Quest Journals
Journal of Research in Business and Management
Volume 10 ~ Issue 7 (2022) pp: 142-153
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

Market Reaction on Financial Restatement with Corporate Governance Mechanism as Moderating Variable

Febriyana Siswi Handayani[1], Yohanis Rura[2], Alimuddin[3]
[1]*(Faculty of Economics and Business, Hasanuddin University, Indonesia)*
Corresponding Author: Febriyana Siswi Handayani

ABSTRACT: *This study aims to determine the effect of financial restatement on the reaction of the capital market with corporate governance as a moderating variable. The object of research is a manufacturing company listed on the IDX. The research population is 676 companies which are the number of companies listed on the IDX since 2014-2019. Determination of the sample using non-probability sampling technique, namely sampling research that does not provide equal opportunities/opportunities for each element or member of the population to be selected as a sample. The number of samples used is as many as 80 companies. The data collection technique used is the documentation technique. The data analysis technique used is descriptive statistical analysis, classical assumption test, and research hypothesis testing consisting of multiple linear regression analysis, moderated regression analysis, t test, and coefficient of determination test.*
The results showed that (1) Financial Restatement had a negative effect on Abnormal Return; (2) Financial Restatement has a negative effect on Abnormal Return with a moderated size of the Board of Directors; (3) Financial Restatement has a negative effect on Abnormal Returns moderated by the independence of the Board of Commissioners; (4) Managerial Ownership is not able to moderate the relationship between Financial Restatement and Abnormal Returns; (5) Financial Restatement has a positive effect on Abnormal Returns moderated by Institutional Ownership; (6) The competence of the Audit Committee is not able to moderate the relationship between Financial Restatement and Abnormal Return.
KEYWORDS: *financial restatement, size of the board of directors, independence board of commissioners, managerial ownership, institutional ownership, audit committee competence, abnormal returns*

***R**eceived 06 July, 2022; **R**evised 18 July, 2022; **A**ccepted 20 July, 2022*

I. INTRODUCTION

The capital market is a meeting place between parties who have excess funds and those who need funds by trading securities. (Tandelilin, 2010). The more efficient the capital market, the more it reacts to information. Capital market reactions can be measured by using Return as the value of price changes or by using Abnormal Return. Returns in the capital market respond to various kinds of events, events that contain positive information will encourage domestic economic activity so that it will affect the company's ability to improve the welfare of its stakeholders and vice versa. From the relevant information, investors can assess the performance prospects of issuers so that investors have an overview of the risks and Expected Returns on funds that have been or will be invested.

Financial statements are a bridge between investors and companies, stakeholders make decisions based on information derived from financial statements. However, significant accounting errors will reduce the quality of information which will impair the decision making of information users (Xu and Kong, 2019).

In Indonesia, several large-scale companies have carried out restatements in the last five years. One of them is a large government-owned company, Garuda Indonesia, which restated some of its financial data in the 2018 Financial Statements. In the previous 2018 financial statements, the company posted a profit of 5 million US dollars or equivalent to Rp. 70.02 billion. However, in the public expose material presented by Garuda on the Indonesia Stock Exchange (IDX) website, the airline's profit was minus 175 million US dollars. This means that there is a difference of 180 million US dollars from what was stated in the previous financial statements.

Investors need credible financial reports for decision-making purposes. The market is said to be semi-efficient if the price of securities fully reflects all published information included in financial statements such as earnings, dividends, new product developments, financial difficulties, or corrections to company accounting data (Jones 2003). Studies show that the capital market reacts negatively to financial restatement (Palmrose 2004).

Financial Restatement is considered an event that gives a negative reaction from investors in the capital market. Deviations from GAAP that lead to Financial Statements are a sign that previous financial statements contain errors and have the potential to mislead users of financial statements. Hennes et al. (2012) stated that the consequences of Financial Restatement are not limited to managers but the company as a whole. Financial Statements indicate the existence of information that reflects the occurrence of errors in a financial statement. Anderson and Yohn (2005) found that investors' perceptions of the reliability of accounting information after the restatement decreased.

