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Research Article

The Effect of Audit Committee Effectiveness and Auditor Industry Specialization on Audit Report Lag

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Abstract: *The purpose of this research is to investigate the effect of audit committee effectiveness and auditor industry specialization on audit report lag. In this study, the population consists of companies that are listed on the LQ45 index on the Indonesia Stock Exchange in 2017-2021. The data was collected using the purposive sample method with predetermined requirements, and the research lasted five years. The data was processed using the Eviews 12 application program. Audit committee efficiency has a negative and substantial influence on audit report lag, based on the results of this study. In contrast, the varied expertise of the auditor industry has an important and beneficial impact on audit report lag.*

Keywords: *Audit Committee Effectiveness, Auditor Industry Specialization, Audit Report Lag and Indonesia Stock Exchange.*

I. INTRODUCTION

According to PSAK (2021), accounting records are a systematic portrayal of an entity's financial condition and financial performance. Alkhatib and Marji (2012) argue that the most trustworthy source is audited financial accounts and sources of accounting information for external parties. Financial information is considered relevant if it has qualities that can influence the economic decisions of stakeholders (Rusmin, Evans. 2017). At the end of the fiscal year, financial information included in the year-end report must be delivered in a timely manner so that it is considered relevant and valuable (Al-Ajmi, 2008; Alkhatib and Marji, 2012). Therefore, timely and accurate presentation of financial reports will be very beneficial for the company.

Annual financial reports have been inspected by a licensed public accountant with the Financial Services Authority and submitted by all public companies listed on the Indonesia Stock Exchange (IDX). The Publication of the Financial Services Authority Regulation (OJK) Number 14/POJK.04/2022 which specified that the yearly accounting records must be reported to the Financial Services Authority and made publicly not later before the end of the third month or 90 days after the date of the last statement of accounts or the end of the fiscal year.

These regulations are not enough to make the company submit financial reports in a timely manner. The Indonesia Stock Exchange (IDX) still finds delays in financial reporting by public companies. Based on company records listed on the LQ45 index during the 2017-2021 period. In 2018, PT. Telkom Indonesia published a report on April 29. In 2019, 3 companies were late in completing their audits, namely PT. Surya Citra Media recently published a report on April 9, PT. Waskita Karya published the report on April 21, and PT. Telkom Indonesia published on May 25. In 2020, there is PT. Perusahaan Gas Negara Tbk, which published its report on April 8, as well as PT. Surya Citra Media which published its report on May 27.

Saputri (2021) defines audit report lag as the time it takes to complete the audit work until the date the company's audit report is published, which is measured based on the number of days it takes to obtain an independent auditor's report, starting from the closing of the company's books, namely as of December 31 to the date stated in the independent auditor's report. The causes of lag in the publication of audit reports consist of internal factors from the company itself as well as external factors from auditors and regulators. Audit committee efficiency and auditor specialization in the industry are components that impact audit report latency in this study.

The effectiveness of the audit committee is one of the factors that causes audit report lag. The effectiveness of the audit committee is used to categorize how diligently the committee carries out its responsibilities. The majority of studies use the number (frequency) of audit committee meetings as a proxy for measuring audit committee effectiveness. Saputra and Wardhani, (2017) state that the effectiveness of the audit committee can be seen from the activity, size, and competence of the audit committee..

Auditor industry specialization is defined as an auditor who has expertise or knowledge of the client's industrial sector specifically (Syura, 2018). In certain situations, the auditor sometimes has difficulty obtaining audit evidence to support the audit opinion given, so the special knowledge that the auditor has regarding a company's industry is the main thing that needs to be negotiated by the company when selecting an auditor (Arumningtyas and Ramadhan, 2019; Setiawan and Iskak Djamaludin). Auditors with certain industry specialities are stated to have more in-depth capabilities in that industry so that the audit process carried out is of better quality compared to auditors who do not have industry specialization (Khairunnisa and Syafruddin, 2021).

There are still contradictions in the findings of prior investigations; research related to audit committee effectiveness and auditor industry specialization has been carried out by several previous studies, including Daulay and Serly (2020), stating that auditor switching has a positive effect on audit report lag. As well as research conducted by Puspitasari and Sudjiman (2022) states that auditor switching does not affect audit report lag.

