

The Signaling Effect of Elite Connections: How Political-Military Networks Influence Financial Reporting Quality via Audit Mechanisms in Indonesia

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ABSTRACT

This study examines how political and military connections among corporate elites influence financial reporting quality in Indonesian manufacturing companies during 2022–2024. The research also investigates the mediating role of the audit process in the relationship between board connections and financial reporting quality. Using secondary data from publicly listed firms, we analyze political and military affiliations of board members, audit delays, and Beneish M-Scores as proxies for financial reporting quality. The study adopts a signaling theory framework to explain how elite networks and audit mechanisms may interact within corporate governance. By focusing on Indonesian manufacturing companies, this research provides context-specific evidence relevant to emerging markets and contributes to the understanding of elite governance structures and their potential influence on reporting practices.

Keywords — Political Connection, Military Connection, Audit Delay, Beneish M-Score.

INTRODUCTION

Indonesia's political and military landscape has undergone many changes since independence and has uniquely shaped Indonesia's corporate governance. For over four decades, the military held formal and informal power across political and economic institutions (Mietzner, 2009). During the New Order era, the Dwifungsi ABRI doctrine allowed the military to intervene in both defense and sociopolitical functions, creating an enduring legacy in the business environment even after the 1998 reforms.

The appointment of directors and commissioners with political and military connections in Indonesian companies reflects strategic considerations. The board of directors and commissioners are what is meant by "elite" in the context of Indonesia's corporate governance. Rather than relying solely on business expertise, firms often appoint former bureaucrats, military officers, and politicians to signal legitimacy and manage regulatory uncertainty (Harymawan, 2018). These connections are expected to facilitate access to public contracts, enhance compliance, and project stability to external stakeholders (Harianto, 2022).

The timeliness of financial reporting remains a persistent challenge in Indonesian capital markets. According to IDX data, 145 listed companies failed to submit their interim financial reports ending March 31, 2024, by the April 30 deadline (IDX.co.id, 2024). Notably, manufacturing companies comprised 25.5% of these delays (the highest among sectors). This reflects structural audit complexity in manufacturing, involving extensive supply chains, inventory, and cost accounting processes. Given its operational complexity and dominant share of audit delays, the manufacturing sector offers a compelling empirical context to study the interaction between elite connections and reporting mechanisms.

Signaling theory explains how companies with superior internal information use observable mechanisms to communicate credibility to external stakeholders. The timing of the audit is an important signal in this regard (Harahap, 2023). Elite-connected companies operate under high public

visibility. An elite network makes timely and transparent financial reporting essential to maintain stakeholder trust and valuable network relationships (Wahjono et al., 2023). Signals conveyed through accelerated audit completion demonstrate managerial competence, operational efficiency, and commitment to transparency. These attributes are essential for maintaining the political and military connections that form the foundation of competitive advantage. In emerging markets, where information asymmetry is pronounced, signaling mechanisms play an increasingly important role in sustaining institutional trust (Sudirman et al., 2024).

Empirical research on elite connections and the quality of financial reporting presents diverse findings across various institutional contexts. Studies in developed markets generally support the agency's perspective. In these markets, political connections increase audit costs and delay reporting due to increased oversight and complexity (Wati et al., 2020). However, emerging market research reveals a different pattern. Habib and Muhammadi (2018) found that political connections reduced the delay in audit reports in Indonesia which supports the signaling perspective. Instead, Sumual and Karundeng (2022) found that political connections were associated with longer audit delays due to top management interference, while military connections had no significant impact on audit delay. Military connections are still poorly researched, with limited evidence on their impact on the financial reporting process. This literature gap is seen in a context where military and political networks coexist in corporate governance structures, as observed in Indonesia.

This study contributes to the literature by separately analyzing political and military board affiliations, investigating audit delay as a mediating mechanism, and using the Beneish M-Score as a proxy for financial reporting quality. By focusing on Indonesian manufacturing companies, this research highlights how elite governance structures operate in complex and highly scrutinized environments, providing context-specific evidence relevant to other emerging markets.

