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The Influence of Industrial Specialization Auditor on Audit Report Lag

Angelia Monique [1]
Iman Harymawan [2]
[1,2]*Department of Accountancy, Faculty of Economics and Business, Universitas Airlangga, Indonesia*
email: harymawan.iman@feb.unair.ac.id

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Abstract: This study aimed at analyzing the impact of Industrial specialization auditor on audit report lag and how the related party transaction affects the relationship between Industrial specialization auditor and audit report lag. This study used 1,897 observations from 353 different firms listed on the Indonesia Stock Exchange from 2010 to 2017. Industrial specialization auditor was measured using market share based on total assets. This study used an Ordinary Least Square Regression analysis model. This study found that firms audited by the industrial specialization auditors had shorter audit report lag. This study also found that firms with high disclosure of the related party transactions had shorter audit report lag and those audited by the industrial specialization auditors belonging to the related party transactions did not extend (shorten) the audit report lag. These results indicate that firms audited by the industrial specialization auditors influenced the audit report lag; firms with high disclosure of the related party transactions influenced the audit report lag; and firms audited by the industrial specialization auditors belonging to high related party transactions did not influence the audit report lag. The implication of this study can be used by the firm management as a consideration in selecting the auditors.

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INTRODUCTION

Previous researches have concluded some factors that can affect audit report lag (Nor *et al*., 2010; Hashim & Rahma, 2012; Hosseinzadeh *et al*., 2014; Hashim *et al*., 2013; Abernathy *et al*., 2014; Al Daoud *et al*., 2014, 2015; Khlif & Samaha, 2014; Whitworth & Lambert, 2014; Sultana *et al*., 2014; Baatwah *et al*., 2016; Hassan, 2016; Sharma *et al*., 2017). The factors are firm characteristics and complexity (firm size and firm performance), audit risk (ownership structure, high risk account, and audit opinion), public accountant office's attribute (auditor's reputation), and firm governance (audit committee independence, audit committee meeting, board of directors' size, and board of directors' independence).

There are only few researches that analyze the relationship of auditor's industrial specialization with audit report lag (Habib & Bhuiyan, 2011; Whitworth & Lambert, 2014; Rusmin & Evans, 2017). There is no formal arrangement for the requirements for a public accountant office to be categorized into industrial specialist, thus research on auditor's industrial specialization is interesting. In addition, there is no research on auditor's industrial specialization in relation to related party transaction on audit report lag.

Many previous researches have been conducted on audit report lag in many countries including emerging countries, such as Malaysia (Nor *et al*., 2010; Hashim & Rahman, 2012; Hosseinzadeh *et al*., 2014; Hashim *et al*., 2013), Jordan (Al Daoud *et al*., 2014, 2015), Egypt (Khlif & Samaha, 2014), and Indonesia (Rusmin & Evans, 2017). Emerging countries are quite attractive to investors since they are oriented to export and produce products at a lower cost, generating a higher return than advanced countries for the investors. Audit report lag is the main indicator for investors in decision making since audit report contains auditor opinion that describes financial statement credibility, thus they can quickly adjust their investment preference (Habib & Bhuiyan, 2011). Since auditors specialized in an industry develop their knowledge of such industry specifically, they conduct audit more efficiently, and they are expected to complete audit more quickly than non-specialized auditor (Habib & Bhuiyan, 2011).

This research examined the use of industrial specialization auditor, related party transaction, and the use of industrial specialization auditor on firms that disclose high related party transaction. Following the learning curves theory, the researcher predicted that using industrial specialization auditor to provide audit services where the auditor was used to and familiar to client's business processes and risks in an industry and related party transaction increased firm efficiency, and the audit would be more efficient and completed more quickly, making the firm to have a shorter audit report lag. In addition, this research proposed specialized auditor to conduct more in-depth examination on related party transaction. Therefore, a firm audited by specialized public accountant office and having related party transaction is predicted to have a longer audit report lag.

