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Article

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Role of Auditor Specialization in Moderating Corporate Governance and Quality of Audit Reporting in Indonesian Manufacturing Companies

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Abstract

This study aims to examine the effect of corporate governance mechanisms on audit reporting. At the same time, this study's specific purpose was to investigate the impact of the number of audit committees, the role of independent (non-executive) board members, institutional ownership, and ownership concentration on audit reporting quality. Besides, this study also examines whether the role of the external auditor's reputation can moderate the relationship of corporate governance mechanisms to the quality of audit reporting. Testing 189 units of analysis of manufacturing companies in Indonesia obtained evidence that the size of the board of commissioners, the proportion of independent commissioners, institutional ownership influential and significant effect on the quality of audit reporting. Meanwhile, the audit committee, auditor industry specialization, and ownership concentration proved not to affect audit reporting quality. For testing the external auditor's moderating variable reputation proxied by industry specialization, it turns out that only the relationship between the size of the board of commissioners and ownership concentration on audit reporting quality is proven to be moderated by the auditor industry specialization.

Keywords

Audit Committee, Independent Commissioners, Ownership Concentration, Institutional Ownership, Auditor Industry Specialization, Indonesia

JEL Classification

M12, M21, M42, M48

Introduction

Most financial professionals and regulators have considered specific steps to reduce audit delay to maintain investor confidence (Alfraih, 2016; Baatwah, Salleh, & Stewart, 2019; Bailey, Collins, & Abbott, 2018; Chen & Wu, 2016; Dong, Robinson, & Xu, 2018; Francis & Yu, 2009; Ruiz-Barbadillo, Gómez-Aguilar, De Fuentes-Barberá, & García-Benau, 2004). However, audits are usually carried out in environments that have many interested parties. The problem is when auditors must try to meet the company's needs being audited, comply with relevant laws and regulations, and protect the public interest to ensure proper profitability in a highly competitive market.

This problem still causes many questions about the company management system and the system of ownership (*corporate governance*), which informs the reality that the corporate governance mechanism aims to create added value for all stakeholders. The structure of corporate governance has an essential role in achieving company goals. The board of commissioners supports corporate governance that plays a role in the company's internal supervision. The oversight function is carried out by providing evaluations, recommendations, and management suggestions to ensure all company operations are as planned. Independent commissioners will be able to encourage the creation of justice and equality among the company's various interests. It will increase transparency and management responsibility to produce excellent company performance (Dasuki & Lestari, 2019; Ibrani, Faisal, & Handayani, 2019; Kusmayadi & Hermansyah, 2018; Qoyum, 2017; Sakka & Jarboui, 2015).

Baygi (2010) and Dea'a & Nawwaf (2014) argued that before the financial statements are submitted to

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shareholders, financial reporting must be detected by corporate governance mechanisms to avoid mistakes. To measure the quality of financial reporting information, it can be seen from the company's annual reporting timeliness, which is an important factor affecting external users' usefulness. Therefore, this study aims to examine the effect of corporate governance mechanisms by using the number of audit committees, the role of independent (non-executive) board members, institutional ownership, and ownership concentration on audit reporting. Besides, this study also examines whether the external auditor reputation's role can moderate the relationship between corporate governance mechanisms to audit reporting quality.

Corporate governance is believed to solve problems arising from the principal-agent relationship (Ibrani et al., 2019; Kaal, 2019; Kartika & Utami, 2019; Marianne, 2013). One measure that can contribute to corporate governance efforts in dealing with agency problems is external auditors' involvement. External auditors can help facilitate positions where creative accounting practices are not recommended. The possibility of an audit opinion that qualifies concerning the auditor findings in the financial statements is considered less effective as a barrier for these managers, especially where individual managers or some managers are responsible for fraud (Ahmed & Rugami, 2019; Bertrand & Mullainathan, 2000; Ibrani et al., 2019; Kartika & Utami, 2019; Marianne, 2013).

Four corporate governance mechanisms are often used in various corporate governance studies to reduce agency conflict, namely independent commissioners, audit committees, institutional ownership, and managerial ownership. According to Kartika & Utami (2019) and Utama & Utama (2019), the board of commissioners' composition is one of the committee's characteristics related to earnings information content. Through its role in carrying out its supervisory function, the board's composition can influence management in preparing financial statements to obtain a quality earnings report.

