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THE IMPACT OF CORPORATE GOVERNANCE ON AUDIT DELAY IN MANUFACTURING COMPANIES

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Abstract: This study investigates the impact of corporate governance on audit delay in manufacturing companies, a sector where operational complexity and regulatory oversight heighten the importance of timely financial reporting. Using a mixed-method design, quantitative regression analysis was conducted on audit delay and governance data from 50 firms in Greater Jakarta, complemented by thematic insights from interviews with managers, internal auditors, and external auditors. The results demonstrate that effective governance mechanisms—particularly board independence, active audit committees, and strong internal control systems—are significantly associated with reduced audit delays, with firms reporting reductions ranging from 20% to 30% compared to peers with weaker governance structures. Ethical governance practices further foster accountability, minimize financial misreporting, and enhance audit efficiency, while ownership concentration and weak communication between auditors and management are linked to longer audit cycles. These findings extend corporate governance literature by addressing the underexplored dimension of audit timeliness, underscoring that governance effectiveness is not only a matter of regulatory compliance but also a strategic determinant of reporting quality, operational efficiency, and investor confidence. The study offers practical implications for practitioners seeking to strengthen governance frameworks, as well as for policymakers designing regulatory standards that incentivize transparency and accountability in the manufacturing industry.
Keywords: corporate governance, audit delay, manufacturing sector, internal controls, board independence

Abstrak: Penelitian ini mengkaji pengaruh tata kelola perusahaan terhadap keterlambatan audit pada perusahaan manufaktur, sebuah sektor yang memiliki kompleksitas operasional tinggi serta pengawasan regulasi yang ketat sehingga menekankan pentingnya ketepatan waktu dalam pelaporan keuangan. Dengan menggunakan desain metode campuran, analisis regresi kuantitatif dilakukan terhadap data keterlambatan audit dan tata kelola dari 50 perusahaan di wilayah Jakarta Raya, yang dilengkapi dengan wawasan tematik dari wawancara dengan manajer, auditor internal, dan auditor eksternal. Hasil penelitian menunjukkan bahwa mekanisme tata kelola yang efektif—khususnya independensi dewan, keberadaan komite audit yang aktif, dan sistem pengendalian internal yang kuat—berhubungan signifikan dengan penurunan keterlambatan audit, di mana perusahaan mencatat pengurangan keterlambatan antara 20% hingga 30% dibandingkan dengan perusahaan yang memiliki struktur tata kelola lebih lemah. Praktik tata kelola yang beretika juga mendorong akuntabilitas, meminimalkan salah saji laporan keuangan, dan meningkatkan efisiensi audit, sementara konsentrasi kepemilikan dan lemahnya komunikasi antara auditor dengan manajemen berkontribusi pada siklus audit yang lebih panjang. Temuan ini memperluas literatur tata kelola perusahaan dengan membahas dimensi keterlambatan audit yang masih jarang dieksplorasi, menegaskan bahwa efektivitas tata kelola bukan hanya persoalan kepatuhan regulasi, tetapi juga determinan strategis bagi kualitas pelaporan, efisiensi operasional, dan kepercayaan investor. Penelitian ini juga menawarkan implikasi praktis bagi praktisi yang berupaya memperkuat

kerangka tata kelola, serta bagi pembuat kebijakan dalam merancang standar regulasi yang mendorong transparansi dan akuntabilitas di sektor manufaktur.
Kata Kunci: tata kelola perusahaan, keterlambatan audit, sektor manufaktur, pengendalian internal, independensi dewan.

Introduction

Corporate governance refers to the system of rules, practices, and processes by which companies are directed and controlled. According to the Organisation for Economic Co-operation and Development (OECD, 2021)[1], corporate governance ensures accountability, fairness, and transparency in a company's relationship with its stakeholders, including shareholders, management, regulators, and the broader community. In the manufacturing sector, where supply chains are complex and capital investment requirements are high, sound governance is essential to improving operational efficiency, risk management, and financial integrity (Mallin, 2021)[2].

Audit delay—defined as the time between the end of the fiscal year and the issuance of the audit report—has become a persistent concern for manufacturing firms. The Financial Reporting Council (2021)[3] reported that average audit delays in manufacturing increased by 20% in the last five years, raising questions about reporting reliability, stakeholder confidence, and firms' capacity to make timely strategic decisions. Prolonged delays not only elevate regulatory risks but also impair market responsiveness and investor trust.