This research used firms registered at the Indonesia Stock Exchange (BEI) as samples. The shortest and longest audit report lags based on the samples were 12 days and 425 days. This shows that there is audit report lag of over a year. The mostly used measurement of auditor's industrial specialization, that was market share based on audit fee, could not cover most of the firms registered in the Indonesia Stock Exchange (BEI), since not all of the firms disclosed the audit fee (Rusmin & Evans, 2017), thus this research used market share measurement based on total assets. Besides, Indonesia is a developing country with a strong history of military and political connections in the business world (Harymawan & Nowland, 2016; Harymawan, 2018), thus they tended to do related party transaction. Therefore, Indonesia is a country that is compatible to the research on the influence of auditor's industrial specialization on audit report lag and the influence of auditor's industrial specialization in relation to related party transaction on audit report lag.

The results of this research may contribute theoretically and practically. Theoretically, this research may develop scientific knowledge and become a reference for further researches on auditor's industrial specialization, related party transaction, and audit report lag. Practically, firm management can use the research results as reference in choosing public accountant office specialized in its industry that performs audit effectively and efficiently so as to shorten audit report lag.

LITERATURE REVIEW AND HYPOTHESES

The learning curves theory states that a work that is carried out repeatedly will be completed more quickly since the doer is accustomed to the operation and instruments. This theory assumes that a worker will complete his work more quickly when he has done it repeatedly. The more he does the same thing, the shorter he takes to complete the work. Similarly, an industrial specialization auditor completes an audit more quickly in a client's industry since he has conducted the audit repeatedly in that very industry. An auditor who has conducted an audit repeatedly in the same industry will be used to any audit risks and processes in that industry. According to Habib and Bhuiyan (2011), a specialized public accountant office gets more quickly familiar to client's industrial model. This conforms to the learning curves theory.

Too long audit report lag causes negative view since it affects the relevance of information in the financial statements (Whitworth & Lambert, 2014). Delayed delivery of information in financial statements will surely affect the effectiveness of financial statements (Rusmin & Evans, 2017). Financial statements that are ineffective and lack relevance because of the length of time taken to deliver the financial statements may affects uncertainty in decision making (Dao & Pham, 2014). A firm surely desires to give a positive impression of its financial statements by issuing its financial statements in time, thus audit report lag should be minimized at all costs. In addition, The existence of Decision of Head of Capital Market and Financial Institution Supervisory Agency Number: KEP-346/BL/2011 in improvement of Regulation Number X.K.2 that obligates open companies registered at the Indonesia Stock Exchange to submit their annual financial statements within three months (90 days) after the end of company's fiscal year motivates firms to submit their financial statements before or on the 90th day after the end of fiscal year. On the other hand, investors also desire shorter audit report lag since audit report contains auditor opinion that describes financial statements' credibility, thus they can quickly adjust to their investment preference (Habib & Bhuiyan, 2011).

Specialist public accountant office has big competence in presenting high quality audit (DeFond & Zhang, 2014). Specialized public accountant office gets familiar to client's industrial model more quickly (Habib & Bhuiyan, 2011). Therefore, quick understanding of client's industrial information makes an auditor work more efficiently (Huang *et al*., 2015). The more efficient an auditor performs an audit, the shorter the audit report lag should be (Whitworth & Lambert, 2014).

There are two arguments on related party transaction. The first argument states that related party transaction increases firm efficiency since related party transaction may minimize transaction cost and maximize firm value (Khanna & Palepu, 2000), firm performance (Fisman & Wang, 2010; Ryngaert & Thomas, 2012), and optimize allocation of internal resources and increase return on asset (Ge *et al*., 2010), while the second argument states that related party transaction has higher risks that increases audit fee and tends to make auditor make modified opinion with explanatory sentences for related party transaction (Habib *et al*., 2015; Fang *et al*., 2018).

Referring to the research conducted by Habib and Bhuiyan (2011), auditor's industrial specialization is capable of developing specific knowledge and expertise needed in an industry and adapting more quickly to client's business operation since it issues audit report more quickly or shortens audit report lag. Likewise, the research conducted by Whitworth and Lambert (2014) and Rusmin and Evans (2017) finds that auditor's industrial specialization negatively affects audit report lag. Therefore, the researcher predicted that a firm audited by an industrial specialization auditor has shorter audit report lag.

H1: Firm audited by industrial specialization auditor has shorter audit report lag.