There have been many studies on corporate governance mechanisms carried out by previous researchers (e.g., Bédard, Chtourou, & Courteau, 2004; Davidson, Goodwin-Stewart, & Kent, 2005; Filatotchev, Poulsen, & Bell, 2019; Francis & Yu, 2009; Frankel, Johnson, & Nelson, 2002; Zabri, Ahmad, & Wah, 2016). However, previous researchers' results show mixed and inconsistent results, so that research is still needed to re-examine these variables (Sakka & Jarboui, 2015). Previous research also only focused on the relationship between corporate governance mechanisms and earnings management.

There are still few and limited research areas that discuss the effect of corporate governance mechanisms on audit reporting quality, opening up research gaps that can be entered to complement the determinants of audit reporting quality. Thus, this study seeks to explain the effect of corporate governance mechanisms on audit reporting quality with external auditors' reputation as a moderating variable in companies listed on the Indonesia Stock Exchange in the 2016-2018 period.

The data used in this study we explore from the notes on published financial statements of manufacturing companies. The reason for choosing manufacturing as a sample is because the management of manufacturing companies is more complex has more resources than other companies, both human resources and other physical resources. For testing the moderation effect, we used moderated regression analysis (MRA). Audit quality results in variations in the credibility offered by the auditor. Because auditor quality is multidimensional and inherently unobservable, no single auditor characteristic can be used to represent.

Literature Review

Audit Committee on Quality of Audit Reporting and External Auditor Reputation as Moderating

Putra (2014) argues that the better the audit committee in carrying out its role, the shorter the time to submit the audit report. Suppose the audit committee has a good role. In that case, the financial statements' findings will be less so that it can shorten the audit implementation and accelerate financial statements' presentation. So, the audit committee has a positive effect on the timeliness of financial statement submission. The audit committee's presence can make the control environment effectively reliable after assisting and coordinating internal and external audit activities to allocate resources efficiently.

The audit committee authority usually involves oversight of financial reporting, monitoring of accounting policies, oversight of external auditors, compliance with regulations, risk management, and special investigations in cases of the suspect or problematic accounting practices. Although there is widespread conjecture that the audit committee's function improves financial reporting quality, empirical evidence is not supported. For example, Alves (2013) found an audit committee's presence was not related to financial reporting quality. In line with the previous study Afify (2009), Alqatamin (2018), and Vuko & Cular (2014) also stated that there had been a significant negative relationship between the existence of an audit committee and an audit report.

Financial statements should be submitted promptly to reduce the occurrence of information fraud on financial statements. To minimize conflicts between the company's management with the shareholders and maximize the company's management's control and supervision through the financial statements. Agency theory helps audit committees understand conflicts of interest that often arise between management and shareholders. With an independent audit committee, it is expected that there will be no more fraud in the financial statements prepared

by management that could result in the determination of the financial statements that deviate from the allotted time.

In contrast to Bajra & Čadež (2018, 2019) research, which states that audit committee oversight's effectiveness and competency are positively related to the quality of financial reporting. The same thing with Hardiningsih (2010) which states that the effectiveness of the audit committee has a positive effect on the integrity of financial statements. One of the functions and objectives of establishing an audit committee is to ensure that the financial statements produced are not misleading and follow generally accepted accounting practices. To some extent, the existence and effectiveness of the company's audit committee affects the quality and integrity of the resulting financial statements.

The audit committee's effectiveness is determined by its members' independence, procedures, and financial expertise. Independence is desirable from a financial reporting perspective because independent committee members are more likely to express unbiased opinions about the financial reporting process rather than relying on members (Hayes, 2014). The research described earlier highlights that specialized accounting firms are more reliable and far more qualified to minimize timeliness (Ahmed & Rugami, 2019; Mohamed Nor, Nawawi, & Puteh Salin, 2018; Sakka & Jarboui, 2015).

The research described by Putra (2014) states that the audit committee's effectiveness influences the selection of this reputable external auditor because the audit committee wants to carry out its functions, one of which is as an instrument of the board of commissioners in overseeing financial reporting, effectively. So, the resulting hypothesis is:

H1a: Audit committee influences the quality of audit reporting

H1b: A high external auditor reputation can moderate the relationship of the Audit Committee and the quality of audit reporting

Board of Commissioners Measures on Quality of Audit Reporting and External Auditor Reputation as Moderating

Size is an important factor for the smooth functioning of the board of directors (Mkadmi & Halioui, 2013; Rahman & Mohamed Ali, 2006). Indeed, the small size of the board is undoubtedly the role of its supervision, especially in financial statements, so that it becomes more functional and responsible for providing quality financial information that is quite effective (Sakka & Jarboui, 2015; Xie, Wallace N. Davidson, & DaDalt, 2003).