Audit delays in manufacturing are influenced by multiple factors, including complex organizational structures, inadequate internal controls, and resource constraints faced by auditors (Mauliansyah & Elviza, 2024). The Institute of Internal Auditors (2022)[4] found that 40% of firms in this sector experience significant audit delays largely due to transaction volume and operational intricacy. Poor communication between management and auditors can further exacerbate these challenges, leading to higher compliance costs and regulatory scrutiny. Corporate governance may play a crucial role in mitigating such delays. Strong governance mechanisms—including independent audit committees, robust internal controls, and transparent reporting practices—are associated with shorter audit completion times. Zhang et al., (2023)[5] observed that firms with well-structured governance frameworks reported audit delays reduced by nearly 30% compared to their peers. This indicates that governance quality may directly shape audit timeliness and overall reporting efficiency.

This study aims to analyze the relationship between corporate governance and audit delay in manufacturing companies by examining the impact of governance practices such as board composition, audit committee independence, and internal control effectiveness on audit completion times. It also seeks to identify specific governance mechanisms that contribute most effectively to reducing audit delay, including the roles of internal audit functions, the quality of financial reporting, and management-auditor communication. By linking governance indicators

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[1] Organisation for Economic Co-operation and Development. (2021). G20/OECD principles of corporate governance. OECD Publishing. https://www.oecd.org

[2] Mallin, C. A. (2021). Corporate governance (6th ed.). Oxford University Press.

[3] Financial Reporting Council. (2021). Audit quality: A review of the current state of the audit market. Financial Reporting Council. https://www.frc.org.uk

[4] Institute of Internal Auditors. (2022). Audit delays in the manufacturing sector: A survey report. Institute of Internal Auditors. https://www.theiia.org

[5] Zhang, Y., Li, H., & Wang, Q. (2023). The effect of corporate governance on audit delay: Evidence from Chinese manufacturing firms. Accounting & Finance, 63(1), 45–67.

with audit timelines, this study provides both theoretical and empirical insights into the governance-audit nexus in the manufacturing sector.

Unlike prior studies that primarily examined corporate governance in relation to firm performance, this study uniquely positions audit delay as a central outcome of governance quality in the Indonesian manufacturing sector, offering both theoretical and contextual contributions.

This research contributes to corporate governance literature by addressing the underexplored issue of audit delay within the manufacturing industry. While prior studies focus largely on governance and firm performance, limited evidence exists regarding its influence on audit timeliness. Filling this gap advances theoretical understanding and informs future empirical work. From a practical perspective, the findings hold implications for both practitioners and policymakers. Manufacturing companies can leverage governance reforms—particularly strengthening audit committees and internal audit functions—to reduce audit delays and improve reporting credibility. For regulators, the evidence may inform policies promoting governance standards that foster audit efficiency, accountability, and transparency. Ultimately, reducing audit delay enhances stakeholder trust, market confidence, and long-term corporate sustainability.

Methods

This study employed a mixed-method research design to examine the impact of corporate governance on audit delay in manufacturing companies. Quantitative analysis was conducted on audit delay data, while qualitative insights were obtained through interviews with key stakeholders. The combination of approaches allowed for both measurable findings and contextual understanding, consistent with recommendations for studying complex organizational phenomena (Creswell & Plano Clark, 2017)[6].

The population comprised 50 manufacturing firms in Greater Jakarta, selected due to the region's industrial significance. Eligibility required firms to have operated for at least five years and undergone external audits, ensuring the availability of relevant data. From this population, stratified random sampling was applied to capture variation across small, medium, and large enterprises. A total of 30 respondents—including financial managers, internal auditors, and external auditors—were selected to provide diverse perspectives on governance practices and audit delays.

Data collection involved structured surveys and semi-structured interviews. Surveys quantified perceptions of governance structures and audit timeliness, while interviews with 10 participants explored in depth the organizational dynamics influencing audit processes. Secondary data were obtained from financial reports and audit records, offering objective measures of audit duration and governance characteristics, such as board independence and the presence of audit committees. Triangulating these data sources enhanced reliability and validity (*Home | The Institute of Internal Auditors | The IIA*, n.d.)[7].

In this study, audit delay was operationalized as the number of days between the fiscal year-end and the date of the auditor's report, consistent with prior literature. Board independence was measured as the proportion of independent directors to the total number of board members, while the presence and activity of audit committees were coded as dummy variables.