The research conducted by Nor and Ismail (2017) states that related party transaction positively affects firm performance. Related party transaction can be carried out for efficiency reason since related party transaction may reduce the cost of transaction and increase firm value (Khanna & Palepu, 2000), firm performance (Fisman & Wang, 2010; Ryngaert & Thomas, 2012), and optimize allocation of internal resources and increase return on asset (Ge, *et al*., 2010). Therefore, the researcher predicted that firms that disclose high related party transaction has shorter audit report lag.

H2: Firm disclosing high related party transaction has shorter audit report lag.

Habib *et al*. (2015) and Fang *et al*. (2018) find that related party transaction positively affects audit fee and tends to make auditor issue modified opinion with explanatory sentences of related party transaction. This means that related party transaction is an account with high risk, causing audit fee to increase and the firm to get modified opinion with explanatory sentence. Industrial specialization auditor understands client's business risk and industrial operation better and will give more attention to highly risky related party transaction account. Therefore, the researcher predicted the firms that are audited by industrial specialization auditor and disclose related party transaction have longer audit report lag.

H3: Firm that is audited by industrial specialization auditor and discloses high related party transaction has longer audit report lag.

METHODS

Sample and Data

The research's initial samples were all firms registered in the Indonesia Stock Exchange and listed in the database of OSIRIS for the period 2010-2017. All financial data were obtained from OSIRIS and data other than financial data were manually collected from financial statements and annual financial statements downloaded from the Indonesia Stock Exchange's official website. In the sampling choice, the data of financial industrial firms (SIC 6) and lost data were excluded. Based on the criteria, the number of samples used in this research was 1,897 observations that were processed using Ordinary Least Square regression model.

Measurement

Auditor's Industrial Specialization

Auditor's industrial specialization is public accountant office specialized in one industry. Auditor's industrial specialization is measured using market share. Then, following the proxy of Rusmin and Evans (2017), public accountant office with the highest market share in an industry is an industrially specialized public accountant office. The firms audited by industrially specialized public accountant office were scored 1 and 0 if otherwise. In this research, the researcher used market share measurement model based on total assets Rusmin and Evans (2017) as follows:

$$MSTAik = \frac{\sum_{j=1}^{Jik} Total\ Aset_{ijk}}{\sum_{k=1}^{K} \sum_{j=1}^{Jik} Total\ Aset_{ijk}}$$

Where *i* is index for public accountant office, *j* is index for client firm, *k* is index for client industry, *Jik* is number of public accountant office's client *i* in industry *k*, *Total Asetijk* is total assets of client of auditor *i* from client *j* in industry *k*, and *MSTAik* is market share of total assets of auditor *i* in industry *k*.

Related Party Transaction

Related party transaction in Financial Accountancy Standards Notice (PSAK) No. 7 is defined as a transfer of resources, services, or obligations between the reporting entity and related parties, regardless of whether there is a price to charge. Related party transaction is measured using a formula referring to the research conducted by Fang *et al*. (2018) as follows:

$$RPT = \frac{RPT\ SALES}{TOTAL\ ASET}$$

Audit Report Lag

Audit report lag is defined as a period from the last date of firm's fiscal year to the date of audit report (Hassan, 2016). Audit report lag is measured by finding the difference between the last date of firm's fiscal year and the date of audit report. The definitions of all variables used in this research are as presented in Table 1.

Data Analysis Technique

The data analysis technique used in this research was descriptive statistical analysis test, Pearson correlation analysis test, independent t-test, and multiple linear regression test. The regression models used in this research were as follows:

Regression model to test hypotheses one and two

$ARL = \beta0 + \beta1SPECIALISTi,t + \beta2RPTi,t + \beta3BDSIZEi,t + \beta4BDINDi,t + \beta5ACMEETi,t + \beta6ACFEi,t + \beta7BIG4i,t + \beta8LEVi,t + \beta9ROAi,t + \beta10FSIZEi,t + \beta11INDUSTRYi,t + \beta12YEARi,t + \varepsilon$