Hasnan et al. (2019) tested firm value on financial restatement moderated by several variables from Corporate Governance, consisting of the size of the board of directors, independence of the board of commissioners, CEO duality, managerial ownership, institutional ownership, audit committee competence, and political connections. The existence of the Corporate Governance variable is presented to answer questions due to financial restatement regarding management integrity, the adequacy of a company's internal control, the effectiveness of the audit committee, and also independence (Gleason et al., 2008). The Corporate Governance variable is expected to give a positive signal to investors and suppress negative reactions to the occurrence of financial restatements. Good Corporate Governance can help investors to maintain their wealth, so investors don't have to worry about investing. This causes investors to tend to be more interested in companies that have good corporate governance. According to Anggraeni (2019), Good Corporate Governance in the proxy mechanism consists of the board of directors, the board of commissioners, institutional ownership, managerial ownership, and the audit committee.

Good Corporate Governance (GCG) is needed to encourage the creation of an efficient, transparent and consistent market with regulations. Companies that have good corporate governance have characteristics such as the company's ability to convey information more quickly, accurately and completely (Arifin, 2004). Nuswandari (2009) states that the implementation of the GCG concept makes shareholders confident that they will get the expected return.

Research conducted by Isgiyarta and Tristiarini (2005) on the effect of GCG implementation on Abnormal Returns in companies that apply GCG principles shows that the application of good corporate governance principles affects Abnormal Return as a positive reaction from investors. Companies that implement the principles of good corporate governance are expected to have a systematic direction to be able to work well, because it involves transparency and accountability of the company to disclose financial information and other matters related to its business activities.

Therefore, companies that implement GCG are committed to being able to deliver financial information faster, more accurately, and more completely. This is very beneficial, both for the company and for investors as one of the users of financial statements. GCG is expected to moderate and provide added value, the impact of which will suppress the negative relationship between Financial restatement and Abnormal Return.

This study uses financial restatement as an independent variable, and the mechanism of Good Corporate Governance in the research of Hasnan et al. (2019) as a moderating variable. Hasnan et al. (2019) uses firm value as the dependent variable, while this study uses abnormal returns to predict capital market reactions.

II. LITERATURE REVIEW

2.1. Signaling Theory

Signaling theory originated from the writings of George A. Akerlof in his 1970 work "The Market for Lemons", which introduced the term asymmetric information (information asymmetry). The condition in which one party (the seller) who carries out a business transaction has more information over the other party (the buyer) is called adverse selection (Scott, 2009). According to Akerlof (1970) adverse selection can be reduced if sellers communicate their products by giving signals in the form of information about the quality of the products they have. Akerlof's (1970) thinking was developed by Spence (1973) in the basic equilibrium signaling model. From his research, Spence also found that the cost of signal on bad news is higher than good news and that companies with bad news send signals that are not credible. This motivates managers to disclose private information to reduce information asymmetry in the hope of sending a good signal (good news) about the company's performance to the market.

According to Jogiyanto (2017) information published as an announcement will provide a signal for investors in making investment decisions. When information is announced, market participants first interpret and analyze the information as a good signal (good news) or a bad signal (bad news). If the announcement of the information is considered a good signal, then investors will be interested in trading shares. One type of information issued by the company is information related to financial statements and information that is not related to financial statements. Brigham and Houston (2014) state that Signaling theory is the shareholder's perspective on the company's opportunities to increase company value in increasing company value to shareholders. This action is taken by the company in order to give a signal to shareholders or investors regarding the company's management in seeing the company's prospects in the future so that it can distinguish good quality companies and poor quality companies.

2.2. Agency Theory

Agency theory is a theory that underlies the working relationship between the party giving the authority (the principal) and the party receiving the authority (the agent). Jensen and Meckling (1976) explain that the agency relationship is a contract between management (agent) and owner (principal) that occurs when one or more people (principal) employ another person (agent) to provide a service and then delegate authority for decision making. . The principal is the shareholder or investor, while the agent is the management who manages the company. Principals hope that management will act in their interests and be able to use the resources entrusted to them to the maximum extent possible so that they are motivated to enter into contracts to prosper themselves with ever-increasing profitability. Meanwhile, managers are motivated to maximize themselves in terms of obtaining investments, loans and compensation contracts. Thus there are two different interests in which each party seeks to achieve the desired level of prosperity.