The size of the board of commissioners can affect the timeliness of financial statement submission. Fauzi & Locke (2012) stated that a large board of commissioners is more effective in overseeing a company than a small commissioner board. Similar results were also reported by Susandya (2018), that the size of the board of commissioners has a positive effect on the timeliness of reporting. The board of commissioners' large size will create a more directed delegation of tasks from the small board to the committee. It will increase oversight of management so that management will submit financial statements timelier.

The control function performed by the board of commissioners is taken from agency theory. Juhairiyah, Afifudin, & Junaidi (2018) and Febryna (2015), from the perspective of agency theory, the board of commissioners represents the primary internal mechanism for controlling the opportunistic behavior management so that it can help align the interests of shareholders and managers. This can be explained in the agency problem, with the increasing number of members of the board of commissioners making it more difficult to carry out its role. e.g., difficulties in communicating and coordinating between board members; difficulties in carrying out supervisory duties on company management will also impact declining company performance (Ujiyanto & Pramuka, 2007).

The presence of an independent board of commissioners in the preparation of financial statements can reduce the time needed by companies to publish their financial statements to the public (Clatworthy & Peel, 2013). As research conducted by Savitri (2010), according to his study, companies that have independent commissioners will have financial statements that have more integrity and protect the rights of parties outside management to reduce the act of manipulation of financial statements and the submission of financial statements timelier. In the following research by Joened & Damayanthi (2016), the independent board of commissioners positively affects financial statement submission timeliness. The same result was reported by Kusumayani, Widanaputra, Wirama, & Budiasih (2019) that the independent board of commissioners positively affected the financial statement's timeliness submission. The independent board of commissioners has been able to carry out its function as a corporate governance mechanism to the maximum so that an independent commissioner in a company can affect the company's timeliness in submitting financial statements.

Analysis of the relationship between board size and external auditors' choice, Ianniello (2015) provides empirical evidence that board size is positively and significantly related to selecting specialized auditors. However, Beisland, Mersland, & Strøm (2015) found no significant relationship in profit and nonprofit microfinance institutions. They argue that microfinance is a relatively new and high-growth industry, and the lack of a mature industry might be one reason why board size does not appear to be related to audit quality. Ianniello (2015) argues that a larger board might be more motivated to choose a high-quality external auditor to reduce

organizational problems and improve the perception of the quality of published financial statements.

Putra (2014) noted that the board of commissioners' variable size had a significant positive influence on reputable auditors' selection. Companies with more board members will have a higher chance of choosing a reputable auditor.

Research Alfraih (2016), Alfraih & Almutawa (2017), Almujaed & Alfraih (2020), that overall, these results indicate that the composition of the board of directors is indeed important in choosing an external auditor. This finding makes several significant contributions to our understanding of the relationship between the board of directors' composition and external auditors' choice. Thus, the following hypothesis is formulated:

H2a: Board size influences the quality of audit reporting

H2b: A high external auditor reputation can moderate the relationship between the Board of Commissioners Size and Quality of audit reporting

The proportion of Independent Commissioners on Quality of Audit Reporting and External Auditor Reputation as Moderating

External directors or non-executives generally do not have a personal interest in the company. Standing up because they are effective factors in monitoring the financial quality of information quality and negatively related to earnings management practices, they should represent more than 50% (Rahim, Johari, & Takril, 2015; Sakka & Jarbou, 2015). Integrated external members help increase the effectiveness of the board of directors in regulating and monitoring the effectiveness of activities to prevent fraud related to financial statements

The previous research studies described referring to the relationship between independent commissioners and the timeliness process were contradictory. Some researchers have shown that the proportion of independent commissioners is an effective fraud reduction factor that allows external auditors to reduce working hours, reduce testing procedures, and reduce the appropriate period (Chen & Wu, 2016; Sakka & Jarbou, 2015; Azubike & Agreh, 2014).

