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Research Article

The Moderator Role of Auditor's Expertise in the Industry on the Relationship between Characteristics of the Audit Committee and Audit Report Lag

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Abstract

Timeliness is a fundamental feature of the relevance of financial reporting information to managers, enabling them to make informed business unit decisions. The purpose of this study was to investigate the role of the moderator of auditor's expertise on the relationship between the audit committee's characteristics and the delay in the audit report. This research is from the point of view of applied research type and the point of view of nature and method, including descriptive and correlational research. The research sample includes 135 companies listed on the Tehran Stock Exchange in the years 2013 to 2017. After controlling the control variables, the hypothesis test's findings showed that the auditor's specialization in the industry negatively correlates the relationship between the audit committee's independence and the audit committee's size and the delay in the audit report.

Keywords: Auditor's Expertise in Industry, Audit Committee, Delay in Audit Report.

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1. Introduction

Qualitative financial reporting features include a timely presentation of audited financial statements. Timeliness is a fundamental feature of financial reporting information's relevance, enabling users to make informed business units' decisions. The information potentially loses its relevance over time. The prolongation and delays of the availability of financial statement information make the information lose its usefulness to economic decisions. The company's timeliness of financial reports can also be considered one of the essential components of reporting quality goals. Past research has shown that a timely financial report increases the content of information and, as a result, affects the company's value (Kogilavani and Marjan, 2013).

Delayed presentation of audited financial statements does not allow timely financial reports to be provided to users. This will also reduce the content of financial information. On the other hand, investors postpone trading activities in securities until financial information is published; therefore, the corporate governance framework in corporations and the audit committees should ensure that material financial reporting items. It is including financial and regulatory information related to investors Main and other shareholders at the right time(Soltana et al., 2014). The delay in the audit report is the number of days between the end of the company's financial year and the audit report's submission date. Overdue delays cause users not to access corporate information and reduce financial statements' information content. Delay in financial reporting has led to a reduction in the quality of profit, increased information asymmetry, and uncertainty about assessing investments (Kamarudin et al., 2018).

Therefore, timely disclosure of financial information through audited financial statements plays an important role in its value and reduces information asymmetry (Lin and Liu, 2009). While the board is responsible for the overall financial statements and disclosure, many companies' corporate governance framework has changed dramatically over the past two decades. Developers, regulators, investors, and researchers emphasize the need for centralized agency, accountability, and oversight of the Audit Committee's preparation and processing of financial statements on an equal and continuous basis. Corporate governance has reformed new laws and guidelines over the past decades. It has strengthened the audit committee's role and responsibilities in the processing and preparation of financial reports. The emergence of the audit committee's importance directly affects the independent auditor's activities and activities, including the time required to publish the audit report (Appah and Emeh, 2013). On the other hand, the auditor's specialty in the industry makes them able to acquire the industry's specific knowledge and experience and a quick familiarity with the client's business environment, thus completing the audit process faster than non-expert auditor. It is, according to past research, can also adjust the relationship between the audit committee's characteristics and the delay in the audit report (Kamarudin et al., 2018). Considering the importance of timely and timely audit reports and identifying the variables that affect it, this study examines the auditor's specialty's specialty in the relationship between the audit committee's characteristics and the delay in the audit report. Since there has not been a similar study in the Iranian environment, this requires an empirical study to allow for better planning based on the findings. Then first, the theoretical foundations of research and then the research background are presented. Afterward, the research method, findings and discussion, and conclusions are presented.