According to Ariningtyastuti and Rohman (2021), the efficiency of audit committees has a negative impact on audit report lag. According to Yogiputra and Syafruddin (2021) and Putri and Rohman (2022), the auditor industry's speciality has a detrimental effect on the audit report lag. According to Pradipta and Zalukhu's (2020) research, the auditor industry's speciality has an advantageous impact on audit report latency. According to Makhabati and Adiwibowo (2019), the auditor industry's speciality has a detrimental impact on audit report latency.

II. LITERATURE REVIEW

A) Agency Theory

Agency theory is the relationship between the owner (principal) and management (agent). The owner is the party authorized to give a mandate to the principal to take action on the proprietor's behalf. At the same time, the representative is the party authorized to manage the company and make decisions on behalf of the investor. Thus, the concept of agency is utilized to understand the connection between shareholders and owners (principals) who have the authority to make decisions with management (agents) who manage company assets and prepare financial reports. Because to achieve company goals, principals entrust authority and responsibility to agents to run the company and make choices or decisions that are expected to help achieve these goals. Agency conflict will occur when the principal and agent want to obtain their respective interests, resulting in differences of opinion and information asymmetry between agents and principals (Jensen and Meckling, 1976). An independent third party is needed to check the obligations that have been carried out by management and overcome problems that develop between the principal and the agent.

B) Audit Report Lag

Audit report lag happens because auditors spend a lot of time auditing the company's financial statements. All companies try to minimize delays in audit reports because they directly affect the frequency with which financial reports are published to increase market efficiency (Krisyadi and Noviyanti, 2022). Submission of audited financial reports in a timely manner can prevent information asymmetry because principals can receive information in a timely manner (Zebriyanti and Subardjo, 2016).

C) Audit Committee Effectiveness

The audit committee plays a significant role in helping companies improve the quality of financial reporting. The composition of the audit committee, the authority possessed, and the resources and expertise possessed by the audit committee can be a measure of the effectiveness of the audit committee in a company. Nor, Mohamad et al. (2010) successfully provide evidence that audit committee size negatively affects audit report lag. The results of this study are supported by research by Oussii and Taktak (2018) and Abdillah et al. (2019), which explain that the effectiveness of the audit committee has a negative effect on audit report lag. In this research, the audit committee effectiveness is measured by the audit committee effectiveness index. Hypothesis H2 can be constructed based on the theoretical foundation, framework, and research findings discussed above:

H1: The audit committee's effectiveness has a significant negative effect on Audit Report Lag.

Table 1: Audit Committee Effectiveness Index

Dimensions	Measurement Proxies	Value
Composition	*a. Independent* All members are independent external parties *b. Expertise* There is at least 1 member who has an educational background in accounting and finance	1 : If it meets the criteria 0: Does not meet the criteria
Resources	*c. Size of the audit committee*	1 : If it meets the criteria

Dimensions	Measurement Proxies	Value
	The minimum number of audit committees is 3	0: Does not meet the criteria
Authority	*d. Audit Committee Charter* The audit committee report relates to the audit committee charter, duties and responsibilities: • Overseeing the company's financial information • Supervise the activities of the external auditors • Controlling the effectiveness of the company's internal controls • Monitor the company's compliance with regulations	2: If it is described in detail 1: Briefly explained 0: Not explained at all
Compliance	*e. Meetings* The intensity of meetings is at least four times a year.	1 : If it meets the criteria 0: Does not meet the criteria

Table of index audit committee effectiveness.

D) Auditor Industry Specialization

Dao and Pham (2014), an inspector's ability and expertise are defined as auditor industry specialization regarding the characteristics of an industry. Companies are advised to choose auditors with certain industry specializations in order to minimize audit report lag. Auditor industry speciality can assist KAP in improving its ability to reduce audit time while positioning accounting companies as suppliers of timely financial information (Dao, 2013). The relation with agency theory is that a specialized auditor as an independent party must have special expertise in the industry so that it does not take a long time to carry out the financial statement audit process and is more capable of detecting the effects of delays in the release of financial statements, thereby minimizing the occurrence of information gaps (Raya and Laksito, 2020). Hypothesis H3 can be constructed based on the theoretical foundation, framework, and research findings discussed above:

