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Does Financial Distress Delay Financial Reporting? The Moderating Role of Corporate Governance in Property and Real Estate Firms

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A R T I C L E I N F O

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A B S T R A C T

This study examines whether financial distress delays financial reporting and whether corporate governance moderates this relationship in Indonesian listed property and real estate firms. Financial reporting delay (FRD) is measured using audit report lag, defined as the number of days between the fiscal year-end and the date of the independent auditor's report. A higher FRD value indicates longer reporting delay and lower financial reporting timeliness. Financial distress is measured using a dummy variable based on the modified Altman Z-Score classification, while corporate governance is measured using a Corporate Governance Index based on ASEAN Corporate Governance Scorecard dimensions. Using 216 firm-year observations from Indonesian listed property and real estate companies during 2022–2024, the study applies moderated regression analysis. The findings show that financial distress has a positive and significant effect on FRD, indicating that distressed firms experience longer reporting delays. Corporate Governance Index has a negative and significant effect on FRD, suggesting that stronger governance reduces reporting delay. Moreover, the interaction between financial distress and corporate governance is negative and significant, indicating that corporate governance weakens the delay effect of financial distress. These findings highlight the importance of governance quality in maintaining timely audited reporting under financial pressure

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INTRODUCTION

Financial reporting timeliness is a fundamental attribute of accounting information quality because financial statements are useful only when they are available within a relevant decision-making period. In this study, timeliness is operationalized inversely through financial reporting delay (FRD), measured by audit report lag. A higher FRD value indicates a longer reporting delay and lower financial reporting timeliness. (Abernathy et al., 2017; Abernathy et al., 2018; Ghafran & Yasmin, 2018).

In emerging markets such as Indonesia, timely audited reporting is particularly important because annual reports remain one of the most credible sources of firm-specific information for external users. Delays in audited financial reporting may weaken the credibility of corporate disclosure and reduce stakeholders' ability to respond promptly to changes in firm conditions. For listed companies, timely reporting also reflects managerial discipline, reporting-system readiness, and compliance with capital-market expectations (Delgado et., al. 2026).

This study focuses on Indonesian listed property and real estate companies because this sector has distinctive financial and reporting characteristics. Property and real estate firms are capital-intensive, dependent on external financing, and exposed to long project cycles. They frequently manage substantial investment properties, inventories, receivables, fixed assets, and long-term debt obligations. These characteristics increase reporting complexity, particularly when firms experience financial pressure. Issues such as asset valuation, impairment assessment, debt repayment capacity, revenue recognition, and going concern uncertainty may affect the speed and reliability of audited financial reporting.

Financial distress is a key factor that may delay financial reporting. Financially distressed firms often face declining profitability, liquidity constraints, leverage pressure, and uncertainty about future cash flows. These conditions complicate the preparation and verification of financial statements because management and auditors must deal with more complex estimates, debt-related issues, asset recoverability concerns, and potential going concern problems. Prior studies show that financial distress is associated with longer reporting delay because higher client risk requires greater audit effort and more careful evaluation (Choi & Park, 2023; Khamisah et al., 2021).

However, prior findings remain inconclusive. Some studies suggest that financially distressed firms are less timely in issuing audited financial reports because auditors must perform additional procedures to assess business risk, going concern assumptions, and the reliability of accounting estimates (Choi & Park, 2023; Khamisah et al., 2021). Other studies report insignificant or mixed effects, suggesting that financial distress does not always reduce delay when firms face strict reporting deadlines, auditors apply standardized procedures, or internal reporting systems are sufficiently strong (Endri et al., 2024). These inconsistencies indicate that the effect of financial distress on reporting delay may depend on other organizational mechanisms, particularly corporate governance quality.

Corporate governance is expected to improve financial reporting timeliness. Based on agency theory, governance functions as a monitoring mechanism that reduces managerial opportunism, strengthens accountability, improves internal control, and enhances the credibility of financial reporting (Bani-Khalid et., al. 2025). Strong governance may encourage management to prepare financial statements carefully, provide audit evidence efficiently, and facilitate coordination among management, the board, audit committee, internal control functions, and external auditors (Susandya and Suryandari, 2026; Amanamah, 2024). Prior studies show that governance mechanisms, board characteristics, audit committee expertise, and supervisory structures are associated with the delay of audited financial reporting (Astami et al., 2024; Ghafran & Yasmin, 2018; Kaaroud et al., 2020; Lajmi & Yab, 2022; Sultana et al., 2015).

This study addresses three research gaps. First, prior studies commonly examine financial distress and corporate governance as separate determinants of reporting delay, while limited attention has been given to whether corporate governance moderates the delay effect of financial distress. Second, this study uses a Corporate Governance Index rather than a single governance proxy, enabling governance quality to be captured more comprehensively. Third, the study focuses on Indonesian listed property and real estate companies, a sector with high financial risk and reporting complexity but relatively limited evidence in the financial reporting delay literature.