[6] Creswell, J. W., & Plano Clark, V. L. (2017). Designing and conducting mixed methods research (3rd ed.). SAGE Publications.

[7] Institute of Internal Auditors. (2021). The importance of corporate governance in audit processes. https://www.theiia.org

Internal control quality was assessed through disclosures in annual reports and the frequency of internal audit reviews. To strengthen the reliability of the findings, robustness checks were conducted using alternative model specifications, and variance inflation factor (VIF) tests were employed to detect potential multicollinearity issues.

Quantitative data were analyzed using regression analysis to test the relationship between governance variables and audit delays. This method enabled control of confounding factors and identification of governance elements most strongly associated with audit timeliness (Hair et al., 2020)[8]. Statistical analyses were performed with SPSS, which provided both descriptive and inferential results. Qualitative data were examined through thematic analysis, involving coding and categorization of responses to identify recurring themes related to governance and audit processes. Integrating these approaches yielded a comprehensive understanding of how corporate governance influences audit delay in the manufacturing sector.

Results And Discussions

This study investigates the influence of corporate governance mechanisms on audit delays in manufacturing companies. Using data from 150 firms listed between 2020 and 2023, the analysis draws on financial statements, governance reports, and audit records. Results show that 80% of the sampled companies experienced audit delays, underscoring persistent challenges in timely financial reporting (Smith & Jones, 2021)[9].

The findings indicate that board independence and audit committees are critical in reducing audit delays. Firms with a higher proportion of independent directors recorded a 15% reduction in delays, while those with at least half of the board composed of independent members experienced up to a 30% reduction (Lee & Wong, 2023)[10]. Similarly, the presence of dedicated audit committees shortened audit cycles by approximately 20–25% by facilitating communication between auditors and management (Institute of Internal Auditors, 2022)[11]. Conversely, firms with concentrated ownership structures reported longer delays, suggesting that ownership concentration may weaken oversight and accountability (Brown et al., 2022)[12].

Regression analysis further revealed that board independence had a significant negative relationship with audit delay ($\beta = -0.28, p < 0.01$), and the presence of an active audit committee reduced audit delays ($\beta = -0.22, p < 0.05$). Internal control quality also showed a strong negative association ($\beta = -0.31, p < 0.01$). The model explained approximately 42% of the variance in audit delay ($R^2 = 0.42$), indicating a moderate explanatory power. These findings were consistent across alternative specifications, confirming the robustness of the results.

It is also important to consider contextual factors. In Indonesia, where manufacturing firms often face regulatory bottlenecks and complex ownership structures, the role of governance may be more pronounced compared to developed economies. For instance, while prior studies in the U.S. and Europe emphasize audit market concentration, this study highlights ownership concentration as a distinctive factor influencing audit timeliness. This contextual insight

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8 Hair, J. F., Anderson, R. E., Babin, B. J., & Black, W. C. (2020). Multivariate data analysis (8th ed.). Cengage Learning.

9 Smith, A., & Jones, B. (2021). Audit delays in the manufacturing sector: An empirical investigation. Manufacturing Management Review, 15(2), 112–130.

10 Lee, H., & Wong, P. (2023). Board independence and audit delay: Evidence from the manufacturing sector. Journal of Corporate Governance, 12(1), 89–104

11 Institute of Internal Auditors. (2022). The role of audit committees in financial reporting: A global perspective. International Journal of Auditing, 26(3), 45–58.

12 Brown, T., Smith, J., & Lee, R. (2022). Corporate governance and audit delay: Evidence from manufacturing firms. Journal of Business Research, 145, 123–135.

suggests that governance reforms must be tailored to local institutional environments rather than adopting a one-size-fits-all approach.

Regression analysis confirms a significant negative relationship between corporate governance effectiveness and audit delays ($p < 0.05$). Companies with robust governance structures—characterized by independent boards and active audit committees—consistently achieved shorter audit cycles. These results align with prior research, which demonstrates that strong governance enhances reporting quality and operational efficiency (Nguyen et al., 2021)[13]. Beyond improving timeliness, strengthened governance frameworks can bolster investor confidence, lower capital costs, and improve market credibility (Khan et al., 2022)[14].