2. Literature Review

One of the important issues that researchers consider as a major financial scandal in large firms in recent years is the important issues for investors: corporate governance. It deals with monitoring the management and separation of the supervision of economic units from its ownership, and, ultimately, it protects the rights of investors and stakeholders. The study of the causes and circumstances of creating scandals has shown that the lack of management supervision, the imperfect governance of corporate stakeholders on managing affairs and transferring unlimited powers to executives, has provided a beneficial context for their exploitation(Hasas Yeganeh et al., 2014). Moving from solitary ownership to collective ownership has led to new issues in managing financial resources, as Berle-Means (1932) described it as a representation problem. In recent years, financial scandals have shown that corporate governance practices have had weaknesses and weaknesses even in advanced economies. In order to solve this problem, the need for reform and restructuring in corporate governance mechanisms was felt, which led to the emergence of a new paradigm called the Audit Committee on how to manage corporate governance and control following legal requirements in some countries as the audit committee is expected to become a very important part of corporate governance and effective accountability (Habbash, 2010). Abernathy, Beyer, and Masli (2013) also believe that the Audit Committee could increase users' financial statements' credibility and reliability. The audit committee's size can also have a constructive impact on the quality of the financial statements. Larger auditing committees can influence companies and reports published by members using different specializations to conduct more rigorous control over financial reporting procedures (Choi et al., 2004). The Blue Ribbon Committee (1999) recommends that the Audit Committee should have at least three members. A set of broader views, proposed by a larger committee, enables the committee to assess better the rules and more oversight of responsibilities and work performed by independent auditors (Turley and Zaman, 2007). Also, the larger audit committee has a greater body of skills that will improve the quality of the audit report (De Zoort et al., 2003).In addition, the audit committee should be independent of the organization's management to carry out its supervisory role and protect shareholders' interests. If members of the independent audit committee are managers and owners of the organization, they will prevent management from manipulating financial results. Independent directors are in the best position to monitor the financial reporting process and are more capable of coping with management pressures (Bazrafshan et al. ., 2015). The industry's industry expertise also involves developing constructive ideas designed to help entrepreneurs create value-added and provide new perspectives or ideas for some of the issues that the owners face in their respective industries (Alavi Tabari et al., 2013).

Also, the audit report's delay is defined as the period between the end of the company's financial year and the auditor's report date. It is one of the externally visible external variables that allows others to measure the auditor's performance (Bamber et al., 1993). The characteristics of the audit committee can influence the delay in the audit report. It may be adjusted to the industry's specialist auditor's expertise (Kamarudin et al., 2018). The specialty of the auditor in the industry is also the specific knowledge of an industry that is used by an audit firm to help them better understand what the owners of that industry are doing and the audit risks they are (Kend,2008). Previous studies have found that auditors with specialized expertise in the industry have more expertise and experience in discovering errors (Owhoso et al., 2002). They have more access to technology, physical facilities, and organizational and employee management systems that increase audit efficiency and enhance audit quality (Kwon et al., 2007). Industry-specific industry auditors can develop industry-specific knowledge and expertise and become familiar with business customer activities quickly, thus completing audits sooner than their non-expert counterparts (Barzide and Ma'andenchi, 2014). The auditor's expertise in the industry is also related to more audit efficiency (for example, less delay in the audit report) (Habib and Bhuiyan, 2011). Investigations of Alavi Tabari and Arefmanesh (2013), Pourheidari et al., (2015), Barzide and Ma'andenchi (2014), Habib and Bhuiyan (2011), and Dao and

Pham (2014) have concluded that there is a reverse and significant relationship between auditor's expertise in the industry is delayed in the audit report. (Kamarudin et al., 2018). also investigated the auditor's specialty's role as a moderator of the relationship between the audit committee's characteristics and the delay in the audit committee's report. Indeed, the results show that companies audited by industry-specific auditors with larger audit committees, as well as greater independence, delay the audit report because the independence and size of the audit committee shorten the delay in the audit report and this delay with a moderating role. The expertise of the industry in the industry is also negatively corrected and shortened.

Examining the history of the research showed that, for example, Kamarudin et al. (2018) studied the moderating role of the auditor's specialty in the industry on the relationship between the audit committee characteristics and the delay in the audit report for 2014 and 740 companies in Malaysia. The results showed that the auditor's expertise on the relationship between the audit committee's size and the delay in the audit report, the relationship between the audit committee's independence and the audit report's delay, as well as the relationship between the numbers of meetings of the audit committee, are delayed in the audit report Samaha, and Khlif (2017) investigated the factors affecting the delay in reporting the audit. They found that the audit committee's characteristics and the independent auditor and corporate governance factors had a significant contribution to the presentation of the audit report and the timeliness of the information.

Dao and Pham (2014) examined the relationship between audit quality, industry expert auditing, and delay in reporting audits. The auditor's industry expertise undermined the positive relationship between the auditor's report's delay and the short audit turnover.

Al-Khatib and Marjib (2012) investigated the timeliness of the audit report. They found that the profitability, type of audit firm, and firm size had a negative and significant relationship with the audit report's timeliness. Still, the financial leverage with the timeliness of the audit report has a positive and significant relationship.