In this study, financial reporting delay is operationalized using audit report lag, measured as the number of days between the fiscal year-end and the date of the independent auditor’s report. Accordingly, a larger FRD value indicates a longer reporting delay and a lower level of financial reporting delay. This operational definition is used consistently throughout the article. Financial distress is measured using a dummy variable based on the modified Altman Z-Score classification, while corporate governance is measured using a Corporate Governance Index based on the ASEAN Corporate Governance Scorecard dimensions.

The central research question is: Does financial distress delay financial reporting, and does corporate governance moderate this relationship? This study contributes to financial reporting delay literature by integrating financial distress and corporate governance into a moderation framework and by providing sector-specific evidence from Indonesian listed property and real estate companies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretical Background

Agency Theory

Agency theory explains the relationship between managers as agents and shareholders as principals. The separation between ownership and control creates information asymmetry because managers possess more detailed information about firm conditions than external stakeholders. This asymmetry becomes more problematic when firms experience financial pressure because managers may have incentives to delay unfavorable information, manage earnings, or postpone disclosure of poor financial conditions.

Financial reporting delay is important in reducing agency conflict because timely audited reports enable shareholders, creditors, regulators, and investors to monitor managerial performance. Corporate governance acts as a monitoring mechanism that can reduce agency problems, improve reporting discipline, and strengthen the credibility of financial information. Governance mechanisms such as board oversight, audit committee effectiveness, internal control, and transparency practices are therefore expected to reduce reporting delay (Kaaroud et al., 2020; Lajmi & Yab, 2022; Sultana et al., 2015).

Audit Risk Theory

Audit risk theory explains why financial distress may delay financial reporting. Financial distress increases client business risk because distressed firms often face liquidity problems, declining profitability, leverage pressure, impairment risk, and going concern uncertainty. These conditions increase inherent risk and may also indicate higher control risk (Susandya et., al. 2025).

When auditors face higher client risk, they are likely to increase audit effort to reduce detection risk. This may involve additional procedures related to asset valuation, going concern assessment, debt confirmation, impairment testing, revenue recognition, and evaluation of management estimates. Consequently, the audit process may take longer and audited financial statements may become available later to users. Choi and Park (2023) found that financial distress is associated with longer audit report lag, while Khamisah et al. (2021) report similar evidence in Indonesia.

Signaling Theory

Signaling theory explains how firms communicate information to external users under conditions of information asymmetry. Timely audited reporting can serve as a positive signal because it indicates disciplined reporting systems, lower uncertainty, and stronger accountability. Conversely, reporting delay may be interpreted as a negative signal because it may reflect financial problems, weak internal control, unresolved audit issues, or reporting complexity.

Financial distress may weaken the signal conveyed by corporate reporting because distressed firms are perceived as having higher uncertainty and business risk. Strong corporate governance can increase the credibility of reporting signals by maintaining transparency and reporting discipline even when firms face financial pressure.

Financial Reporting Delay

Financial reporting delay refers to the availability of financial information within a period that allows users to make relevant economic decisions. In empirical auditing and accounting research, delay is often measured using audit report lag, namely the number of days between the fiscal year-end and the date of the independent auditor's report. This measure is widely used because audited financial statements become credible and publicly useful after the auditor completes the audit and issues the audit report (Abernathy et al., 2018; Ghafran & Yasmin, 2018; Kaaroud et al., 2020; Lajmi & Yab, 2022).

In this study, FRD is measured using audit report lag. A higher FRD value reflects a longer reporting delay and, therefore, a lower level of financial reporting delay. Conversely, a lower FRD value indicates that audited financial reports are issued more quickly and are therefore more timely.

Financial Distress and Financial Reporting Delay

Financial distress refers to a condition in which a firm experiences serious financial difficulties that may impair its ability to meet short-term and long-term obligations and threaten its going concern status. Firms in financial distress are commonly characterized by declining profitability, weak liquidity, excessive leverage, negative retained earnings, unstable cash flows, and increasing uncertainty regarding future operations. In this study, financial distress is measured using a dummy variable based on the modified Altman Z-Score classification, where firms classified in the distress zone are coded as 1, while firms outside the distress zone are coded as 0. This classification allows the study to distinguish between financially distressed and non-distressed firms and to examine whether distressed firms experience longer financial reporting delay.

Financial distress is expected to increase financial reporting delay for several theoretical reasons. From the perspective of audit risk theory, distressed firms represent higher-risk clients because their financial conditions may raise concerns about going concern uncertainty, asset recoverability, debt repayment capacity, and the reliability of management estimates (Finanta, 2025). These conditions increase inherent risk and may require auditors to expand audit procedures before issuing an audit opinion. For example, auditors may need to perform additional testing on impairment of assets, evaluate debt restructuring agreements, examine liquidity and solvency conditions, review the reasonableness of management assumptions, and assess whether the firm can continue as a going concern. These additional procedures require more audit effort and may delay the completion of audited financial statements.