Different results were reported by Ulfah (2019), that the proportion of the board of commissioners has a positive influence on the quality of financial reporting, which represents the percentage of the number of independent commissioners in the company. The board of commissioners' members' independence gives confidence that intensive supervision is carried out on the company activities. The greater the proportion of independent board of commissioners, the more optimal the supervision carried out to produce quality financial reporting. The independent commissioner is the best position to carry out the monitoring function to create a good governance company. Board diligence seems to be the only determinant of external audits' quality, positively affecting good audit quality (Wijayanti, Machmuddah, & Utomo, 2019). Sakka & Jarbou (2015) found that the proportion of independent directors positively impacts auditor remuneration and audit quality. So, the hypothesis that is raised is:

H3a: The proportion of independent directors influences the quality of audit reporting

H3b: A high external auditor reputation can moderate the relationship between the Proportion of Independent Commissioners and the quality of audit reporting

Ownership Concentration on Quality of Audit Reporting and External Auditor Reputation as Moderating

One form of ownership structure is ownership concentration, divided into ownership structure, namely concentrated ownership, and diffused ownership. What is meant by concentrated share ownership is if most company shares are owned by a small number of individuals or groups. The shareholders have a dominant number of shares compared to other shareholders. Kusumayani et al. (2019) state that shareholders who have greater share value have more power to monitor managers' performance to suit their goals of increasing their shares' value.

Hardiningsih (2010) state institutional ownership has a crucial role in minimizing agency conflict between managers and shareholders. Institutional investors' existence is considered capable of being an effective monitoring mechanism in managers' every decision. It is because institutional investors are involved in strategic decision making, so it is not easy to believe in earnings manipulation. The existence of institutional ownership, such as insurance companies, banks, investment companies, and ownership by other institutions, will encourage increased optimal oversight (Kusumayani et al., 2019). With shared ownership, managers will act according to the principals' wishes because managers will be motivated to increase the company's value.

In the case of ownership widespread, direct shareholder control is rather high, leading to greater trust devoted to the audit profession as a means of controlling managerial behavior (Alfraih, 2016). But conversely, when the property proves to be concentrated, higher pressure is placed on the external auditor to elaborate the report in a short time interval, to obtain timely information.

In this context, the two large studies described by Ezat and El-Masry (2008), as well as Davidson et al. (2005), Fauzi & Locke (2012), Sakka & Jarbou (2015) has emphasized that the spread of corporate ownership structures can help reveal more information. For example, a website that is always updated can reduce information costs

and help them monitor their managers' behavior. So, the hypothesis is:

H4a: Ownership concentration influences the quality of audit reporting

H4b: A high external auditor reputation can moderate the relationship of Ownership Concentration and Quality of audit reporting

Institutional Ownership of Quality Audit Reports with the Reputation of External Auditors as Moderators

Institutional ownership means that company shares are owned by other institutions or other institutions such as insurance companies, banks, investment companies, and other institutions. Institutional ownership is expected to improve the oversight and monitoring functions of managers. The existence of ownership by institutional investors will encourage increased oversight of more optimal management performance because ownership of shares represents a source of power that can support management's existence (Kartika & Utami, 2019). In addition, an increase in institutional ownership causes managerial performance to be monitored optimally and to avoid opportunistic behavior. Distribution of shares between external shareholders such as institutional investors can also reduce agency costs.

Research by Joened & Damayanthi (2016) states that institutional ownership has no effect on financial statements' integrity and explains that the auditor reputation and institutional ownership mechanism influence simultaneously and significantly to financial statements' integrity.

Wijayanti et al. (2019) state that the ownership structure shows a negative relationship between institutional ownership and demands different external representatives' different qualities. However, it is different from further research, which states that institutional ownership has a significant influence on the quality of financial reporting information because institutional investors can monitor management actions (Hardiningsih, 2010; Kusumayani et al., 2019). A high institutional ownership structure causes the company's control to intensify to minimize fraud and misuse of company resources and improve financial reporting quality.

Zureigat (2011) said that ownership of outsiders is high if companies' ownership structure from outside parties has a percentage greater than 50 percent. As a result, outsiders have great power to influence management, including timely financial reporting, because financial reporting timeliness will affect economic decision-making. Another study conducted by Insani, Indarti, & Widiatmoko (2016) stated that the greater the ownership of institutional investors in the company, the faster the financial statements would be submitted.