H2: Auditor industry specialization has a significant positive effect on Audit Report Lag

This study employs quantitative approaches to examine research challenges. The data utilized for this research include the financial statements and annual reports of LQ45 firms that are published on the Indonesia Stock Exchange (IDX) and can be accessible via the official IDX website (www.idx.co.id) in addition to the official web page of every business registered between 2017 and 2021. This study employed a purposive sampling strategy with preset criteria. The data used 26 companies, with the research lasting five years; the total sample size is 130 annual financial reports. The descriptive statistical analysis, classical assumption test, model goodness-of-fit test, and multiple linear regression analysis were performed using Eviews version 12 software. The operational variables utilized after identifying the problem to be studied and developing the model are as follows:

Table 2: Operational Variables

Variables	Operational definition	Measurement
Audit Report Lag	The length of time between the end of the industrial fiscal year and the audit reporting date is measured by calculating the total days.	***ARL*** *= Date of Audit Report - Date of closing the company's books* (Oradi,2021)
Audit Committee Effectiveness	*A committee constituted by and responsible for supporting the Board of Commissioners in carrying out its duties and activities.*	**ACEFEC**: Measured by the audit committee effectiveness index with six as a total score. (Abdillah & Mardijuwono, 2019)
Auditor Industry Specialization	Third-party pressure on management	**SPEC** : $\frac{\text{Jumlah Klien KAP dalam Industri}}{\text{Jumlah Seluruh Emiten dalam Industri}} \times 100\%$ For industry specialization auditors are given a code of 1, while non-industrial specialization auditors are given a code of 0 with a market share >10% as specialization auditors and <10% as non-specialized. (Putri & Januarti, 2014)

III. RESULTS AND DISCUSSION

Based on data collection results, there are 26 companies as a sample, with research being conducted for five years; the total sample size is 130 companies. The obtained data is subsequently processed in a series of processes. Descriptive statistics, classical assumption tests, and hypothesis testing were employed in the analysis.

Auditor Switching (AS), Audit Committee Effectiveness (ACEFEC), and Auditor Industry Specialization (SPEC) serve as independent variables, with Audit Report Lag (ARL) serving as the dependent variable. The descriptive analysis of the research variables using Eviews 12 yielded the following results:

A) Statistical Descriptive Analysis

Table 3: Descriptive Statistics

	ARL	ACEFEC	SPEC
Mean	60.13077	5.492308	0.384615
Median	59.00000	5.500000	0.000000
Maximum	108.0000	6.000000	1.000000
Minimum	15.00000	4.000000	0.000000
Std. Dev.	20.75602	0.517090	0.488386
Skewness	-0.231396	-0.138120	0.474342
Kurtosis	2.305524	1.424573	1.225000
Jarque-Bera	3.772569	13.85734	21.94089
Probability	0.151634	0.000979	0.000017
Sum	7817.000	714.0000	50.00000
Sum Sq. Dev.	55574.78	34.49231	30.76923
Observations	130	130	130

Source: *Processed secondary data from Eviews 12 (2023)*

According to Table 3. It is known that there are 130 data samples. The audit report lag (Y) shows a maximum value of 108 owned by Jasa Marga (Persero) Tbk and a minimum value of 15 owned by Bank Negara Indonesia Tbk in 2017. Overall, a mean of 60.13077 was obtained with a standard deviation of 20,75602. The average value that is greater than the standard deviation indicates a small distribution of data variables; there is no significant gap between the lowest and highest percentages of the Y variable.

In the Audit committee effectiveness, there is a maximum value of 6 and a minimum value of 4. Overall, a mean of 5.492308 was obtained with a standard deviation of 0.517090. This shows that the distribution of data variables is small; there is no significant gap in the percentage of the audit committee effectiveness variable. The auditor industry specialization variable shows a mean value of 0.392308 with a standard deviation of 0.490153. This means that 49% of companies use non-specialist auditors.