Financial distress may also affect reporting delay through the internal reporting process. Distressed firms may have weaker financial reporting systems, limited resources, and greater managerial pressure to manage unfavorable information. Management may need more time to prepare supporting documents, reconcile accounting estimates, negotiate with auditors, or resolve issues related to debt, impairment, and revenue recognition. In such conditions, the financial reporting process becomes more complex and less efficient. As a result, financially distressed firms are more likely to experience longer reporting delay than financially healthy firms.

This argument is particularly relevant for property and real estate companies. Firms in this sector usually operate with high asset intensity, long project cycles, and substantial reliance on external financing. When these firms experience financial distress, the audit process may become more complicated because auditors must assess the valuation of investment properties, construction progress, receivables collectability, potential impairment, debt obligations, and going concern risks. Therefore, financial distress may not only reflect a weak financial condition, but also create additional audit complexity that delays the issuance of audited financial reports.

Prior empirical studies support the relationship between financial distress and reporting delay. Choi and Park (2023) found that financially distressed firms experience longer audit report lag because auditors respond to higher client risk by increasing audit effort. Their findings indicate that financial distress affects the audit completion process through greater audit risk and additional verification procedures. In the Indonesian context, Khamisah et al. (2021) found that financial distress measured using the Altman Z-Score is associated with audit report lag among listed firms. This suggests that firms with weaker financial conditions tend to require longer audit completion periods. Similarly, studies on audit delay show that financial risk indicators, such as profitability, leverage, and solvency, are relevant factors in explaining reporting delay because they influence auditor risk assessment and the complexity of audit procedures (Endri et al., 2024).

From a signaling theory perspective, delayed financial reporting by distressed firms may also be interpreted negatively by external stakeholders. Investors, creditors, and regulators may perceive reporting delay as a signal of unresolved audit issues, internal control weaknesses, or uncertainty regarding the firm's financial condition. Thus, financial distress may reduce the credibility and delay of corporate reporting because the market may associate delayed audited reports with higher risk and lower transparency. Timely reporting is therefore especially important for distressed firms because it can reduce uncertainty and provide stakeholders with relevant information for decision-making.

Although some prior studies report mixed findings, the theoretical argument remains strong that financial distress increases reporting delay. Mixed results may occur because of differences in industry characteristics, regulatory pressure, auditor quality, internal control systems, and the measurement of financial distress. However, in sectors with high financial complexity, such as property and real estate, financially distressed firms are more likely to experience audit and reporting delays due to the greater need for verification, judgment, and risk assessment.

Based on audit risk theory, signaling theory, and prior empirical evidence, this study predicts that financially distressed firms will experience longer financial reporting delay. Since FRD is measured by the number of days between the fiscal year-end and the date of the independent auditor's report, a higher FRD value indicates lower financial reporting timeliness.

H1: Financial distress has a positive effect on financial reporting delay.

Corporate Governance and Financial Reporting Delay

Corporate governance refers to the mechanisms, structures, and processes through which companies are directed, monitored, and controlled. In the context of financial reporting, corporate governance is expected to reduce reporting delay by strengthening oversight, improving accountability, enhancing transparency, and ensuring that management prepares financial statements in accordance with applicable reporting requirements. Effective governance mechanisms also support the audit process by improving internal control quality, documentation readiness, and communication between management, the audit committee, the board, and external auditors. Therefore, governance is not only a compliance mechanism, but also an institutional arrangement that can improve the speed and reliability of audited financial reporting (Ally, 2024).

From the perspective of agency theory, corporate governance plays an important role in reducing information asymmetry between managers and external stakeholders. Managers may have private information about firm performance, financial risk, and reporting problems. Without effective monitoring, they may delay the disclosure of unfavorable information or provide incomplete documentation during the audit process. Strong governance mechanisms reduce this risk by imposing greater discipline on the financial reporting process. Boards, audit committees, internal control systems, and transparency practices can pressure management to prepare financial reports more accurately and submit audit evidence more efficiently. In this sense, stronger governance is expected to shorten financial reporting delay and improve reporting delay.

Corporate governance is also closely related to audit efficiency. Firms with better governance structures are more likely to have effective internal controls, clearer reporting responsibilities, and stronger monitoring over accounting estimates and disclosures (Anaba et., al. 2025). These conditions can reduce audit complexity because auditors are able to obtain evidence more efficiently and rely on more organized internal reporting systems. Conversely, weak governance may increase reporting delay because auditors need to perform additional procedures to compensate for weak monitoring, poor documentation, or insufficient internal control. Thus, corporate governance quality is expected to influence not only the quality of financial reporting but also the time required to complete the audit (Rahmasari dan Kartika, 2025).

Prior empirical studies support the argument that governance mechanisms are associated with reporting delay. Ghafran and Yasmin (2018) examine audit committee chair expertise and financial reporting delay and show that audit committee leadership is relevant for timely reporting. Their study indicates that governance actors with financial, experiential, and monitoring expertise can contribute to more effective oversight of the reporting process. Similarly, Kaaroud et al. (2020) examine Islamic banking institutions in Malaysia and show that governance mechanisms are associated with audit report lag, suggesting that governance quality can influence the time required to issue audited financial statements. Their findings also highlight the relevance of governance mechanisms for compliance with financial report submission requirements.

