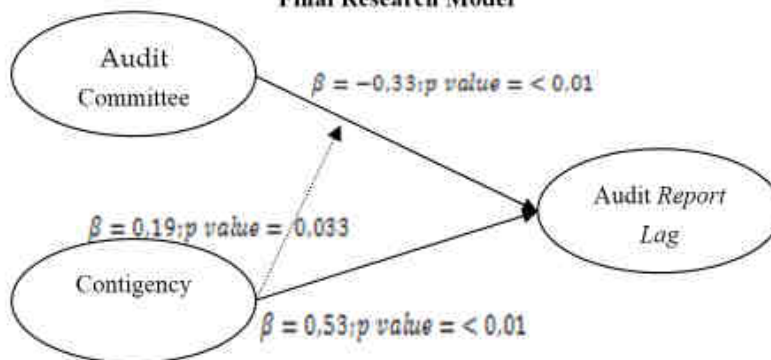
Relationship	Coefficient	p value	Hypotesis
KA→ARL	-0,33	<0,01	H1 accepted
K→ARL	0,53	<0,01	H2accepted
KA*K→ARL	0,19	0,033	H3 accepted

Source: Output WarpPLs

Hypothesis testing of this research is done by following the rules of Baron and Kenny. Table 9 shows that all of these research hypotheses are accepted. Thus, this research proves the influence of the audit committee and the contingency factor of the company in audit report lag. This study also proved that the contingent factor of the company can moderate the influence of the audit committee on audit report lag. Based on the results of research that has been done then the final model of this study are as follows:

**Figure 2**

**Final Research Model**



Source: Results of WarpPLS 5.0

## 5. Discussion

The audit committee variable in this study can only be explained by the number of members and the number of meetings. The audit committee can be explained by the number of members and the number of meetings each by 67% and 79.21% (squares of 0.817 and 0.89). The results of hypothesis testing show that audit committee has a negative effect on audit report lag. Thus, the better the audit committee quality the shorter the audit report lag.

The result of the research on the negative influence of the audit committee on the audit report lag indicates that the audit committee has an important role related to the fulfillment of corporate compliance with applicable regulations. BAPEPAM Regulation No. IX.I.5 of 2012 explains that the audit committee shall review the financial information to be issued and the compliance with laws and regulations. Thus, the results of this study proved that the audit committee has an important role in reducing agency conflicts through supervision. The results of this study support the results of research from Nor et al (2010) which states that the size and activities of the audit committee can shorten the time to audit lag.

Contingency variables in this study can be fully explained by the size and age of the company. The size and age of the firm can explain the contingency variable of 44.9% (squares of 0.67). The result of the hypothesis test shows that the contingency variable has a positive influence on audit report lag. Thus, the larger the size of the company and the longer the company operates the longer the audit report lag process. The results of this study support the results of research Banimahd et al (2012) which states that the age of the company affect the audit report lag. The results of this study also supports the results of research Karang (2015) and Lestari (2015) which states that the size of the company have a positive effect on audit delay.

Contingency variables in this study proved to have a moderate effect on the influence of the audit committee on audit report lag. The result of hypothesis testing shows that the contingency variable has a positive interaction with the audit committee in influencing audit report lag. Thus, the larger the size of the company and the longer the company operates the greater the influence of the audit committee on audit report lag. The results of this study support the Fisher contingency theory (1998) which states that the form of corporate internal control is determined by the context of the company.

## 6. Conclusions and Recommendations

This study aims to examine and prove the influence of the audit committee and the company's contingency on audit report lag as well as to test and prove the moderate effect of the company's contingency on the influence of the audit committee on audit report lag. The results of the research have shown that the audit report lag time in mining companies in Indonesia during 2013 to 2015 is 17 to 273 days. This proves that the delay in the financial



statements occurring in the mining company is caused by the length of the audit report lag. Thus, companies should pay more attention to the timing of the process of completion of financial statement audit.

The timeframe for the audit report lag of the mining company based on the research results is influenced by the audit committee and the contingency factor of the company. The lag report audit timeframe of a mining company is largely determined by the quality of the audit committee. A qualified audit committee will be able to make the audit report lag range shorter. The lag report audit timeframe is also determined by the company's contingency factor ie firm size and age. The results show that firms that have larger size and longer life in berpeoperasi will have a longer report lag audit time.

The results also proved that the quality of audit committee's performance in shortening the audit report lag range is determined by the company's contingency factor that is firm size and company's age. The results prove that larger company size and more corporate life will further strengthen the influence of the audit committee on audit report lag company.

The results of this study can be accepted based on the limitations possessed. Limitations in this study is the reduction in the number of companies used as research samples because there are some companies that do not submit data on the audit committee in full. Thus, further research is expected to maximize the number of companies used by combining secondary data and primary data.

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