LITERATURE REVIEW

Signal theory describes how companies with superior information communicate their quality to external stakeholders (Certo, 2003; Naveed & Ali, 2020). This theory assumes the existence of information asymmetry between management and outside parties. Companies use observable signals to convey unobservable quality. Effective signals should be high-cost and difficult for low-quality companies to replicate. In financial reporting, the timing and quality of disclosure serve as important signals about the company's quality. Timely reporting demonstrates managerial competence, operational efficiency, and a commitment to transparency. In emerging markets like Indonesia, signaling mechanisms are becoming important due to greater information asymmetry and institutional trust that requires sustained strengthening (Harahap, 2023). In settings where political and military connections draw public attention, firms may be especially incentivized to adopt signaling strategies to preempt scrutiny and preserve legitimacy (Wahjono et al., 2023).

The quality of financial reporting reflects the extent to which financial statements provide accurate, relevant, and reliable information. Beneish M-Score is a model developed by Beneish (1999) to detect profit manipulation using eight financial ratios, namely: Days Sales in Receivables (DSRI), Gross Margin (GMI), Asset Quality (AQI), Sales Growth (SGI), Depreciation (DEPI), Sales General Administrative Expenses (SGAI), Leverage (LVGI), and Total Accruals to Total Assets (TATA). Companies with an M-Score of > -2.22 are categorized as manipulators, while those with an M-Score of < -2.22 are categorized as non-manipulators. From a signals perspective, companies with low

Beneish M-Scores consistently demonstrate their commitment to transparency and good governance practices (Stoykova, 2025; Tasik et al., 2023).

Audit delay is the time required between the end of the fiscal year and the issuance of the auditor's report (Y. Wicaksono et al., 2023). Factors that affect audit delays include the company's size, the complexity of operations, the financial health, and the auditor's characteristics (Harahap, 2023; Zannah et al., 2024). From a signal theory perspective, audit delays are an important signal about the company's quality and management competence (Harahap, 2023). Companies that consistently complete audits quickly demonstrate efficient internal reporting systems, strong internal controls, and the absence of significant accounting issues (Irman et al., 2020; Zannah et al., 2024). Conversely, a long audit delay can indicate operational issues or an attempt at information manipulation (Manaf et al., 2023; Wicaksono et al., 2024).

Political connections refer to formal or informal relationships between a company and political figures or government institutions (Habib & Muhammadi, 2018; Harianto, 2022). The literature presents two perspectives: a resource-based view that sees political connections as valuable, and an agency view that worries about rent-seeking behavior. From a signal theory perspective, the impact of political connections on corporate signaling depends on the institutional context and stakeholder expectations. In Indonesia, companies with political connections face intense public scrutiny, so they have a strong incentive to demonstrate a commitment to transparency through quality financial reporting.

Military connections in corporate governance are a unique phenomenon in Indonesia. The military background brings a distinctive leadership style, organizational skills, and a disciplinary approach (Mietzner, 2009; Rahayu & Novarina, 2024; Sumual & Karundeng, 2022). Military training emphasizes hierarchy, discipline, rule compliance, and strategic thinking. From a signal perspective, military connections can convey different messages to stakeholders. A military background demonstrates discipline, reliability, and strong leadership abilities for some stakeholders. In Indonesia, military connections in corporate governance have historical precedents that must be understood in specific institutional and cultural contexts.

Political connections represent a form of elite network that may influence how companies manage the audit process. Prior studies show diverse findings in different contexts. Habib dan Muhammadi (2018) examined Indonesian firms and found that political connections are associated with variations in audit completion times due to regulatory visibility and governance structures. Cohen and Leventis (2013) reported that political affiliations in Greek firms were related to differences in audit timeliness. These studies indicate that political connections may play a role in shaping audit processes, but the direction and magnitude of the impact remain context dependent.