Regression model to test hypothesis three

$ARL = \beta0 + \beta1SPECIALIST*RPTi,t + \beta2SPECIALISTi,t + \beta3RPTi,t + \beta4BDSIZEi,t + \beta5BDINDi,t + \beta6ACMEETi,t + \beta7ACFEi,t + \beta8BIG4i,t + \beta9LEVi,t + \beta10ROAi,t + \beta11FSIZEi,t + \beta12INDUSTRYi,t + \beta13YEARi,t + \varepsilon$

Table 1. Variable Measurement

Variable	Proxy	Source of Data
Audit report lag	Difference between the final date of firm's fiscal year and the date of audit report	Firm's annual financial statements
Auditor's industrial specialization	1 if firm is audited by an industrially specialized public accountant office and 0 if otherwise.	OSIRIS and firm's annual report
Related party transaction	$RPT = \frac{RPT\ SALES}{TOTAL\ ASET}$	Firm's annual financial statements
Board size	$BDSIZE = TOTAL\ BCOMM + TOTAL\ BDIRC$	Firm's annual report
Independence of board of directors	$BDIND = \frac{IND\ BDIRC}{TOTAL\ BDIRC}$	Firm's annual report
Audit committee meeting	1 if audit committee meeting is held more than four times in a year and 0 if otherwise	Firm's annual report
Audit committee's financial expertise	1 if it has more than one member of audit committee with expertise in financial sector and 0 if otherwise	Firm's annual report
Big four public accountant offices	1 if firm is audited by one of big four public accountant offices and 0 if otherwise	Firm's annual report
Leverage	$LEV = \frac{TOTAL\ OBLIGATION}{TOTAL\ ASSETS}$	OSIRIS
Return on asset	$ROA = \frac{NET\ INCOME}{TOTAL\ ASSETS}$	OSIRIS
Firm size	$FSIZE = ln\ (TOTAL\ ASET)$	OSIRIS

Source: Processed Data

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistical analysis aimed at describing all of the variables used in this research without comparing relationship between variables. The descriptive statistics of the variables used in this research, after *winsorize*, are presented in Table 2 and Table 3.

Table 2 shows the specialized public accountant office in each industry. Public accountant office Purwantono, Sungkoro & Surja affiliated to Ernst & Young is an auditor specialized in the industries of agriculture, forestry, and fishery; manufacture; transportation & public utility; and services (SIC 0, 2, 4, and 7). Meanwhile, public accountant office Tanudiredja, Wibisana, Rintis & Rekan affiliated to Pricewaterhouse Coopers is an auditor specialized in the industries of mining and construction; manufacture; wholesale & retail trade (SIC 1, 3, and 5). In service industry (SIC 8), the specialized auditor is public accountant office Tanubrata Sutanto Fahmi & Rekan (BDO).

Table 2. Auditor's Industrial Specialization based on Industrial Sector

SIC	Industry	Public Accountant Office	Market Share %
0	Agriculture, Forestry, Fishery	Purwantono, Sungkoro & Surja (EY)	40
1	Mining & Construction	Tanudiredja, Wibisana, Rintis & Rekan (PwC)	27
2	Manufacture (1)	Purwantono, Sungkoro & Surja (EY)	28
3	Manufacture (2)	Tanudiredja, Wibisana, Rintis & Rekan (PwC)	47
4	Transportation & Public Utility	Purwantono, Sungkoro & Surja (EY)	42
5	Graceries & Retails	Tanudiredja, Wibisana, Rintis & Rekan (PwC)	38
7	Service (1)	Purwantono, Sungkoro & Surja (EY)	38
8	Service (2)	Tanubrata Sutanto Fahmi & Rekan (BDO)	63

Based on Table 3, the firms registered in the Indonesia Stock Exchange have audit report lag with average score of 77 days and median score of 80 days. The fastest audit report lag is 12 days by PT Multipolar Tbk. Operating in manufacturing industry (SIC 3), PT Matahari Putra Prima Tbk. operating in wholesale and retail trade industry (SIC 5), and PT Multifiling Mitra Indonesia Tbk. operating in service industry (SIC 8) in 2010 and audited by KAP Amir Abadi Jusuf, Aryanto, Mawar & Rekan (RSM). Meanwhile, the longest audit report lag of 425 days is that of PT Buana Listya Tama Tbk. operating in transportation and public utility industry (SIC 4) in 2011 and audited by KAP Tanubrata Sutanto Fahmi & Rekan (BDO). About 18% of observation used industrial specialization auditor. The firms have average sale transaction with related party of 10.5% of total assets. The firms averagely have nine members of board of directors and board of commissioners, and averagely one of four members of board of directors is independent board of director. About 40% of observation held audit committee meeting more than four times and 72% observation had more than one member of audit committee with expertise in financial sector. About 46% of observation was audited by big four public accountant offices. The firms have average leverage and return on asset 52% and 48%. Meanwhile, the average total assets of all observations are 8.589 trillion Rupiahs.