B) Classical Assumption Tests

a. Normality Test

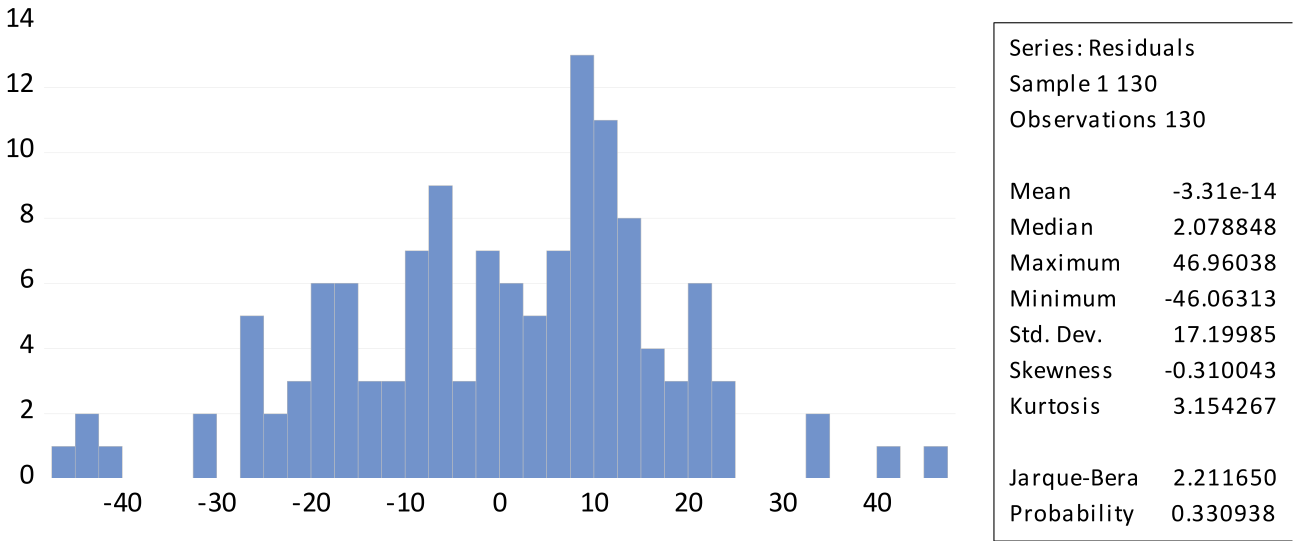

Figure 1: Results of the Normality Test

According to Figure 1, the probability value is more than the threshold for significance level, or 0.330938 > 0.05, implying that the data in the present research are regularly distributed or appropriate to be used since they meet the normality assumption.

b. Multicollinearity Test

Table 4: Results of the Multicollinearity Test

Variance Inflation Factors			
Sample: 1 130			
Included observations: 130			
	Coefficient	**Uncentered**	**Centered**
Variable	**Variance**	**VIF**	**VIF**
C	98.10135	123.5760	NA
ACEFEC	3.086798	118.3260	1.031683
SPEC	3.457299	1.675030	1.030788

Source: *Processed secondary data from Eviews 12 (2023)*

It can be inferred from the multicollinearity test outcomes shown in Table 4 above which there's neither multicollinearity nor a correlation among the independent variables in this regression model because the multicollinearity test results don't indicate a Centered VIF value that exceeds 0.90.

c. Heteroscedasticity Test

Table 5: Results of the Heteroscedasticity Test

Heteroskedasticity Test: White			
F-statistic	1.136266	Prob. F(7,122)	0.3450
Obs*R-squared	7.956685	Prob. Chi-Square(7)	0.3364
Scaled explained SS	8.051115	Prob. Chi-Square(7)	0.3281

Source: *Processed secondary data from Eviews 12 (2023).*

The heteroscedasticity test utilizing the white test yielded a probability value of 0.3364, which is higher than the heteroscedasticity test's significant value, or 0.3364 > 0.05, as can be observed based on the outcomes shown in Table 5 above. Therefore, it can be concluded that the data in this test did not contain symptoms of heteroscedasticity or the occurrence of homoscedasticity.

d. Autocorrelation Test

Table 6: Results of the Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.749880	Prob. F(10,116)	0.0778
Obs*R-squared	17.04018	Prob. Chi-Square(10)	0.0735

Source: *Processed secondary data from 12 (2023)*

Based on the results of the autocorrelation test output in Table 6 above, a probability value of 0.0735 is obtained, which is greater than 0.05, or 0.0735 > 0.05. Thus, it can be said that there are no indications of autocorrelation in the study's data.