Habib and Bhuiyan (2011) examined the relationship between the auditor's specialty in the industry and the delay in submitting audit reports to companies admitted to the New Zealand Stock Exchange during 2005 using a multiple regression model. The multivariate regression analysis results showed that the delays in providing the audit report for companies audited by an industry expert are shorter, and accepting international standards would delay the audit report's presentation.

Mohamad-Nor, Shafie, and Wan-Hussin (2010) examined the delays in submitting audit reports to 628 companies admitted to the Malaysian stock exchange in 2002. Using the multiple regression model, the active and large audit committee shortened the delay in providing The report is audited. Still, the audit committee's expertise and independence do not have a meaningful relationship with the audit report's timeliness.

Also, surveys showed that so far in Iran, research that examined "the role of the moderator of the auditor's specialty in the industry regarding the relationship between the characteristics of the audit committee and the delay in the audit report" has not been observed, which requires an empirical review.

3. Methodology

From the perspective of this research's purpose, this research is applied and from the point of view of nature and method, including descriptive and correlational research. The purpose of the research is to apply applied knowledge development in a raw field. In other words, applied research leads to the practical application of knowledge. From the point of view of data collection, post-investigation research is used to analyze the data from descriptive, inferential statistics, the least-squares method used in Eviews software version 9.

3.1. Research hypotheses

According to theoretical foundations and research background, the research hypotheses are as follows:

The first hypothesis: The auditor's specialization in the industry as a moderator modifies the relationship between the audit committee's size and the audit report delay.

The second main hypothesis is that the auditor's expertise as a moderator modifies the relationship between the audit committee's independence and the audit committee's report delay.

3.2. Society and research sample

The statistical population of the study was limited to all companies that have been accepted at the Tehran Stock Exchange since the beginning of the fiscal year 2013 and have attained the following characteristics by the end of the fiscal year 2017:

- In order to ensure comparability, their financial period will end in March.
- During the years 2013 to 2017, there is no change in the financial year's activity or change.
- It is not part of banks or financial institutions, insurers, leasing companies, or investment companies because the nature of their specific activity may be different from the relevance of the factors under study in Iran to research for such institutions and not to be indebted to others.
- Their information is available.
- There is no trading interruption because the trading interruption can distort test results.

Given the limitations, 135 eligible companies were found to be 675 years old.

3.3. Research variables

In this research, four independent variables (the characteristics of the audit committee including independence and size), dependent (delay in the audit report), moderator (industry expert's expertise), and control (size, leverage, asset yield, and size of the audit firm) are used. Which method of measurement will be described below.

3.3.1. Independent variable

The audit committee's size, which indicates the number of members of the audit committee, consists of 3 to 5 people in Iran.

The independence of the audit committee, which is equal to the percentage of independent members of the audit committee, is calculated by dividing the number of independent members of the committee by the number of its members.

3.3.2. Dependent variable

The delay in the audit report is equal to the difference in the number of days between the end of the company's financial year and the day the independent auditor signs the audit report.

3.3.3. Moderator variable

The auditor's expertise in the standard industry is introduced using two approaches to market share and the audit firm (Nazemiardakani, 2009). The market share of the audit firm is also calculated as the 11th according to the Palmrose model (1986):

$$(1 / (FN)) * (1/2) \leq (SR / (SRT)) \quad \text{Relationship 1}$$

In which: SR is the collection of assets of all the owners of a specific audit institution in a particular industry, divided by the total assets of this industry's owners (SRT). According to Palmrose (1986), the auditor is considered as a specialist in the industry when their market share (right-hand equation) exceeds the one-to-one multiplication of the number of firms in the industry (FN) in one direction (the equation on the left) Be If the audit firm is an industry specialist, then the synthetic variable is one and otherwise, the zero variable will be used.

3.3.4. Control variables

Company size: Increasing company size is expected to increase the audit report's delay (Samaha and Khlif, 2017). This variable is calculated through the natural logarithm of the total assets.

Financial leverage: The high debt ratio increases the likelihood of a company unable to repay debt and meet its obligations. In this case, auditors are worried that the company may be less likely to report its debt; therefore, auditors design and implement audit procedures to reduce their liability for future prosecutions and ensure that the companies register them. The conduct of such actions by the auditors leads to a prolongation of the period between the end of the fiscal year and the date of signing the audit report and ultimately delaying the publication of audited financial statements (Soltani, 2002). This ratio is also calculated by dividing the total debt into total assets.