Table 3. Descriptive Statistics

	Mean	Median	Minimum	Maximum
ARL	76.969	80.000	12.000	425.000
SPECIALIST	0.180	0.000	0.000	1.000
RPT	0.105	0.001	0.000	1.753
BDSIZE	9.355	9.000	4.000	28.000
BDIND	0.231	0.222	0.000	1.167
ACMEET	0.402	0.000	0.000	1.000
ACFE	0.716	1.000	0.000	1.000
BIG4	0.456	0.000	0.000	1.000
LEV	0.521	0.502	0.052	2.294
ROA	4.780	3.840	-24.450	39.410
TOTAL ASET	8,589,000,000,000	2,651,000,000,000	30,110,000,000	92,320,000,000,000

Pearson Correlation

Table 4 presents the results of correlation matrix of all variables used in this research. Based on Table 4, auditor's industrial specialization has negative (-0.103) and significant relationship with audit report lag with significance level 1%. Related party transaction, size of board of directors and board of commissioners, audit committee meeting, audit committee member's financial expertise, use of big four public accountant offices, return on asset, and firm size are inversely proportional to audit report lag, while leverage is directly proportional to audit report lag. There is no significant relationship between board of directors' independence and *audit report lag.*

Table 4. Pearson Correlation

	ARL	***SPECIALIST***	***RPT***	***BDSIZE***	***BDIND***	***ACMEET***	***ACFE***	***BIG4***	***LEV***	***ROA***	***FSIZE***
ARL	1.000										
SPECIALIST	-0.097***	1.000									
	(0.000)										
RPT	-0.087***	0.057**	1.000								
	(0.000)	(0.013)									
BDSIZE	-0.237***	0.183***	0.104***	1.000							
	(0.000)	(0.000)	(0.000)								
BDIND	0.016	-0.057**	-0.047**	-0.117***	1.000						
	(0.480)	(0.013)	(0.041)	(0.000)							
ACMEET	-0.101***	0.130***	0.122***	0.204***	-0.003	1.000					
	(0.000)	(0.000)	(0.000)	(0.000)	(0.902)						
ACFE	-0.066***	0.055**	0.001	0.001	-0.022	0.006	1.000				
	(0.004)	(0.017)	(0.950)	(0.974)	(0.346)	(0.804)					
BIG4	-0.135***	0.498***	0.101***	0.374***	-0.047**	0.147***	0.038*	1.000			
	(0.000)	(0.000)	(0.000)	(0.000)	(0.039)	(0.000)	(0.095)				
LEV	0.197***	-0.022	-0.054**	-0.077***	0.005	0.009	0.086***	-0.056**	1.000		
	(0.000)	(0.341)	(0.019)	(0.001)	(0.817)	(0.696)	(0.000)	(0.015)			
ROA	-0.221***	0.109***	0.072***	0.190***	-0.110***	0.033	0.029	0.153***	-0.140***	1.000	
	(0.000)	(0.000)	(0.002)	(0.000)	(0.000)	(0.146)	(0.215)	(0.000)	(0.000)		
FSIZE	-0.174***	0.233***	0.034	0.609***	0.042*	0.296***	-0.016	0.397***	0.002	0.121***	1.000
	(0.000)	(0.000)	(0.136)	(0.000)	(0.067)	(0.000)	(0.482)	(0.000)	(0.915)	(0.000)	

Independen T-Test

Table 5 and Table 6 present the detail of variables in the firms audited by industrial specialization auditor and in the firms that disclose related party transaction in their financial statements. Based on Table 5, the firms audited by industrial specialization auditor have significantly shorter audit report lag than the firms audited by non-industrial specialization auditor (72 days and 78 days), and have more members of board of directors and board of commissioners, fewer members of independent directors, more frequent audit committee meeting, more members of audit committee with expertise in financial sector, higher return on asset, bigger firm size, and tend to be audited by big four accountant offices than firms audited by non-industrial specialization auditor. There is no significant difference in the leverage of firms audited by industrial specialization auditor or non-industrial specialization auditor.