The difference in interests between the principal and the agent is called agency problems. Agency problems can increase due to information asymmetry, namely information that is not balanced between the principal and the agent due to the principal's difficulty in controlling the agent's actions. The principal cannot monitor the agent's activities to ensure that the agent works according to the principal's wishes so that the principal does not have sufficient information about the agent's performance, while the agent has more information about the company as a whole. The imbalance of information owned by the principal and agent can cause the agent to behave in a manner that is not in accordance with the wishes of the principal.

Agency problems can reduce the quality of financial reports which can be a negative signal for investors, so that in such conditions a control mechanism is needed that can harmonize the differences in interests between agents and principals. Good Corporate Governance as a corporate governance system that regulates the pattern of relationships between company stakeholders and protects the interests of shareholders is expected to help reduce agency problems.

2.3. Market Reaction

According to Jogiyanto (2017), market reaction is a form of market response to information contained in an announcement issued or published. If an announcement contains information that is good news, the market will respond or react quickly when the information is announced. Investors will respond to this information as a signal in making their decision. The reaction of investors in responding to the announcement led to the activity of buying and selling shares which resulted in changes in the price and trading volume of shares. Market reaction can be seen through Abnormal Return and unexpected trading volume. Abnormal Return is the difference between the actual return or what has occurred (actual return) and the return that has not occurred but is expected to occur (expected return). Abnormal Return is used to see stock prices in the event window for each day around the event date (Yuliana et.al., 2008). Abnormal Return is a proxy for stock prices that shows the magnitude of the market response to published accounting information (Daud and Syarifudin, 2008). This study uses abnormal returns in measuring market reactions, namely the difference between the actual return occurring and the expected return. Normal return is the expected return (return expected by investors) (Randa and Liman, 2012).

2.4. Financial Restatement

Financial Restatement is the correction of errors caused by non-compliance with GAAP (Scholz, 2013). Several factors have been identified to influence the incidence of Financial Restatement including accounting standards, changes in materiality levels, auditor quality, earnings management, increased complexity of corporate transactions, and analyst forecast meetings (Plumlee and Yohn, 2011). Financial Restatement was carried out due to misstatements in the form of changes in accounting policies, changes in accounting estimates, and also material errors in the previous period. (Ramadhanti and Suryani, 2020).

2.5. Corporate Govaernance Mechanism

According to Anggraeni (2019), Good Corporate Governance in the proxy mechanism consists of the board of directors, board of commissioners, institutional ownership, managerial ownership, and audit committee. The Board of Directors is the head of the company who is elected by the shareholders to represent their interests in managing the company. The size of the structure of the board of directors in each company varies depending on the characteristics of the company. The structure of the board of directors has an effect on reducing the occurrence of financial restatements (Altarawneh et al., 2020). This gives a positive signal for investors so that the research of Hasnan et al. (2019) shows a positive reaction from the capital market to the larger size of the board of directors structure.

The Board of Commissioners is in charge of supervising and responsible for supervising management policies, the general course of management, both regarding Issuers or Public Companies and the business of Issuers or Public Companies, and providing advice to the Board of Directors. The board of commissioners needs independence and effectiveness in the financial reporting process (Pamudji and Trihartati, 2010). This is so that the financial statements produced by the company can be trusted by investors as an investment decision-making tool. The independence of the board of commissioners has been empirically proven to reduce the risk of financial restatement (Putri, et al., 2021). The capital market also reacted positively to information on the independence of the board of commissioners in publicly-listed companies in Indonesia (Cheng, 2017).

Blockholder ownership affects the company's policy in the presentation of financial statements because it has a large number of shares so that it has a significant influence in the company (Butar, 2018). According to Thomsen et al. (2005) blockholder ownership is a measure of share ownership where: (1) share ownership is more than 5%, (2) shares are owned by employees, directors, or family members (managerial ownership), (3) shares are owned by banks (institutions).). Research (Himmelberg et al., 1999) shows managerial ownership gives a positive signal in the capital market with reduced manager's opportunistic behavior due to the common interests of managers and a sense of belonging to the company. This can minimize the occurrence of agency problems. Institutional ownership, such as share ownership by government or private institutions, has also been shown to cause positive investor reactions due to the voting power of institutions to make changes when management is considered ineffective in managing the company.