H1: Political connections influence audit delays

Military affiliations among board members may affect audit delays through organizational culture and leadership practices. Individuals with military backgrounds often emphasize discipline, structure, and procedural compliance. Elite networks, including military affiliations, can shape decision-making efficiency and corporate oversight mechanisms. In the Indonesian context, where military and political connections often coexist, some recent studies suggest potential effects on audit outcomes. Sumual and Karundeng (2022) found that while political connections were associated with audit delays, military connections did not cause delays possibly due to a stronger adherence to rules and timely reporting. Companies with military directors paid lower audit fees, indicating auditors perceived these

firms as lower risk, likely due to disciplined management and better internal controls (Harymawan et al., 2023). These findings suggest that military backgrounds may contribute positively to audit processes, although further empirical research is needed to generalize this relationship across different sectors and firm types in Indonesia.

H2: Military connections influence audit delays

Audit delay reflects the time between the fiscal year-end and the issuance of the auditor's report and is often considered an indicator of reporting effectiveness. Efriyenty (2021) found that audit delay is significantly influenced by factors such as financial distress and the size of the audit firm, which suggests that delays may reflect both operational risk and auditor workload. Furthermore, Tomy et al. (2022) showed that audit delays can also be associated with financial reporting fraud, especially when accompanied by auditor switching, indicating that extended delays may reduce the credibility of reported financial information. These empirical results suggest that audit delays are related to reporting quality, but the nature of this relationship depends on institutional and operational contexts.

H3: Audit delay affects financial reporting quality

Political connections may influence corporate reporting policies through strategic oversight and governance mechanisms. In Indonesia, Wati et al. (2020) found that politically connected firms tend to have lower financial reporting quality, as political ties may weaken governance and reduce disclosure integrity. Conversely, Harianto (2022) showed that political connections can improve board efficiency, stakeholder relationships, and governance quality, indicating potential positive effects depending on institutional settings. These mixed findings suggest that the relationship between political ties and reporting quality is context-dependent, varying across governance environments.

H4: Political connections affect financial reporting quality

Military connections in corporate governance may affect financial reporting quality through leadership style, organizational control, and ethical considerations. Evidence from emerging markets, however, remains limited. In Indonesia, military connections within boards could weaken governance effectiveness, particularly in relation to tax avoidance (Wahab et al., 2024), suggesting implications for reporting credibility. Similarly, a study in Economics and Environment reported that while political connections enhanced sustainability reporting credibility, military affiliations reduced it, indicating potential risks for disclosure quality (Endiana et al., 2025). These findings highlight the need for further research to determine whether military backgrounds consistently improve or impair financial reporting quality in Indonesia.

H5: Military connections affect financial reporting quality

METHODOLOGY

This study employs a quantitative approach to examine the causal relationships between political-military connections, audit delay, and financial reporting quality in Indonesian manufacturing companies. The research utilizes secondary data from annual reports of publicly listed firms to test the proposed hypotheses based on signaling theory. The population comprises all manufacturing companies listed on the Indonesia Stock Exchange from 2022 to 2024. The manufacturing sector was selected due to its operational complexity and the highest proportion of audit delay sanctions according to OJK data. Recent evidence from 2024 further supports this choice, as manufacturing companies represented 25.5% of the 145 listed companies that failed to meet interim financial reporting deadlines,

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making it the sector most affected by reporting delays. Using purposive sampling, companies were selected based on specific criteria: (1) consistently listed during 2022-2024 with a December 31 fiscal year-end, (2) published complete audited annual reports, (3) having at least one board member with political or military connections, and (4) complete financial data for the Beneish M-Score calculation. The final sample comprises 73 companies with 219 firm-year observations. Data were collected from multiple sources, including company annual reports through the BEI website, official company websites for board member profiles, online media databases for political-military background verification, and independent auditor reports for audit completion dates.