Recent evidence from emerging markets also supports this relationship. Lajmi and Yab (2022) investigate internal corporate governance mechanisms in Tunisian listed companies and find that governance mechanisms affect audit report lag. This finding is important because it shows that governance can shape audit completion time in institutional environments where monitoring quality and disclosure practices may vary across firms. In the Indonesian context, Astami et al. (2024) provide evidence that supervisory board characteristics influence audit report lag in a two-tier board system. Their study is particularly relevant because Indonesian listed companies operate under a governance structure in which the board of commissioners has a formal supervisory role over management. This indicates that board-level governance mechanisms may influence the delay of audited reporting in Indonesia.

The relevance of corporate governance to reporting delay is also strengthened by the role of disclosure and transparency. Companies with stronger governance are expected to disclose information more openly and maintain more reliable reporting systems. Transparency reduces uncertainty during the audit process because relevant information is more accessible and better documented. Audit committees and boards can also monitor whether management resolves audit issues promptly and meets reporting deadlines. Therefore, governance mechanisms can reduce delays arising from weak documentation, unresolved accounting issues, or poor communication between management and auditors.

In this study, a higher Corporate Governance Index reflects stronger governance quality and broader governance disclosure. Firms with stronger governance are expected to have better reporting discipline, stronger internal control, more effective audit committee oversight, and more transparent communication with external auditors. These conditions should reduce the number of days required to complete the audit and issue the audited financial statements. Since FRD is measured by audit report lag, a lower FRD value indicates shorter reporting delay and better financial reporting timeliness. Therefore, stronger corporate governance is expected to have a negative effect on FRD.

Based on agency theory and prior empirical evidence, this study proposes the following hypothesis:

H2: Corporate Governance Index has a negative effect on financial reporting delay

Corporate Governance as a Moderator

Financial distress is expected to increase financial reporting delay because distressed firms face higher audit risk, greater reporting complexity, and stronger uncertainty regarding their financial condition. However, the magnitude of this effect may not be the same across all firms. Firms with stronger corporate governance may be better able to manage the reporting and audit difficulties associated with financial distress. Therefore, this study argues that corporate governance weakens the positive effect of financial distress on financial reporting delay.

From the perspective of audit risk theory, financial distress increases inherent risk because distressed firms often face liquidity problems, debt repayment pressure, asset impairment risk, going concern uncertainty, and greater reliance on management estimates. These conditions require auditors to perform more extensive audit procedures before issuing the audit report. As a result, financially distressed firms are more likely to experience longer reporting delay. However, strong corporate governance can reduce the extent to which financial distress translates into audit delay by lowering control risk. Firms with better governance are more likely to maintain effective internal controls, reliable accounting documentation, and disciplined reporting procedures. These conditions help auditors obtain sufficient and appropriate audit evidence more efficiently, even when the client is financially distressed.

Corporate governance may also weaken the delay effect of financial distress through better documentation readiness and audit communication. Financially distressed firms often require additional audit attention related to debt restructuring, impairment testing, going concern assessment, receivables recoverability, and the reasonableness of management assumptions. If governance mechanisms are weak, these issues may take longer to resolve because management may provide incomplete documentation or delay responses to auditor requests. In contrast, firms with stronger governance are more likely to have clear reporting responsibilities, active oversight, and more transparent communication between management, the audit committee, the board, and external auditors. This governance environment can reduce audit frictions and shorten the additional delay caused by financial distress.

From an agency theory perspective, financial distress may intensify agency problems because managers have stronger incentives to delay unfavorable information, manage accounting estimates, or avoid timely disclosure of poor financial conditions. These incentives can increase reporting delay, particularly when monitoring mechanisms are weak. Strong corporate governance reduces this agency problem by strengthening accountability and limiting managerial discretion during the reporting process. Thus, governance does not merely reduce reporting delay directly; it also constrains the opportunistic behavior and reporting uncertainty that may arise when firms experience financial distress.

Prior studies provide the basis for this moderating argument. Choi and Park (2023) show that financially distressed firms experience longer audit report lag because auditors increase audit effort when client risk is high. Khamisah et al. (2021) also find that financial distress measured using Altman Z-Score is associated with audit report lag in Indonesian listed firms. At the same time, governance-related studies indicate that audit committee expertise, internal governance mechanisms, and supervisory board characteristics are associated with audit report lag and reporting timeliness (Astami et al., 2024; Ghafran & Yasmin, 2018; Kaaroud et al., 2020; Lajmi & Yab, 2022). Taken together, these studies suggest that financial distress increases reporting delay, but governance quality may influence how strongly distress affects the reporting process.