The Audit Committee is tasked with assisting the board of commissioners to monitor the financial reporting process by management in improving the quality of financial reports (Smaili and Labelle, 2016), (Abbott et al., 2004). According to McMullen and Raghunanthan (1996), companies with financial problems are unlikely to have audit committee members with financial expertise. Thus, the market reacted positively to the appointment of an audit committee with financial expert competence (Davidson et al., 2005).

III. HYPOTHESIS FRAMEWORK

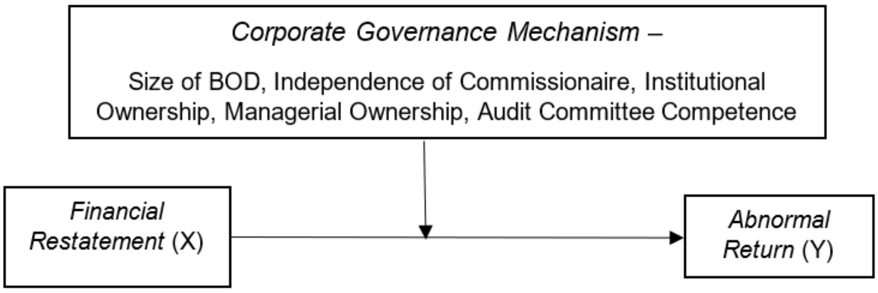

FIGURE 1

3.1. Financial Restatement and Abnormal Return

Financial statements are one of the instruments used by investors to predict the company's profitability in the future and evaluate the company. In order to be truly useful for decision making and not misleading, financial statements must comply with applicable accounting standards and contain no errors. If there is an error, the company can make improvements through restatement of financial statements (Financial Restatement).

Financial Restatement is basically a negative signal for the market. Incorrect information can mislead market participants in making decisions. Such a situation can of course reduce investor confidence in the information submitted by the company. Anderson and Yohn (2005) found that investors' perceptions of the reliability of accounting information after the restatement decreased.

Callen et al. (2005) found that the market reacts negatively to restatements caused by errors, but is not affected if restatements result in increased profits. Palmrose et al. (2004) found that negative market returns are more associated with restatements involving fraud, affect more forecasts, result in lower earnings, and restatements are associated with auditors or management.

Other research conducted by Zhu et al. (2010) in the Chinese capital market. The results of the research show that restatement has a negative effect on investors' reactions in the capital market. Dewi (2017); Sukma and Nurhayati (2020) also found that restatement events had a negative effect on capital market reactions. Different results were found by Sahputra and Diantimala (2018) where the capital market did not react significantly to financial restatement events.

Based on this description, it can be seen the diversity of results in previous studies. So the following hypothesis is proposed:

H1 : Announcement of Financial Restatement has a negative effect on Abnormal

3.2. Financial Restatement on Abnormal Return with Size of BOD as moderating variable

Investors in the capital market who respond to restatement events as negative signals can be suppressed through GCG practices (Hasnan et al., 2019). Corporate Governance practice in Indonesia adheres to a two-tier board system. This system positions the Board of Directors as one of the company's organs with a central role (Hidayat and Utama, 2017).

In the practice of Corporate Governance, the Board of Directors has the authority to determine policies and manage company resources. The decision of the Board of Directors is considered to represent the company's policies, especially in providing financial information. The Board of Directors is responsible for high-quality financial reports to stakeholders (Omer et al., 2019). The size of the Board of Directors is considered to determine the quality of financial information submitted to the public (Altarawneh et al., 2020). Larger sizes are considered to have higher reporting quality. Some researchers found that the size of the Board of Directors has a negative effect on financial restatements (Hasnan et al., 2019).

The signal that with good GCG the possibility of restatement is reduced gives a positive reaction from investors in the capital market (positive return) (Ayu, 2013). From this description, it can be seen the diversity of results in previous studies. So the following hypothesis is proposed:

H2 : Financial Restatement has a positive effect on Capital Market Reaction in companies listed on the IDX moderated by a large BOD size.