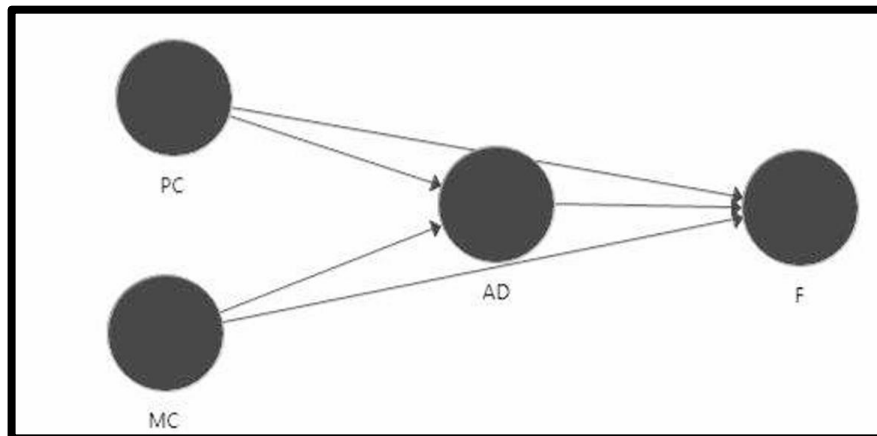
TABLE 1.

VARIABLE OPERATIONAL DEFINITION

VARIABLE	DEFINITION	MEASUREMENT
Political Connections (PC)	Proportion of the board of directors and commissioners who have a political background or relationship with political figures	(Number of politically connected councils / Total councils) based on Faccio's (2010) criteria)
Military Connections (MC)	Proportion of the board of directors and commissioners who have a military background or ties to military institutions	(Number of military-connected councils / Total councils)
Audit Delay (AD)	The length of audit completion time from the closing date to the date of the auditor's report	Number of days between December 31 and the date of the auditor's report
Quality of Financial Reporting (F)	Indications of manipulation of financial statements using the Beneish M-Score	M-Score = $-4.84 + 0.92 \times \text{DSRI} + 0.528 \times \text{GMI} + 0.404 \times \text{AQI} + 0.892 \times \text{SGI} + 0.115 \times \text{DEPI} - 0.172 \times \text{SGAI} + 4.697 \times \text{TATA} - 0.327 \times \text{LVGI}$

FIGURE 1

RESEARCH MODEL



Research Equations:

$$AD = \beta_0 + \beta_1 PC + \beta_2 MC + \varepsilon_1 \quad (1)$$

$$F = \beta_0 + \beta_1 PC + \beta_2 MC + \beta_3 AD + \varepsilon_2 \quad (2)$$

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AD: Audit Delay

PC: Political Connection

MC: Military Connection

F: Financial Report Quality

RESULTS

Table 1 presents descriptive statistics for the main variables across 219 firm-year observations from Indonesian manufacturing companies during 2022-2024.

TABLE 1.

DESCRIPTIVE STATISTICS

VARIABLES	MEAN	STD. DEV.	MIN	MAX
Political Connection (PC)	0.089	0.104	0	0.5
Military Connection (MC)	0.065	0.087	0	0.5
Audit Delay (AD)	78.441	36.677	22	353
Financial Reporting Quality (F)	-2.381	1.448	-9.73	2.59

The descriptive analysis reveals that political connections average 8.9% of board composition, while military connections represent 6.5%. This result demonstrates Indonesia's unique corporate governance structure, where military personnel participate alongside political figures in corporate leadership. Audit delay averages 78.4 days, remaining within the 90-day regulatory requirement, though substantial variation exists ($SD = 36.677$). The Beneish M-Score mean of -2.381 falls below the -2.22 manipulation threshold, indicating generally high financial reporting quality among sample firms.

Table 2 examines correlations between variables to assess preliminary relationships and potential multicollinearity concerns.

TABLE 2.

PEARSON CORRELATION MATRIX

VARIABLES	PC	MC	AD	F	VIF
Political Connection (PC)	1				1.108
Military Connection (MC)	0.312**	1			1.108
Audit Delay (AD)	-0.285**	-0.098	1		1.089
Financial Reporting Quality (F)	-0.034	-0.052	-0.201*	1	-

**Note: * $p < 0.05$; $p < 0.01$; VIF = Variance Inflation Factor

The correlation matrix indicates a moderate positive correlation between political and military connections ($r = 0.312$), suggesting companies often combine both elite network types. Political connections correlate negatively with audit delay ($r = -0.285$), while military connections show a weaker association ($r = -0.098$). All VIF values remain below 2.0, indicating the absence of

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problematic multicollinearity. The correlation patterns support the theoretical expectation that elite connections influence audit processes differentially.