Table 5. Firm Characteristics based on Auditor's Industrial Specialization

	Companies audited by Auditor's Industrial Specialization	**Companies not audited by Auditor's Industrial Specialization**	**t-value**	**z-value**
	N=342	N=1.555		
ARL	72.471	77.958	-4.240***	-5.714***
BDSIZE	10.655	9.068	8.111***	7.643***
BDIND	0.217	0.234	-2.491**	-2.984***
ACMEET	0.538	0.372	5.702***	5.655***
ACFE	0.769	0.705	2.386**	2.383**
BIG4	0.985	0.340	25.031***	21.705***
LEV	0.507	0.524	-0.953	-1.597
ROA	6.921	4.309	4.758***	6.284***
FSIZE	29.416	28.401	10.438***	9.556***

Significant at * 10%, ** 5%, *** 1%
Source: Processed Data

In Table 6, the firms that disclose related party transaction have more members of board of directors and commissioners, fewer independent board of directors, more often audit committee meeting, higher return on asset, bigger firm size, and tend to be audited by big four accountant offices than the firms that do not disclose related party transaction. There is no difference in audit report lag, audit committee member's expertise in financial sector, and significant leverage between the firms that disclose related party transaction and the firms that do not disclose it.

Table 6. Firm Characteristics based on Related Party Transaction

	Companies Disclosing Related Party Transaction	**Companies not Disclosing Related Party Transaction**	**t-value**	**z-value**
	N=1.710	N=187		
ARL	76.999	76.690	0.185	-0.675
BDSIZE	9.543	7.642	7.523***	7.958***
BDIND	0.228	0.257	-3.444***	-3.948***
ACMEET	0.412	0.310	2.708***	2.703***
ACFE	0.719	0.695	0.677	0.677
BIG4	0.477	0.267	5.495***	5.453***
LEV	0.522	0.516	0.253	1.337
ROA	4.976	2.990	2.794***	2.917***
FSIZE	28.682	27.693	7.798***	7.519***

Significant at * 10%, ** 5%, *** 1%
Source: Processed Data

Primary Analysis

Table 7. Regression Results of Auditor's Industrial Specialization

Variable	**(1)** **ARL**	**(2)** **ARL**
SPECIALIST	-2.305^{*}	-2.657^{*}
	(-1.88)	(-1.91)
RPT	-2.836^{**}	-3.300^{**}
	(-2.24)	(-2.28)
*SPECIALIST*RPT*		3.036
		(0.79)
BDSIZE	-0.983^{***}	-0.984^{***}
	(-5.67)	(-5.67)
BDIND	-1.245	-1.278
	(-0.25)	(-0.26)
ACMEET	-1.731^{*}	-1.738^{*}
	(-1.70)	(-1.71)
ACFE	-4.306^{***}	-4.322^{***}
	(-2.97)	(-2.98)
BIG4	0.097	0.119
	(0.09)	(0.11)
LEV	11.039^{***}	11.083^{***}
	(3.77)	(3.79)
ROA	-0.369^{***}	-0.370^{***}
	(-4.02)	(-4.02)
FSIZE	-0.421	-0.414
	(-0.96)	(-0.94)
_[illegible]	96.770^{***}	96.646^{***}
	(8.73)	(8.71)
INDUSTRY DUMMY	Yes	Yes
YEAR DUMMY	Yes	Yes
r2	0.146	0.146
N	1,897	1,897

Statistic-t in bracket $^{*}p< 0.1$; $^{**}p< 0.05$; $^{***}p< 0.01$
Source: Processed Data