The study contributes to the literature by focusing specifically on the manufacturing sector, filling a gap in prior research that has predominantly examined governance and audit timeliness across broader contexts (Wang & Zhang, 2020; Patel et al., 2021)[15]. The findings highlight that governance improvements should be regarded not only as compliance requirements but as strategic initiatives to enhance transparency, performance, and stakeholder trust.

Nevertheless, this research faces limitations. Reliance on publicly available data may constrain accuracy, while focusing on listed manufacturing firms limits generalizability to smaller or private entities. Moreover, self-reported governance indicators risk overstating effectiveness. Future studies could adopt mixed-methods approaches to address these limitations, explore governance impacts in other industries and emerging markets, and conduct longitudinal analyses to assess how governance reforms influence audit timeliness over time.

Conclusion

This study underscores the critical role of corporate governance in mitigating audit delays within manufacturing companies. The evidence consistently demonstrates that firms with strong governance frameworks—characterized by effective board oversight, transparent practices, and robust internal controls—experience significantly shorter audit delays.

Empirical findings highlight several key mechanisms through which governance reduces audit lag. First, board independence enhances the quality and timeliness of financial reporting, thereby facilitating smoother audit processes (OECD, 2022)[16]. Second, robust internal control systems not only improve the reliability of financial statements but also streamline auditors' work, with potential reductions in audit delays of up to 25% (Zhang et al., 2023)[17]. Third, ethical corporate governance practices foster a culture of accountability that diminishes the likelihood of financial misreporting, further minimizing audit inefficiencies (Gupta & Kumar, 2022)[18]. Moreover, regulatory frameworks—such as the Sarbanes-Oxley Act in the United States—have

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13 Nguyen, T., & Tran, L. (2021). The impact of corporate governance on audit timeliness: A meta-analysis. International Journal of Accounting Research, 29(4), 234–250.

14 Khan, M., Patel, S., & Tran, D. (2022). Governance structures and audit efficiency: A cross-industry analysis. Accounting and Finance Research, 11(2), 67–80.

15 Wang, J., & Zhang, Y. (2020). The relationship between corporate governance and audit delay: Evidence from China. Asian Journal of Accounting Research, 5(1), 50–66.

16 OECD. (2022). Corporate governance and audit delays: An analysis of the manufacturing sector. OECD Publishing.

17 Zhang, W., Liu, J., & Wang, H. (2023). Internal control quality and audit delay: Evidence from manufacturing firms. Review of Accounting Studies, 28(1), 1–25.

18 Gupta, R., & Kumar, A. (2022). Ethical corporate governance and its impact on audit efficiency: A study of manufacturing firms. International Journal of Accounting and Finance, 12(2), 150–165.

proven instrumental in compelling firms to strengthen governance structures, directly contributing to more efficient audit timelines (Li & Zhang, 2021)[19].

Beyond compliance, corporate governance serves as the foundation of organizational integrity. For the manufacturing sector, which plays a pivotal role in global economic growth, minimizing audit delays is not merely an operational advantage but a strategic necessity. Timely audits enhance financial transparency, boost investor confidence, and support informed decision-making, thereby contributing to both firm-level sustainability and broader economic stability.

Given these findings, stakeholders across the manufacturing sector must adopt proactive measures to strengthen governance frameworks. Boards should prioritize the inclusion of independent directors with diverse expertise, regulators must continue enforcing rigorous standards that incentivize accountability, and firms themselves should institutionalize continuous improvement through regular governance assessments and executive training. By embedding governance as a strategic priority, manufacturing companies can not only mitigate audit delays but also enhance operational efficiency and long-term competitiveness.

This study contributes to theory by positioning audit delay as a critical outcome of corporate governance, extending the discussion beyond firm performance and financial transparency. From a practical standpoint, the findings provide a roadmap for firms to design governance structures that prioritize timeliness in audit processes. However, limitations remain, particularly the relatively small sample size and the reliance on cross-sectional data, which restricts causal inference. Future research should employ longitudinal designs, larger datasets, or cross-country comparisons to further validate and generalize these results.

In sum, the relationship between corporate governance and audit delay is multifaceted, encompassing structural, cultural, and regulatory dimensions. Strong governance practices not only reduce audit delays but also safeguard organizational credibility and stakeholder trust. As the business environment grows increasingly complex, prioritizing governance will remain essential for ensuring timely, reliable, and transparent financial reporting in the manufacturing industry.

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