The first regression equation examines how political and military connections influence audit delay:

$$AD = \beta_0 + \beta_1 PC + \beta_2 MC + \varepsilon_1$$

TABLE 3.

REGRESSION RESULTS - AUDIT DELAY MODEL

Variable	Coefficient t	t-statistic	p-value
Constant	82.156	15.247	0
Political Connection (PC)	-108.42	-3.257	0.001
Military Connection (MC)	-20.235	-1.071	0.286

Note: $R^2 = 0.097$, Adjusted $R^2 = 0.080$, $F = 5.823$ ($p = 0.004$)

The second regression incorporates audit delay alongside elite connections:

$$F = \beta_0 + \beta_1 PC + \beta_2 MC + \beta_3 AD + \varepsilon_2$$

TABLE 4.

REGRESSION RESULTS - FINANCIAL REPORTING QUALITY MODEL

Variable	Coefficient	t-statistic	p-value
Constant	-1.845	-5.124	0
Political Connection (PC)	-0.142	-0.748	0.454
Military Connection (MC)	-0.267	-0.807	0.42
Audit Delay (AD)	-0.007	-2.545	0.011

Note: $R^2 = 0.033$, Adjusted $R^2 = 0.006$, $F = 1.220$ ($p = 0.307$)

TABLE 5

HYPOTHESIS TESTING RESULTS

Hypothesis	Path	Parameter Coefficient	P Values	Result
H1	PC → AD	-0.308	0.001	Supported
H2	MC → AD	-0.048	0.286	Not Supported
H3	AD → F	-0.177	0.011	Supported
H4	PC → F	0.01	0.454	Not Supported
H5	MC → F	0.016	0.42	Not Supported

DISCUSSION

The empirical evidence strongly supports H1, revealing that An increase of 10 percentage points in the proportion of politically connected board members is associated with a reduction of approximately 10.8 days in audit delay. This finding aligns with signaling theory, where politically

connected firms face heightened public scrutiny and must demonstrate transparency through timely reporting (Harahap, 2023). The statistical significance ($p = 0.001$) provides robust evidence that political networks create institutional pressures for accelerated audit completion. A company moving from no political connections to 10% political connections would reduce audit delay by approximately 11 days, representing significant operational efficiency gains. Thus, H1 is Supported (Habib & Muhammadi, 2018; Sumual & Karundeng, 2022).

Contrary to expectations, military connections do not significantly influence audit delay ($p = 0.286$). While the coefficient direction suggests a potential negative association, the lack of statistical significance indicates that military discipline and organizational efficiency do not translate into faster audit processes. Our finding challenges assumptions about military leadership effectiveness in corporate settings, suggesting that disciplinary culture alone cannot drive audit efficiency. The Indonesian context may reflect that military connections serve different strategic purposes unrelated to operational efficiency. Consequently, H2 is not supported (Sumual & Karundeng, 2022).

The significant negative relationship ($\beta = -0.007$, $p = 0.011$) supports H3, indicating that longer audit delays are associated with higher financial reporting quality (lower Beneish M-Scores). This counterintuitive finding suggests that companies investing more time in audit processes achieve superior reporting standards. Each additional audit day reduces manipulation probability by 0.007 Beneish units, supporting the signaling value of thorough audit procedures. This evidence contradicts conventional wisdom that audit delays signal problems, suggesting they reflect commitment to quality assurance. Hence, H3 is supported (Inneh et al., 2022).

Neither political ($p = 0.454$) nor military connections ($p = 0.420$) directly influence financial reporting quality. These non-significant relationships suggest that elite networks do not automatically translate into superior reporting standards through direct mechanisms. Similar results have been observed in Indonesia, where political ties tend to weaken reporting quality (Wati et al., 2020) and military affiliations reduce credibility in sustainability reporting (Endiana et al., 2025; Wahab et al., 2024). The findings therefore indicate that quality improvements from elite connections may operate only indirectly through audit processes.