Putra (2014) notes that the variable percentage of institutional share ownership does not affect qualified auditors' selection. The higher the percentage of institutional share ownership in a company, the lower the opportunity for the selection of external auditors, including the top-ten, so the hypothesis is formed:

H5a: Institutional ownership influences the quality of audit reporting

H5b: A high external auditor reputation can moderate the relationship of Institutional Ownership and Quality of audit reporting

Methods

This researcher took data on the annual financial statements of manufacturing companies listed on the Indonesian Stock Exchange period 2016 to 2018 (3 years). For the needs of measuring the variables of this study, all of the information we collect from the notes to the financial statements. The reason for choosing manufacturing as a sample is because the management of manufacturing companies is more complex has more resources than other companies, both human resources and other physical resources. The method of determining the sample with a purposive sampling technique with the following criteria: publishing a complete financial statement during the observation period (2016-2018); do not delist during the observation period. Testing data and hypotheses in this study using multiple regression analysis. The list and measurement of the variables tested in this study are displayed in the following table operation variables:

Table 1. Operationalization of Variables.

Variable	Definition	Indicator
Quality of Audit Reporting	External auditors' timeliness of audit reporting is the time taken to examine and report on financial statements' fairness and loyalty	Number of days between the end of the fiscal year and publication date (log)
Audit Committee	The audit committee is the person who supervises the company that plays an important role in terms of maintaining the credibility of the process of preparing financial statements	$KO = \sum$ member of the board of commissioners
Board of Commissioners size	The Board of Commissioners is the board that is responsible for supervising and giving advice to the board of directors	$BSIZE = \sum$ member of the board of commissioners

The proportion of Independent Commissioners	Members of the Board of Commissioners who come from outside the Issuer or Public Company and meet the requirements as Independent Commissioners	Number of Independent Commissioners / Total Board of Commissioners x 100%
Ownership Concentration	Ownership concentration is a measure of the presence of large shareholders in a company	Worth 1 if the proportion of shares held by the majority shareholder of the company > 20%, and 0 if not
Institutional Ownership	Institutional Ownership is ownership associated with outside parties of the company, in this case, institutional investors	Total shares owned / Total outstanding shares
External Auditor reputation	Auditor expertise and audit experience in certain industry fields	auditors industry specialization are coded 1; code 0 for the reverse

Source: elaborated from various studies, 2020

Moderation Variable

Moderating variables are variables that influence the direct relationship between the independent variable and the dependent variable (Sugiyono, 2017). The moderating variable in this study is the auditor reputation. The auditor reputation is the achievement and public trust that the auditor bears on behalf of the auditor. The auditor reputation in this study was proxied with industry specialist auditors. For testing the moderation effect, we used moderated regression analysis (MRA).

Auditor specialization is more likely to detect errors and irregularities that occur in financial statements to help companies provide better earnings information (Romanus, Maher, & Fleming, 2008). Better earnings information is expected to be a more accurate basis for predicting cash flow and company performance in the future. Besides, specialist auditors have a comprehensive understanding of company characteristics so that they are more likely to detect errors and irregularities that occur in corporate financial reporting (Romanus et al., 2008).

The reference used in this study for proxies from industry specialist auditors is Sun & Liu (2014) based on client companies' total assets. Januarsi (2009) and O Reilly & Reisch (2002) provide two measures to determine audit firm can be said as a specialist auditor in a particular industry, i.e., if a specific audit firm has the largest market share in each industry or if a specific firm of audit has a number of most clients in certain industries.

$$ARQ = \beta_0 + \beta_1 AC + \beta_2 BSIZE + \beta_3 OUDIR + \beta_4 CONC + \beta_5 Inves + \varepsilon \quad (1)$$

Furthermore, equation (2) is a function to see the moderating effect:

$$ARQ = \beta_0 + \beta_1 AC + \beta_2 BSIZE + \beta_3 OutDir + \beta_4 CONC + \beta_5 Invest + \beta_6 AIS + \beta_7 (AIS * AC) + \beta_8 (AIS * BSIZE) + \beta_9 (AIS * OutDir) + \beta_{10} (AIS * CONC) + \beta_{11} (AIS * inves) + \varepsilon \quad (2)$$

where

ARQ Quality of Audit Reporting,
 β_0 Constants,
 β_{1-5} Coefficient of Independent Variable,
 ε Standard Error.