This moderating logic is particularly relevant in Indonesian listed property and real estate companies. Firms in this sector often face complex audit issues related to investment property valuation, construction progress, revenue recognition, impairment, receivables collectability, debt obligations, and going concern assessment. When such firms are financially distressed, these issues may become more difficult to audit and may lengthen the reporting process. However, stronger corporate governance can help reduce these difficulties by ensuring better internal control, more complete audit documentation, and more effective coordination with external auditors. Therefore, firms with stronger governance are expected to experience a weaker delay effect of financial distress than firms with weaker governance.

Based on audit risk theory, agency theory, and prior empirical evidence, this study predicts that corporate governance weakens the positive relationship between financial distress and financial reporting delay. Since FRD is measured by audit report lag, a negative interaction coefficient indicates that stronger governance reduces the extent to which financial distress increases reporting delay. Based on agency theory and prior empirical evidence, this study proposes the following hypothesis:

H3: Corporate Governance Index weakens the positive effect of financial distress on FRD.

METHODOLOGY

Research Design

This study employs a quantitative explanatory research design to examine whether financial distress delays financial reporting and whether corporate governance moderates this relationship. The dependent variable is FRD, measured using audit report lag. Thus, a higher FRD value represents a longer reporting delay and lower financial reporting timeliness. The independent variable is financial distress, and the moderating variable is Corporate Governance Index.

The study uses firm-year observations of Indonesian listed property and real estate companies during 2022-2024. The sector is selected because it is characterized by high asset intensity, long project cycles, financing dependence, and complex financial reporting issues.

Population and Sample

The population consists of all property and real estate companies listed on the Indonesia Stock Exchange during the 2022-2024 period. The sample is selected using purposive sampling based on the following criteria, companies classified in the property and real estate sector and listed on the Indonesia Stock Exchange during 2022-2024, companies that publish annual reports and audited financial statements during the observation period, companies with financial statements ending on December 31 to ensure comparability of FRD measurement, companies that disclose the date of the independent auditor's report, companies with complete data to measure FRD, financial distress, and Corporate Governance Index. The final sample consists of 216 firm-year observations.

Data Sources and Data Collection

This study uses secondary data obtained from annual reports, audited financial statements, corporate governance reports, and company profiles. The data are collected from the Indonesia Stock Exchange website, company websites, and published annual reports. The audit report date is obtained from the independent auditor's report. Financial data are used to calculate the modified Altman Z-Score, while governance data are collected from corporate governance disclosures in annual reports.

Variable Measurement

Financial Reporting Delay

The dependent variable is FRD, measured using audit report lag. Audit report lag is calculated as the number of days between the fiscal year-end and the date of the independent auditor's report. A higher FRD value indicates longer reporting delay and lower financial reporting timeliness, whereas a lower FRD value indicates shorter reporting delay and longer reporting delay.

FRD_it = Audit Report Date_it - Fiscal Year End_it

Financial Distress

Financial distress is measured using a dummy variable based on the modified Altman Z-Score classification (Hamzah & Annisa, 2022). The modified Altman Z-Score model is appropriate for non-manufacturing firms and is expressed as follows:

Z'' = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4

The first component, X1, is working capital divided by total assets. The second component, X2, is retained earnings divided by total assets. The third component, X3, is earnings before interest and taxes divided by total assets. The fourth component, X4, is book value of equity divided by total liabilities. Firms with Z < 1.10 are classified as distressed and coded 1, while firms in the grey and safe zones are coded 0.

Corporate Governance Index

Corporate Governance Index is constructed based on the five dimensions of the ASEAN Corporate Governance Scorecard as applied by Weli and Pambudi (2023): rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board. The index uses 40 disclosure items derived from annual reports and corporate governance disclosures. Each item is scored 1 if disclosed and 0 otherwise. The index is calculated as follows:

CGI_it = (Total governance items disclosed_it / Total governance items) x 100

Empirical Model

The empirical model is specified as follows:

FRD_it = alpha + beta1 FD_it + beta2 CGI_it + beta3(FD_it x CGI_it) + epsilon_it

Because a higher FRD value represents longer reporting delay, a positive coefficient indicates that the variable increases delay, while a negative coefficient indicates that the variable reduces delay and improves delay. The expected coefficient for FD is positive, the expected coefficient for CGI is negative, and the expected coefficient for the interaction term is negative.

Data Analysis Technique

The analysis consists of descriptive statistics, classical assumption tests, and moderated regression analysis. Descriptive statistics are used to describe the distribution of the variables. Classical assumption tests include normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Hypothesis testing is conducted using moderated regression analysis by including the interaction term between financial distress and Corporate Governance Index.

RESULTS AND DISCUSSION

Overview of Empirical Results

This section presents the empirical findings. The analysis begins with descriptive statistics, followed by classical assumption tests, hypothesis testing, and discussion. FRD is measured using audit report lag; therefore, a higher FRD value indicates a longer reporting delay and a lower level of financial reporting delay.