C) Multiple Linear Regression Analysis

Table 7: Results of Regression Analysis

Dependent Variable: ARL				
Method: Least Squares				
Sample: 1 130				
Included observations: 130				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	159.6352	16.96796	9.408038	0.0000
ACEFEC	-18.88153	3.009860	-6.273226	0.0000
SPEC	9.835556	3.185376	3.087722	0.0025
R-squared	0.313309	Mean dependent var		60.13077
Adjusted R-squared	0.296959	S.D. dependent var		20.75602
S.E. of regression	17.40341	Akaike info criterion		8.581495
Sum squared resid	38162.71	Schwarz criterion		8.669727

Log-likelihood	-553.7972	Hannan-Quinn criter.	8.617347
F-statistic	19.16286	Durbin-Watson stat	0.798953
Prob(F-statistic)	0.000000		

Source: *Processed secondary data from Eviews 12 (2023)*

According to Table 7., it is possible to deduce that the regression equation in this study is as follows:

$$\textbf{ARL = 159.6352 – 18.88153 ACEFEC + 9.835556 SPEC + } \boldsymbol{\mu}$$

Based on the regression equation above, it can be explained as follows:

- The constant value is 159.6352, which means that if the independent variables, namely auditor turnover, audit committee effectiveness, and auditor industry specialization, are considered constant, then the audit report lag will increase by 159.6352
- The audit committee's coefficient of effectiveness is -18.88153, meaning that if all other factors remain constant, the audit report lag will reduce by 18.88153 for each 1% rise in the auditing committee's efficiency.
- The coefficient value of the auditor industry specialization is 9.835556, which means that for every one percent increase in the auditor industry specialization variable, the audit report lag will increase by 9.835556, assuming other variables are considered constant or constant.

D. Hypothesis Analysis

a. T Significance Test (Partial Test)

Table 8: Results of T-test

Dependent Variable: ARL				
Method: Least Squares				
Sample: 1 130				
Included observations: 130				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	159.6352	16.96796	9.408038	0.0000
ACEFEC	-18.88153	3.009860	-6.273226	0.0000
SPEC	9.835556	3.185376	3.087722	0.0025

Source: *Processed secondary data from Eviews 12 (2023)*

Based on the results of the partial test output in Table 8, it can be explained as follows:

- The first hypothesis of this study is the effectiveness of the audit committee has a negative effect on audit report lag. The table above shows the probability value of the audit committee effectiveness variable, which is equal to 0.0000, where the value is smaller than the significance value, or 0.0000 <0.05. So, it can be concluded that the effectiveness of the audit committee partially has a significant influence on audit report lag.
- This study's second hypothesis holds that audit report lag is negatively impacted by expertise in the audit business. The auditing committee's efficiency variable's probability value, shown as 0.0025 in the table previously, is less than the significance value, or 0.0025 <0.05. Thus, it can be concluded that the auditor's industry specialization partially has a significant effect on audit report lag.

b. F-test

Table 9: Results of Simultaneously Test

R-squared	0.313309	Mean dependent var	60.13077
Adjusted R-squared	0.296959	S.D. dependent var	20.75602
S.E. of regression	17.40341	Akaike info criterion	8.581495
Sum squared resid	38162.71	Schwarz criterion	8.669727
Log-likelihood	-553.7972	Hannan-Quinn criter.	8.617347
F-statistic	19.16286	Durbin-Watson stat	0.798953
Prob(F-statistic)	0.000000		

Source: *Processed Secondary Data from Eviews 12 (2023)*

Based on the results of the F test in Table 9. above, the Prob(F-statistic) value is 0.000000, and this value is smaller than the significance value of 0.000000 <0.05. Thus, it may be said that audit committee effectiveness and auditor industry specialization have a significant effect on audit report lag.

c. Determination Coefficient Test (R^2)

Table 10: Results of Adjusted R^2

R-squared	0.313309	Mean dependent var	60.13077
Adjusted R-squared	0.296959	S.D. dependent var	20.75602
S.E. of regression	17.40341	Akaike info criterion	8.581495
Sum squared resid	38162.71	Schwarz criterion	8.669727
Log-likelihood	-553.7972	Hannan-Quinn criteria.	8.617347
F-statistic	19.16286	Durbin-Watson stat	0.798953
Prob(F-statistic)	0.000000		

Source: *Processed secondary data from Eviews 12 (2023)*

Based on the output in Table 10, the coefficient of determination with an adjusted $R2$ value is 0.296959. So, the ability of the independent variables, audit committee effectiveness, and auditor industry specialization explains the variation of the dependent variable, namely audit report lag by 29.6%, while the remaining 70.4% is explained by other factors not included in this study.