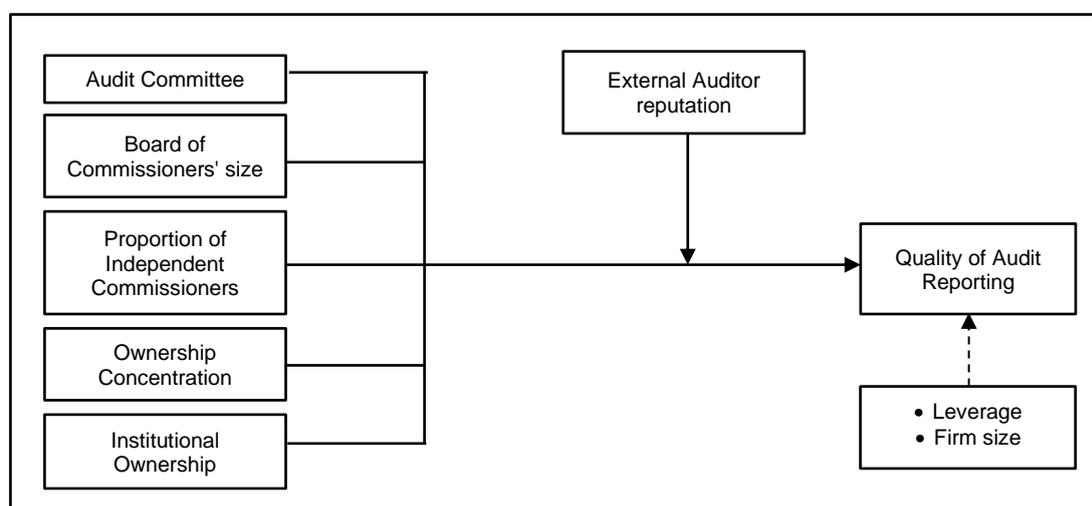


Fig 1. Conceptual model.

Results

From the results of the screening and observation, it is known that there were 143 companies in manufacturing during the observation period. Then there were 62 companies dropped because it was not included in the sample criteria, i.e., delist; use dollar currency; and incomplete data. Our final sample contains 189 years of firm observations collected in a panel data consisting of 63 cross-section units x 3-time series units.

Table 2. Criteria Sample Selection.

Criteria	Number
Manufacturing companies listed on the IDX from 2016 to 2018	143
The company dropped because it was not included in the sample criteria, i.e., delist; use dollar currency; and incomplete data	(62)
Number of companies sampled	63
Observation year (2016 to 2018)	3
Final Sample	189

In table 3 (descriptive statistics), the average value of the board size variable is 4.65. This explains that with the largest number of board sizes, the supervision conducted will be better to improve the company's performance and improve the quality of financial reports and reduce the occurrence of audit report lag compared to the least number of board sizes. Indonesian Financial Services Authority Regulation (OJK) No.57/POJK.04/2017 states that the proportion of independent commissioners is at least 30% of all board of commissioners members. The proportion of independent directors in this study has a mean value of 0.391, meaning that the proportion of independent directors is 39.12% more than 30%. It is following applicable regulations.

Table 3. Descriptive statistics.

Variable	Min	Max	Mean	Std. Dev
Audit Committee	2	5	3,07	0,536
Board of Commissioners' size	3	10	4,65	1,709
Proportion of Independent Commissioners	0,20	0,67	0,3912	0,09587
Concentration of Ownership Institutional Ownership Quality Audit Reporting	0	1	0,97	0,176
Auditor Industry Specialist	0,05	0,99	0,6921	0,19887
R Square	22	179	77,08	18,508
Adjusted R Square	0,190			0,159

The ownership concentration variable is categorized if the majority share ownership is concentrated by companies with a percentage above 20%, a mean value of 0.97 is obtained, so it can be concluded that on average 97% of the sample companies have a share percentage above 20%. Variable institutional ownership can be concluded on average from 189 sample companies owning 69.21% shares, which means that institutions own almost all share ownership.

The audit reporting quality variable is measured by counting the number of days between the end of the fiscal year until the audit reports publication can be explained from 189 sample companies with an average of 77.08% reported before the 120 days, while the remaining 22.92% experienced audit delay. The external auditor reputation variable is categorized if the financial statements are audited by the Audit firms Specialization industry. Information was obtained that the Audit firm's Specialization industry had audited 43% of the sample.