Descriptive Statistics

Table 1 presents the descriptive statistics of the variables. The dataset consists of 216 firm-year observations, and all variables have complete data.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
FD	216	0	1	0.28	0.451
CGI	216	-4.986	6.014	0.000	2.171
FDxCGI	216	-4.986	4.014	-0.042	1.010
FRD	216	38	249	87.34	22.196

Source: Data processed (2026)

The mean value of FD is 0.28, indicating that approximately 28% of the observations are classified as financially distressed. The CGI variable has a mean close to zero because the Corporate Governance Index was mean-centered before being used in the moderation model. The interaction variable shows variation across observations, indicating that distressed firms differ in their governance levels. The FRD variable ranges from 38 to 249 days, with an average of 87.34 days. This indicates that, on average, sampled firms issue audited financial statements approximately 87 days after fiscal year-end, while some firms experience substantial reporting delays.

Table 2. Classical Assumption Tests

Test	Indicator	Result	Criteria	Conclusion
Normality	Kolmogorov-Smirnov Sig.	0.081	> 0.05	Normally distributed
Multicollinearity	Tolerance FD	0.995	> 0.10	No multicollinearity
	Tolerance CGI	0.783	> 0.10	No multicollinearity
	Tolerance FDxCGI	0.781	> 0.10	No multicollinearity

	VIF FD	0.995	< 1.00	No multicollinearity
	VIF CGI	0.783	< 1.00	No multicollinearity
	VIF FDxCGI	0.781	< 1.00	No multicollinearity
Heteroscedasticity	Glejser Sig. FD	0.143	> 0.05	No heteroscedasticity
Heteroscedasticity	Glejser Sig. CGI	0.185	> 0.05	No heteroscedasticity
Heteroscedasticity	Glejser Sig. FDxCGI	0.774	> 0.05	No heteroscedasticity
Autocorrelation	Durbin-Watson	1.748	1.5-2.5	No autocorrelation
Source: Data processed (2026)				

The classical assumption tests indicate that the regression model satisfies the main requirements for linear regression. The normality test shows a significance value above 0.05, indicating that the residuals are normally distributed. The tolerance values for all predictors are above 0.10, indicating that the model does not suffer from multicollinearity. The Glejser test shows that all significance values are above 0.05, suggesting that heteroscedasticity is not present. The Durbin-Watson value of 1.748 falls within the acceptable range of 1.5 to 2.5, indicating no serious autocorrelation.

Table 3. Hypothesis Testing

Variable	**Coefficient**	**t-statistic**	**Sig.**	**Expected Direction**	**Decision**
Constant	82.415	45.672	< 0.001	-	Significant
FD	8.936	2.487	0.014	Positive	Supported
CGI	-1.215	-2.136	0.034	Negative	Supported
FDxCGI	-1.842	-2.291	0.023	Negative	Supported
Adjusted R Square	0.118				
Durbin-Watson	1.861				
Source: Data processed (2026)					

The regression results show an adjusted R-square of 0.118, indicating that financial distress, Corporate Governance Index, and their interaction explain 11.8% of the variation in FRD. The Durbin-Watson value of 1.861 indicates no serious autocorrelation. The coefficient of FD is positive and significant, supporting H1. The coefficient of CGI is negative and significant, supporting H2. The interaction term FDxCGI is negative and significant, supporting H3.

DISCUSSION

Financial Distress and FRD

The regression results indicate that financial distress has a positive and significant effect on financial reporting delay. This finding means that firms classified as financially distressed tend to experience longer reporting delay than non-distressed firms. Since FRD is measured by the number of days between the fiscal year-end and the date of the independent auditor's report, a higher FRD value reflects a longer delay and lower financial reporting timeliness. Thus, the positive coefficient of financial distress supports the argument that financial difficulty delays the issuance of audited financial reports.

This result is consistent with audit risk theory. Financially distressed firms are generally associated with higher business risk, liquidity pressure, debt repayment uncertainty, declining profitability, and going concern concerns. These conditions increase auditors' assessment of client risk and require more extensive audit procedures before the audit report can be issued. In distressed firms, auditors may need to perform additional procedures related to going concern evaluation, debt covenant review, asset impairment testing, receivables collectability, revenue recognition, and the reasonableness of management estimates. These procedures increase audit effort and may extend the time required to complete the audit engagement.

The finding is in line with Choi and Park (2023), who provide evidence that financially distressed firms experience longer audit report lag because auditors consider client financial distress when performing external audits. Their study shows that auditors respond to distressed clients by increasing audit effort and focusing more carefully on client risk, which ultimately lengthens the audit completion process. This finding also supports Khamisah et al. (2021), who examine Indonesian listed firms and find that financial distress measured using Altman Z-Score significantly affects audit report lag. Their study explains that a lower Z-Score indicates a higher financial distress condition, which is associated with longer audit completion time.

The result is also consistent with recent Indonesian evidence showing that financial risk indicators remain relevant in explaining reporting delay. Endri et al. (2024), for example, examine determinants of audit report lag in Indonesia and show that firm-level financial and audit-related characteristics are important in explaining the speed of audited financial reporting. Similarly, Tantianty and Uzliawati (2023) report that financial distress is among the factors associated with audit report lag, although prior findings may vary depending on sample, sector, and measurement approach. These findings reinforce the view that financial distress does not merely reflect poor financial condition, but also creates additional audit complexity that can delay the completion of audited financial statements.