Table 11: Recapitulation of Hypothesis Testing Results

No	Hypothesis Description	Coefficien t	Sig	Result
1	H1: Audit committee effectiveness has a negative and significant effect on audit report lag	-18.88153	0.0000	Supported
2	H2: Auditor industry specialization has a positive and significant effect on audit report lag	9.835556	0.0025	Supported

Source: *Processed secondary data from Eviews 12 (2023)*

The effectiveness of the audit committee's work has been shown to have a negative impact on audit report lag, with a regression coefficient of -18.88153, according to the outcomes of the tests that were conducted. A significance value of 0.0000, which is less than the significance level of 0.05 or 0.0000 <0.05, provides proof for this. These findings indicate that audit report lag is negatively and significantly impacted by the audit committee's efficacy. The effectiveness of the audit committee, which is illustrated through its composition, resources, authority, and diligence, is a component of corporate governance that has been proven to minimize delays in the publication of audit reports. The study's findings show that the audit committee has a positive impact on how quickly financial reports are submitted. The negative symbol indicates that the corporation can lessen the possibility of audit report publication delays the more efficient its audit committee is. The existence of an effective audit committee is supposed to alleviate agency theory concerns that develop owing to conflicts in interests between management and shareholders. The study's findings are consistent with those of Kayleen and Harindahyani (2019), Abdillah et al. (2019), and Budiarto and Suhardjo (2021) studies, which demonstrate that the efficacy of audit committees significantly influences the lateness of audit reports.

The outcomes of the test indicate that the specialization variable related to the auditor industry has a positive regression coefficient of 9.835556 and a significant effect with a significance value of 0.0025, meaning that its value is less than the significance level of 0.05 or 0.0025 <0.05. We conclude that audit report lag is positively and significantly impacted by the auditor industry specialization variable. Specialized auditors have a better understanding of how the industry is moving and what the inherent risks are. The audit process will tend to take longer because the auditor really understands the scope of the audit and what the auditor needs to believe in the industry so that the auditor is more careful. This resulted in the auditor needing a longer duration to review the company's financial statements. As a result, the company will need a long time to provide audited reporting issues and will have an impact on principals who are late in knowing entity information. The relation with agency theory is that a specialized auditor as an independent party must have special expertise in the industry so that it does not take a long time to carry out the financial statement audit process and is more capable of detecting the effects of delays in the release of financial statements, thereby minimizing the occurrence of information gaps.

The findings of this study support the findings of Pradipta and Zalukhu (2020), Fasha and Ratmono (2022), and others who have demonstrated the beneficial and noteworthy effects of auditor industry specialization. The findings of this study contradict those of Putri and Januarti's (2014) and Makhabati and Adiwibowo's (2019) studies, which found a substantial negative correlation between audit report latency and specialization in the auditor industry.

IV. CONCLUSION

The following outcomes of this study, which aims to objectively illustrate the impact of audit committee efficacy and auditor industry specialization on audit report lag, are as follows: Audit report latency is negatively and significantly impacted by the audit committee's effectiveness; the shorter the audit report lag, the more efficiently the committee performs its obligations. Audit report latency is positively and significantly impacted by the auditor industry's specialization. This means that specialized auditors have better understanding skills regarding specific industries, so it takes longer time in the audit process, which can cause longer time on audit report lag.

Based on the debate and conclusions presented above, the researcher can make the following recommendations for future research: A larger number of samples from similar industries, such as service companies, manufacturing, or banking, is advised. Future studies are expected to be able to use other variables that are expected to affect the audit report lag, such as industry-type variables and so on. It is hoped that future research can use other proxy measurements if the data is available.

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