Although the findings of H1 and H3 may appear contradictory at first glance, they in fact highlight two distinct yet complementary mechanisms at play. On one hand, politically connected firms tend to accelerate audit completion, using timeliness as a strategic signal to demonstrate transparency and operational control under heightened stakeholder scrutiny (Harahap, 2023). On the other hand, the analysis in H3 shows that longer audit durations are statistically associated with lower Beneish M-Scores, which indicates higher reporting quality (Inneh et al., 2022). This apparent tension reflects a gap between managerial signaling intent and audit-driven quality outcomes. While elite-connected boards may push for faster audits to protect their legitimacy, audit quality is ultimately influenced by the depth and rigor of the audit process itself. Therefore, a shorter audit period may serve reputational goals, but a longer audit process may still yield better substantive outcomes in terms of reduced manipulation. This duality suggests that signaling and assurance mechanisms operate independently. It also calls for a nuanced interpretation of audit timeliness, where rapid reporting does not always equate to higher quality, and longer delays do not necessarily reflect inefficiency or opacity.

Military connections confirm their limited role in financial reporting processes. The absence of direct and indirect effects indicates that military networks operate through different mechanisms unrelated to financial transparency or audit efficiency.

Political connections function as signaling devices where firms demonstrate competence through accelerated audit completion, subsequently enhancing reporting credibility. The mediation pattern supports signaling theory's emphasis on observable actions as credible quality indicators. The results

challenge assumptions about military leadership effectiveness in corporate governance, suggesting that disciplinary culture does not automatically translate into operational advantages. This finding contributes to understanding the heterogeneous effects of different elite network types in emerging market contexts. These findings enrich signaling theory by distinguishing between signal intent and audit substance. In emerging markets, political connections may shape external perceptions through accelerated audit timing, while financial reporting quality may depend more heavily on the intensity of auditor engagement rather than managerial affiliations.

For corporate governance, the results suggest that political connections can enhance operational efficiency when properly channeled through audit processes. Companies should recognize that the value of political networks lies not in direct governance improvements but in creating institutional pressures for timely performance. The mediation pattern indicates that audit timing is critical for translating elite influence into stakeholder benefits. Regulators should consider that longer audit delays may signal quality enhancement rather than operational problems, challenging current penalty structures prioritizing speed over thoroughness. The findings suggest that optimal regulatory frameworks should balance timeliness requirements with quality incentives.

Investors should evaluate politically connected firms differently, recognizing that such connections can drive operational efficiency through signaling mechanisms. The indirect effects suggest that political networks create value through process improvements rather than preferential treatment. Military connections appear less relevant for financial performance evaluation, indicating that investors should focus on political rather than military elite networks when assessing Indonesian manufacturing firms.

CONCLUSION

This study examines how political and military connections influence financial reporting quality through audit delay mechanisms in Indonesian manufacturing companies. The findings reveal that political connections significantly reduce audit delay and indirectly enhance financial reporting quality through faster completion. Longer audit delays are associated with better financial reporting quality, suggesting that thorough audit processes signal quality assurance rather than operational problems. Military connections show no significant effects on either audit timing or reporting quality, challenging assumptions about military leadership effectiveness in corporate settings.

The results advance signaling theory by demonstrating that elite connections operate through specific institutional mechanisms rather than direct governance improvements. Political connections create accountability pressures that drive operational efficiency, while audit timing is a credible quality signal to stakeholders. Corporate boards should recognize that political connections create value through signaling mechanisms rather than preferential treatment. Regulators should consider quality-adjusted penalty structures that balance audit timeliness with thoroughness, as more extended audit periods may indicate commitment to quality rather than operational deficiencies. Investors should evaluate politically connected firms as potentially more operationally efficient due to signaling pressures, providing a framework for more nuanced investment analysis in emerging markets.

This study has limitations, including the focus on Indonesian manufacturing companies and the three-year timeframe, constraining generalizability across sectors and countries. Future research should examine cross-sector variations in elite network signaling effects and investigate how political connections create accountability pressures. The findings challenge conventional assumptions about elite connections in emerging markets, suggesting that political networks can enhance corporate transparency through signaling channels when properly understood and channeled through appropriate institutional mechanisms.

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