Return on assets (ROA): Profitable companies run and complete their audit operations sooner than lagging firms and have less delay (Frost and Pownall, 1994). This variable is also calculated by profit before interest and taxes divided by the total average assets.

The size of the audit firm (Big): Large audit firms generally have the technical capability and expertise necessary to conduct the audit mission and meet customers' needs in the short term. Consequently, it is expected that large audit firms will provide a higher quality and faster service to distinguish themselves from other audit firms and have more customers (Samaha and Khlif, 2017);. Still, Bamber, Bamber, and Schoderbek (1993) argue that large audit firms' structural audit approach results in delays in the audit report. Consequently, empirical evidence does not coincide with the relationship between auditor size and delay in the audit report. Jaggi and Tsui (1999) also found a direct and significant relationship between the delay in the audit report and the auditor's size.

In contrast, Leventis et al. (2005) found that large corporations would reduce the audit report delay in their research. In most of the research conducted in Iran, the Audit Organization has been considered a small institution as a major audit institution and other accredited audit firms. Consequently, if the audit firm is an auditor of the company, the variable is one, and otherwise, the variable is considered zero.

4. Results

4.1. Descriptive Statistics

Table 1 shows descriptive statistics of the variables studied.

Due to the auditor's specialties' nominal variables in the audit firm's industry and size, their average and standard deviations are meaningless and therefore not provided. In addition, among the independent variables, the audit committee's size has the highest average and standard deviation. Also, among control variables, company size has the highest standard deviation. The average financial leverage (0.65) also shows that corporate debt is more than half of their assets, reflecting the high financial leverage level in typical firms.

Table 1. Descriptive statistics of research variables

Variable	Mean	Minimum	Maximum	S.D
ARL	78.815	18	216	25.620
ACSIZE	3.947	3	5	1.814
ACIND	0.484	0.2	0.75	0.176
EXPERT	-	0	1	-
BIG	-	0	1	-
SIZE	27.908	22.351	33.633	10.845
ROA	0.1125	0.108	0.572	0.162
LEV	0.658	0.0084	0.962	0.157

4.2. Check the stationarity

In this section, the Augmented Dickey Fouler has been used. This test tests the hypothesis of the existence of a unit root in serial quantities. If the zero assumption of the test for a unit root's existence is rejected in series values, it can be concluded that the studied series is stationarity. The results of this test are presented in Table 2.

Table 2. Result Of unit root test

Var	Dickey-Fuller test	
	Test statistic	Sig
ARL	-9.754	0.000
ACSIZE	-20.167	0.000
ACIND	-13.191	0.000
EXPERT	-12.034	0.000
BIG	6.331	0.000
SIZE	-5.547	0.000
ROA	-10.919	0.000
LEV	-8.013	0.000

According to the results presented in Table 2, the significance level obtained for all variables is less than 0.05. As a result, the zero-statistical hypothesis of the test is based on the unit root's existence. It can be concluded that the study series at this level of error is stationarity. Therefore, the behavior The values of the variables will not be subject to trend changes over time.

4.3. Pattern selection

The results of the Limer-F test and the Hausman test are presented in Table 3 for selecting the appropriate pattern.

Table 3. Result Of Limer-F test and Hausman test

Pattern	test	Test statistic	Sig	Appropriate pattern
First Hypothesis	Limer-F	66.878	0.000	Random effects
	Hausman	13.361	0.063	
Second Hypothesis	Limer-F	27.470	0.000	Random effects
	Hausman	12.639	0.081	

According to the results presented in Table 3, the significance level obtained for the Limer-F test in both hypotheses is zero. This level for all regression models is less than 0.05. Therefore, this test's zero assumption is based on the lack of significance of cross-sectional effects in the research model has been rejected, and it can be assumed that the regression model of this section should be estimated using panel data. The Hausman test's significance level for determining the fixed or random effects of cross-sectional effects in all hypotheses is higher than 0.05, which indicates the rejection of the zero hypotheses of this test. As a result, the research's regression models are presented using panel data and with random effects and estimated.

4.4. Testing hypotheses

4.4.1. Test results of the second hypothesis

Table 4 below shows the findings of the first hypothesis of the study.