The leverage variable is a control variable calculated by means of total liabilities divided by total assets obtained evidence that 45.86% is financed from debt. The higher the leverage shows, the greater the use of debt, which results in greater financial risk faced by the company. The coefficient of determination represented by Adjust R Square is 0.159. It means that 15.9% of the variation in audit reporting quality can be explained by variations of the variables studied, while other causes outside the model cause the remaining 84.1%.

$$Y = 2,150 + 0,029 AC - 0,034 BSIZE + 0,179 OUTDIR + 0,031 CONC - 0,126 INVES - 0,193 AIS - (0,035 AC \cdot AIS) + (0,018 BSIZE \cdot AIS) - (0,009 OUTDIR \cdot AIS) + (0,263 CONC \cdot AIS) - (0,016 INVES \cdot AIS) + 0,010 LEV - 0,07 FS + \epsilon \quad (3)$$

where

AC Audit Committee,
BSIZE Board of Commissioner size,

OUTDIR	Proportion of Independent Commissioners,
CONC	Ownership Concentration,
INVES	Institutional Ownership,
AC* AIS	The Audit Committee Interaction with the External Auditor Reputation,
BSIZE* AIS	Interaction of the size of the board of commissioners with the reputation of the External Auditor,
OUTDIR* AIS	Interaction of the Proportion of Independent Commissioners with the Reputation of External Auditors,
CONC* AIS	Interaction of Ownership Concentration with the Reputation of External Auditors,
INVES* AIS	Interaction of Institutional Ownership with the Reputation of External Auditors,
LEV	Leverage,
FS	Firm size (Log).

Table 4. Regression Analysis Results.

	Unstandardized Coeff		Standardized Coeff	t	Sig.
	B	Std. Error	Beta		
(Constant)	2,150	0,171		12,589	0,000
Audit Committee	0,029	0,019	0,140	1,547	0,124
Board of Commissioners' size	-0,034	0,008	-0,525	-4,028	0,000**
Proportion of Independent Commissioners	0,179	0,090	0,166	1,988	0,048**
Ownership Concentration	0,031	0,066	0,049	0,470	0,639
Institutional Ownership	-0,126	0,053	-0,225	-2,382	0,018**
Leverage	0,010	0,025	0,029	0,402	0,688
Firm Size	-0,007	0,012	-0,052	-0,611	0,542
Reputation of External Auditors	-0,193	0,165	-0,864	-1,171	0,243
Interaction 1 (AC* AIS)	-0,035	0,031	-0,517	-1,154	0,250
Interaction 2 (BSIZE* AIS)	0,018	0,011	0,489	1,672	0,096*
Interaction 3 (OUTDIR* AIS)	0,-009	0,180	-0,018	-0,053	0,958
Interaction 4 (CONC* AIS)	0,263	0,096	1,171	2,749	0,007**
Interaction 5 (INVES* AIS)	-0,016	0,095	-0,056	-0,172	0,864

a. Dependent Variable: Lg_Y

Note: p<0.1 *, p<0.05 **, p<0.01***, respectively (two-tailed)

Discussion

Based on the results of hypothesis testing in Table 3 shows that the size of the board of commissioners significantly influences the quality of audit reporting ($\beta=-0.34$, $p<0.01$). So, we can report H2a successfully supported. These results explain that the more the number of members of the board of commissioners, the more will focus on completing each department's activities so that audit report lag can be shortened.

The proportion of independent directors also appears to positively and significantly affect the quality of audit reporting with $\beta=0.179$, $p<0.05$. So that H3a can be reported successfully supported. So, this study explains that companies with a high proportion of independent directors have lower audit report lag compared to companies with a low proportion of independent directors. The independent commissioner is the best position to carry out the monitoring function to create a good governance company. Board persistence seems to be the only determinant of external audit quality that positively affects good audit reporting (Ulfah, 2019; Wijayanti et al., 2019).

Institutional ownership negatively influences the quality of audit reporting with $\beta=-0.126$, $p<0.05$ (H5a supported). It means that the greater the percentage of institutional ownership, the greater the probability that companies will not submit their financial statements on time, so the smaller the institutional ownership, the greater the probability of companies to submit financial statements on time. This result proves that the size of institutional ownership does not fully influence the company that timely submits financial statements.

The test results in Table 4 show the audit committee does not influence the audit reporting quality ($\beta=0.029$, $p>0.12$); hence, H1a was not supported. H4a is also not supported, and this result indicates that the concentration of ownership does not affect the quality of audit reporting ($\beta=0.031$, $p=0.639$). This study explains that the greater the audit committee's size does not significantly reduce the quality of corporate audit reporting.

The average number of audit committees in each company has complied with the regulations of the Indonesian Financial Services Authority (OJK). Still, only to the extent that they obey so, they do not pay attention to the audit committee's duties and objectives. It indicates that the performance of the audit committee in carrying out its duties is less than optimal. The existence of an audit committee does not affect audit report lag within the company. It is because the audit committee does not play a direct role in preparing the audit report but rather is only as a supervisor in the preparation of the independent auditor report.