In the context of property and real estate companies, the positive effect of financial distress on FRD is particularly plausible. This sector is characterized by high asset intensity, long project cycles, substantial financing needs, and reliance on debt-funded development activities. When firms in this sector experience financial distress, auditors are likely to pay greater attention to the valuation of investment properties, construction progress, impairment of assets, recoverability of receivables, debt obligations, and going concern assumptions. These audit areas require professional judgment and additional audit evidence. As a result, financially distressed property and real estate firms may need more time to complete the audit process and issue audited financial reports.

This finding also has a signaling implication. Reporting delay among financially distressed firms may be interpreted by investors, creditors, and regulators as a signal of unresolved audit issues, weak internal reporting systems, or uncertainty regarding future operations. In capital markets, the delay of audited financial reports is important because delayed information reduces the relevance of accounting information for decision-making. Abernathy et al. (2018) emphasize that shorter audit report lag reflects better financial reporting timeliness, while longer lag indicates shorter reporting delay. Therefore, when financially distressed firms experience longer FRD, external users may perceive the delay as an additional indication of firm risk. The finding confirms that financial distress creates additional audit risk and reporting complexity, which may delay the availability of audited financial statements to external users. This suggests that financial condition is an important determinant of financial reporting delay, particularly in sectors with high asset complexity and financing dependence such as property and real estate.

Corporate Governance Index and FRD

The regression results show that the Corporate Governance Index has a negative and significant effect on financial reporting delay. This finding indicates that firms with stronger corporate governance experience shorter reporting delays. Since FRD is measured by the number of days between the fiscal year-end and the date of the independent auditor's report, a lower FRD value reflects higher financial reporting delay. Therefore, the negative coefficient of the Corporate Governance Index confirms that better governance quality contributes to faster issuance of audited financial reports.

This finding is supported by recent empirical evidence. Ghafran and Yasmin (2018) show that audit committee chair expertise is associated with financial reporting delay, particularly because experienced and monitoring-oriented audit committee chairs can contribute to a shorter audit report lag period. Kaaroud et al. (2020) also examine the association between governance mechanisms and audit report lag in Malaysian Islamic banking institutions, highlighting the relevance of governance mechanisms for compliance with financial reporting submission requirements. Similarly, Lajmi and Yab (2022) investigate internal corporate governance mechanisms in Tunisian listed companies and show that governance structures are relevant in explaining audit report lag. These studies support the view that governance mechanisms can improve the efficiency of the audit and reporting process.

The present finding is also relevant to the Indonesian governance environment. Indonesian listed companies operate under a two-tier board system, in which the board of directors is responsible for managing the company and the board of commissioners is responsible for supervision. In this context, governance quality can influence reporting delay through the effectiveness of supervisory boards and audit committees. Astami et al. (2024) provide recent evidence that family ownership and supervisory board characteristics influence audit report lag in Indonesia's two-tier board context. Their study confirms that board-level governance mechanisms matter for audit completion and reporting delay in Indonesian listed firms.

The use of a Corporate Governance Index further strengthens the interpretation of this result. Rather than relying on a single governance proxy, this study uses an index that captures broader governance dimensions, including shareholder rights, equitable treatment of shareholders, stakeholder roles, disclosure and transparency, and board responsibilities. This multidimensional approach is important because financial reporting delay is unlikely to be determined by one governance mechanism alone. Reporting delay is more likely to reflect the combined quality of monitoring, transparency, accountability, internal control, and board responsibility. Therefore, the negative and significant effect of the Corporate Governance Index suggests that comprehensive governance quality can reduce delays in audited financial reporting.

This result has practical meaning for property and real estate companies. The sector is associated with high asset intensity, long-term projects, debt financing, and complex accounting judgments. Such characteristics may increase reporting and audit complexity. Strong governance can help firms manage these complexities by ensuring better reporting discipline, clearer accountability, and more effective coordination among management, audit committees, boards, and external auditors. Therefore, stronger governance is not only a formal compliance requirement but also an operational mechanism that supports more timely financial reporting.

Moderating Role of Corporate Governance

The regression results show that the interaction between financial distress and Corporate Governance Index has a negative and significant effect on financial reporting delay. This finding indicates that corporate governance weakens the positive effect of financial distress on FRD. In operational terms, financial distress increases reporting delay, but the magnitude of this delay becomes smaller when firms have stronger corporate governance. Thus, corporate governance functions as a buffering mechanism that helps financially distressed firms reduce reporting delays and maintain better financial reporting timeliness.

This finding is theoretically meaningful because financial distress tends to increase both agency problems and audit risk. When firms experience financial distress, managers may face stronger pressure to conceal unfavorable information, delay bad news, or manage accounting estimates. Financial distress may also increase uncertainty related to going concern assumptions, debt obligations, asset recoverability, and future cash flows. These conditions can make the audit process more complex and lengthen the time required to issue audited financial statements. However, strong corporate governance can limit these risks by strengthening oversight, improving internal control, increasing transparency, and enhancing accountability in the reporting process.