To test the influence of auditor's industrial specialization and related party transaction on audit report lag by controlling the *BDSIZE*, *BDIND*, *ACMEET*, *ACFE*, *BIG4*, *LEV*, *ROA*, and *FSIZE* variables, the following regression model was used:

$$ARL = \beta_0 + \beta_1 SPECIALIST_{i,t} + \beta_2 RPT_{i,t} + \beta_3 BDSIZE_{i,t} + \beta_4 BDIND_{i,t} + \beta_5 ACMEET_{i,t} + \beta_6 ACFE_{i,t} + \beta_7 BIG4_{i,t} + \beta_8 LEV_{i,t} + \beta_9 ROA_{i,t} + \beta_{10} FSIZE_{i,t} + \beta_{11} INDUSTRY_{i,t} + \beta_{12} YEAR_{i,t} + \varepsilon$$

To test the influence of auditor's industrial specialization and related party transaction on *audit report lag* by controling *BDSIZE*, *BDIND*, *ACMEET*, *ACFE*, *BIG4*, *LEV*, *ROA*, dan *FSIZE* variable, the following regression model was used:

$$ARL = \beta_0 + \beta_1 SPECIALIST*RPT_{i,t} + \beta_2 SPECIALIST_{i,t} + \beta_3 RPT_{i,t} + \beta_4 BDSIZE_{i,t} + \beta_5 BDIND_{i,t} + \beta_6 ACMEET_{i,t} + \beta_7 ACFE_{i,t} + \beta_8 BIG4_{i,t} + \beta_9 LEV_{i,t} + \beta_{10} ROA_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} INDUSTRY_{i,t} + \beta_{13} YEAR_{i,t} + \varepsilon$$

The *SPECIALIST* Independent variable was measured with market share based on total assets. Regression was carried out with Ordinary Least Square Regression robustly. The regression results are presented in Table 7. In Table 7, the results of first model regression were used to test the first and second hypotheses in (1) and the results of the second model regression were used to test the third hypothesis in column (2).

Based on the results of the first model regression in column (1), it is found that auditor's industrial specialization (*SPECIALIST*) negatively and significantly affects audit report lag. This result conforms to previous researches conducted by Habib and Bhuiyan (2011), Whitworth and Lambert (2014), and Rusmin and Evans (2017). The results of the first model regression in (1) also find that related party transaction (*RPT*) negatively and significantly affects audit report lag. This indicates that related party transaction, in this case being sale transaction, negatively and significantly affects audit report lag. This result supports the argument that related party transaction increases the efficiency of firm operation. This firm operation efficiency makes audit completed more quickly. The regression results of auditor's industrial specialization in relation to related party transaction (*SPECIALIST*RPT*) on audit report lag in column (2) finds that auditor's industrial specialization in relation to related party transaction affects audit report lag but insignificantly. The results of the first and second model regression indicate that the firms that use the services of industrial specialization auditor have shorter audit report lag, the firms that disclose high related party transaction also have shorter audit report lag, and auditor's industrial specialization in relation to related party transaction does not affect audit report lag. As such, the regression results support the first and second hypotheses and reject the third hypothesis.

CONCLUSION

In line with the learning curves theory, auditor that has audited an industry repeatedly gets more familiar with any risks and familiar with client's business industry, and can be classified as industrial specialization auditor. Using industrial specialization auditor's services quickens audit completion and issuance of audit report and opinion. In other words, it shortens audit report lag. This research examined the influence of auditor's industrial specialization on audit report lag and the influence of related party transaction and industrial specialization in relation to related party transaction on audit report lag in Indonesia.

The results of this research prove that specialized auditor can complete audit process more quickly. When an auditor gets more specialized, it will get more accustomed to the client's business operation and risks, thus it completes an audit more quickly. This research also finds that high related party transaction increases firm efficiency thus auditor can complete an audit more quickly and audit report lag gets shorter. Meanwhile, this research does not find any significant relationship between auditor's industrial specialization in relation to related party transaction and audit report lag.

This research's implication for firm management is to suggest using audit service of an auditor specialized in the firm's industry since such specialized auditor may shorten audit report lag. The limitation of this research is that it uses proxy of auditor's industrial specialization with market share based on total assets and is limited to the period 2010-2017. Further research should develop proxy of auditor's industrial specialization with market share other than total assets and appropriate audit fee to the characteristics of the country of research subject, use proxy of other related party transaction, and update the year of observation.

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