The interaction of audit committee variables with external auditors' reputation was found to have no effect on audit reporting quality ($\beta=-0.035$, $p=0.250$). So H1b is not supported, the auditors reputation cannot moderate the relationship between the audit committee and the accuracy of the audit reporting. Because if the company uses specialized or not auditors as long as the company complies with the regulations, it would be appropriate to report the audit report regardless of the number of audit committees.

Whereas H2b was successfully supported. The board of commissioners' size with the reputation of an external auditor has a value $\beta=0.018$, $p<0.10$. Then, it can be concluded that the presence of the external auditor reputation as a moderating variable affects the relationship between the size of the board of commissioners on the quality of audit reporting. A large number of boards of directors can encourage decisions related to the selection of company auditors. The selection of qualified and reputable auditors can be used to improve audit quality of published financial statements. So that control over the board of commissioners' size makes it possible to replace prominent external auditors in minimizing the disclosure of timeliness.

The result of the interaction between the proportion of independent directors and the reputation of external auditors (H3b) has not been proven to strengthen the relationship between the proportion of independent directors and the quality of audit reporting ($\beta=-0.009$, $p=0.958$). Likewise, for the interaction of institutional ownership with the auditor reputation ($\beta=-0.016$, $p=0.864$).

While the results of the interaction of ownership concentration variables with the reputation of external auditors (H4b) were successfully supported ($\beta=0.263$, $p<0.05$), it can be concluded that the presence of moderating variables can strengthen the relationship between ownership concentration and audit reporting quality. Institutional ownership tends to monitor the financial reporting process actively, reflecting the weak requirements of external auditors in executing tasks in completing audits promptly. So that with a reputable auditor who is proxied by an industry specialization auditor or does not cause institutional ownership to play an active role in monitoring the financial reporting process in executing tasks in completing audits promptly.

We also include testing control variables, namely leverage ($\beta=0.010$, $p=0.688$) and company size, which is proxied by Log total assets ($\beta=-0.007$, $p=0.611$). So, it can be concluded that the control variables in this study, namely the company's leverage, and size, nothing that affects the quality of audit reporting.

Conclusion and Future Research

This study aims to determine the role of auditor reputation in moderating the influence of corporate governance and the quality of audit reporting. Based on the analysis results, it can be concluded that the audit committee does not significantly influence the quality of audit reporting. The average number of audit committees in each sample company has complied with OJK regulations. Still, it is only limited to obeying so that it does not pay attention to the audit committee's duties and objectives. External auditor reputation has not been proven to moderate the relationship between the audit committee and audit reporting quality. Companies that use auditor industry specialization or not as long as the company complies with the regulations made it appropriate to report the audit report regardless of the number of audit committees.

The board of commissioners' size has a negative and sig effect on the quality of audit reporting. It means companies with a board of commissioner size that have more members are judged to be more focused. So that the completion of the activities of each department can be completed more quickly. A large number of boards of directors can make decisions regarding the selection of company auditors, and thus qualified and reputable auditors can be used to improve the audit quality of published financial statements. The greater the proportion of independent board of commissioners, the more optimal the supervision carried out to produce quality financial reporting.

Conversely, external auditors' reputation cannot moderate the relationship between the proportion of independent commissioners to the quality of audit reporting. A high auditor reputation may not necessarily help the independent board of commissioners play a role in the timely audit reporting process. This study shows that the reputation of external auditors, whether specialized or not, with the proportion of independent commissioners not being targeted, the proportion is an only formality, does not rule out not affecting audit reporting.

The large concentration of institutional ownership does not fully influence companies that timely submit financial reporting. Companies with a large ownership level will make management more careful in preparing their financial statements, hoping that these financial statements will meet all the information needs needed by the company external owners. External auditor reputation can strengthen the relationship between the two variables,

such as by changing external audits that are specialized, shareholders can direct tight control over managerial actions, which help reduce agency costs between shareholders and managers, making information more reliable to achieve audit work appropriately time.

The external auditor's reputation cannot moderate the relationship between institutional ownership and the quality of audit reporting. Whether or not a specialized auditor is present, institutional ownership cannot actively monitor the financial reporting process in executing tasks in completing audits promptly.

Similar research can be done by extending or expanding the research period to produce more accurate research results and conclusions that illustrate the effect of public accounting firms' quality on the integrity of financial statements. Selection of different proxies from researchers so that results are more accurate, the integrity of financial statements, for example, by discretionary accruals or others.

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