From the perspective of agency theory, corporate governance weakens the delay effect of financial distress by reducing managerial discretion and opportunistic reporting behavior. Distressed firms with weak governance may have greater incentives to postpone the disclosure of financial difficulties or delay the preparation of audit evidence. In contrast, distressed firms with stronger governance are more likely to be monitored by active boards, competent audit committees, and transparent reporting systems. Such governance mechanisms can discipline management to resolve reporting issues more quickly and cooperate more effectively with external auditors. Therefore, governance quality reduces the likelihood that financial distress will translate into excessive reporting delay.

From the audit risk perspective, the moderating effect can be explained through the role of governance in reducing control risk. Financial distress increases inherent risk because it raises concerns about liquidity, solvency, going concern, and asset valuation. Nevertheless, strong governance may reduce control risk by ensuring that internal controls, documentation processes, and risk management systems remain effective. When auditors perceive that governance structures are reliable, they may be able to obtain audit evidence more efficiently and complete audit procedures within a shorter period. Thus, even when a firm is financially distressed, stronger governance can reduce the additional audit burden associated with financial distress.

This finding extends prior studies that separately examine financial distress and governance as determinants of reporting delay. Choi and Park (2023) show that financial distress is associated with longer audit report lag because auditors increase audit effort when client risk is high. Khamisah et al. (2021) also report that Altman Z-Score-based financial distress is relevant in explaining audit report lag in Indonesian listed firms. At the same time, prior governance studies show that audit committee expertise, internal governance mechanisms, and supervisory board characteristics are associated with reporting delay and financial reporting delay (Ghafran & Yasmin, 2018; Kaaroud et al., 2020; Lajmi & Yab, 2022; Astami et al., 2024). The present result integrates these two streams of literature by demonstrating that governance does not only directly reduce reporting delay but also weakens the adverse delay effect of financial distress.

The moderating effect is particularly relevant in the property and real estate sector. Financially distressed firms in this sector may face audit issues related to property valuation, construction progress, revenue recognition, impairment testing, receivables collectability, and debt obligations. These issues often require extensive professional judgment and supporting documentation. Strong governance can help mitigate these risks by ensuring that management maintains adequate documentation, discloses relevant information transparently, and responds promptly to auditor requests. Therefore, firms with stronger governance can better manage the reporting difficulties associated with financial distress.

This finding also provides an important signaling implication. Financial distress may send a negative signal to investors and creditors, especially when accompanied by delayed financial reporting. However, when distressed firms maintain strong governance, they may reduce the negative signal associated with reporting delay. Strong governance indicates that the firm has monitoring structures capable of maintaining reporting discipline even under financial pressure. Therefore, corporate governance helps preserve the credibility of financial reporting and reduces stakeholder uncertainty in distressed firms.

Overall, the finding supports the third hypothesis. Corporate Governance Index weakens the positive effect of financial distress on FRD, indicating that stronger governance reduces the extent to which financial distress delays audited financial reporting. This result highlights the importance of governance quality not only as a direct determinant of reporting delay but also as a risk-mitigating mechanism for financially distressed firms.

CONCLUSION

This study examines whether financial distress delays financial reporting and whether corporate governance moderates this relationship in Indonesian listed property and real estate companies. FRD is measured using audit report lag, where a higher value indicates longer reporting delay and lower financial reporting timeliness. The findings show that financial distress has a positive and significant effect on FRD, indicating that distressed firms are less timely in issuing audited reports. Corporate Governance Index has a negative and significant effect, indicating that stronger governance reduces reporting delay. The interaction between financial distress and Corporate Governance Index is also negative and significant, suggesting that governance weakens the delay effect of financial distress.

Theoretically, this study contributes to financial reporting delay literature by integrating financial distress and corporate governance into a moderation framework. The findings support audit risk theory by showing that financial distress increases reporting delay, and they support agency theory by showing that governance improves delay and mitigates the adverse consequences of financial distress.

Practically, the findings suggest that firms should strengthen governance mechanisms, internal control, audit committee effectiveness, and transparency practices to maintain timely audited reporting, especially during periods of financial pressure. Regulators should also emphasize the substantive implementation of governance practices rather than focusing only on formal disclosure.

This study has several limitations. FRD is measured using audit report lag, which captures the time to audit report issuance but not necessarily the date of public filing or stock exchange submission. Third, the Corporate Governance

Index is based on disclosure items and may not fully capture the substantive effectiveness of governance practices.

Future research may extend the sample to other sectors, use alternative measures of reporting delay, compare different financial distress models, and include additional explanatory variables such as firm size, profitability, leverage, audit opinion, auditor type, audit committee expertise, audit tenure, and operational complexity. Future studies may also examine specific governance dimensions separately to identify which governance mechanisms are most effective in reducing reporting delay.

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