Table 4. Test results of the first hypothesis

$ARL_{it} = \beta_0 + \beta_1\ EXP{*}ACSIZE_{it} + \beta_2\ BIG_{it} + \beta_3\ SIZE_{it} + \beta_4\ ROA_{it} + LEV_{it} + e$				
Dependent variable: Delay in the audit report				
Variable		**Coefficient**	**Test statistic**	**Sig**
C		6.364351	18.49001	0.0000
EXP*ACSIZE		-0.068412	-2.279821	0.0229
BIG		-0.055509	-2.181996	0.0478
SIZE		0.020234	1.005224	0.3151
ROA		0.015729	0.179628	0.8575
LEV		0.121888	2.402314	0.0165
F	P-value	Durbin–Watson	R^2	R^2 adjusted
9.6392	0.000	2.162040	0.497272	0.462971

According to the results presented in Table 4, the auditor's industry expertise negatively and significantly modifies the relationship between the audit committee's size and the delay in the audit report. The camera level-Watson level is also well-suited.

Based on the study's findings, the results of the self-correlation analysis of error sentences using Watson's camera statistics showed no correlation error. Also, the value of F statistic and the significance level of this statistic indicates that the hypothesis of the non-meaningfulness of the whole model (zero of all coefficients) is rejected, and the regression model satisfies in general. On the other hand, an examination of the adjusted coefficient of adjusted variables showed that the auditor's specialty variable in the industry negatively correlates the 46 percent ratio of the relationship between the audit committee's size and the delay in the audit report.

A review of the control variables showed a negative and significant relationship between the size of the audit firm and the delay in the audit report, as well as a positive and significant relationship between the financial leverage and the delay in the audit report.

4.4.2. Test results of the second hypothesis

In the following, Table 5 shows the findings related to the second hypothesis of the research.

According to the results presented in Table 5, the significance of the interactive variable of the Audit Committee's independence, and the auditor's specialty in the industry is less than 0.05. In this sense, the auditor's specialty variable in the industry, in the negative, explains a maximum of 24% of the relationship between the independence of the audit committee and the delay in the audit report. Also, Watson's camera model is statistically significant. A review of the control variables showed a negative and significant relationship between the size of the audit firm and the delay in the audit report, as well as a positive and significant relationship between the financial leverage and the delay in the audit report.

Table5. Test results of the second hypothesis

$ARL_{it} = \beta_0 + \beta_1\ EXP*ACSIZE_{it} + \beta_2\ BIG_{it} + \beta_3\ SIZE_{it} + \beta_4\ ROA_{it} + LEV_{it} + e$					
Dependent variable: Delay in the audit report					
Variable		**Coefficient**	**Test statistic**	**Sig**	
C		5.326454	16.45288	0.0000	
EXP*ACIND		-0.167176	-2.987148	0.0029	
BIG		-0.528486	-2.022446	0.0434	
SIZE		0.001364	0.130980	0.8958	
ROA		0.208735	1.052091	0.2931	
LEV		0.351209	4.543327	0.0000	
F	P-value	Durbin–Watson	R^2	R^2 adjusted	
8.0922	0.000	1.858438	0.283645	0.247619	

5. Discussion and Conclusions

The increased delay in the availability of financial statement information makes information less useful for economic decisions. The company's timely reporting is also one of the fundamental components of reporting quality goals. This research investigates the role of the moderator of auditor's specialty on the relationship between the audit committee's characteristics and the delay in the audit report.

The audit committee's size and independence can have a constructive impact on the financial statements' quality. Larger audit committees can influence companies and reports published by members using different expertise to conduct more rigorous control over financial reporting procedures. In addition, the audit committee should be independent of the organization's management to carry out its supervisory role and protect shareholders' interests. If members of the independent audit committee are managers and owners of the organization, they will prevent management from manipulating financial results. Independent directors are in the best position to monitor the financial reporting process and deal with management pressures and violations. Auditors with expertise in the industry have more expertise and experience in discovering mistakes in their field. The research hypotheses have shown that the audit committee's characteristics and the audit report's delay can be negatively correlated with the industry's specialty variable. If the company uses industry-specific auditors, reducing the audit committee's independence and size will be greater in the delay of the audit report. The research hypotheses' findings are in line with the findings of (Kamarudin et al., 2018). The research findings showed that managers should use industry-specific auditors, given the auditor's outstanding expertise in the industry. Investors can also refer to companies that are audited by the industry's auditors to select their investment. It is suggested that future research will also examine issues such as the role of the auditor's expertise in information disclosure and stock collapse, managerial features, and delay in the audit report, as well as the narcissism of the CEO and the audit report.

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