3.3. Financial Restatement on Abnormal Returns moderated by the Independence of the Board of Commissioners

An independent commissioner is an important element in the GCG mechanism and his presence on the board of commissioners is the element most recommended by GCG practitioners (Zattoni and Cuomo, 2008). An effective independent board of commissioners monitors the behavior of directors in the interests of minorities (Amr and El Masry, 2008).

The independent status of board members is important to maintain impartial action and decision making regarding the supervisory function of the board. The composition of the board represents the independence of the board. Chtorou et al. (2001) stated that the independence of the board depends on three characteristics, namely the presence of an independent director on the board, the separation of the CEO and chairman of the board, and the presence of an independent nomination committee.

Negative influence The independence of the board of commissioners on restatement events gives a positive signal and the capital market will react positively (Constantinou et al., 2005). Different results were found by Bradbury et al. (2006) which shows that board independence has a negative effect on abnormal returns. From this description, the following hypothesis is proposed:

H3 : Financial restatement has a positive effect on capital market reactions in companies listed on the IDX moderated by the independence of the board of commissioners

3.4. Financial Restatement of Abnormal Returns moderated by Managerial Ownership

Managerial ownership is the composition of shareholders consisting of the company's management such as directors, managerial ranks, and commissioners who are responsible for making decisions within the company (Diyah and Erman, 2009). Managerial ownership will reduce agency problems because there are managers who also act as owners so that financial restatements can be reduced. Institutional ownership will demand higher governance standards and foreign investors tend to monitor the company's reporting process so that it will reduce the practice of Financial Restatement (Hasnan et al., 2019). So the following hypothesis is proposed.

H4 : Announcement of Financial Restatement has a positive effect on capital market reactions in companies listed on the IDX moderated by managerial ownership.

3.5. Financial Restatement terhadap Abnormal Return dimoderasi oleh Kepemilikan Institusional.

Ramalingegowda et al. (2020) find that the higher the institutional ownership, the less the market reaction to earnings releases. Consistent with Bartov et al. (2000) which shows that restatement which is a negative signal for investors is negatively correlated with institutional ownership. Institutions show significant variation in investment styles, reflected in portfolio diversification and portfolio turnover (Bushee and Noe, 2000).

Institutional investors play an important role in monitoring managers' actions and strategies. Previous empirical research found that ownership structure reduces agency problems (La Porta et al., 1999). Hartzel et al. (2014) show that institutional ownership improves the monitoring process and reduces agency costs. Because financial restatements reflect poor quality of financial statements, it is expected that the monitoring role of institutional investors reduces the incidence of financial restatements. Ban et al. (2015) found that the capital market reacts positively to institutional ownership. Different results were obtained by Vleugels (2020) at the time of mergers and acquisitions, institutional ownership had a negative effect on abnormal returns. From this description, the following hypothesis is proposed:

H5 : Financial restatement has a positive effect on capital market reactions in companies listed on the IDX moderated by institutional ownership.

3.6. Financial Restatement on Abnormal Returns is moderated by the Competence of the Audit Committee.

The audit committee is responsible to the board of commissioners. The board of commissioners and audit committee are expected to play an effective role in supporting good corporate governance in order to improve the quality of reported earnings.

The background and experience of the audit committee that may affect the effectiveness of its audit role has been appointed by the Blue Ribbon Panel (BRC). The panel suggested that audit committee members should be financially literate (Blue Ribbon Panel). This BRC recommendation is supported by various empirical studies that prove that the Audit Committee who has a Certified Public Accountant (CPA), has been a member of the Audit Committee, or has good knowledge of auditing, has a positive effect on the environment they will face, namely the auditor in order to help overcome the problem of the relationship between auditors and corporate managers.

According to McMullen and Raghunanthan (1996), companies with financial problems are unlikely to have audit committee members with financial expertise. Thus, the market reacts positively to the appointment of an audit committee with financial expert competence (Davidson et al., 2005). Consistently, (Xie et al., 2003) argue that audit committees who are equipped with financial experience and training will better understand earnings management issues. From this description, the following hypothesis is proposed:

H6 : Financial Restatement has a positive effect on capital market reactions in companies listed on the IDX moderated by the competence of the audit committee.

IV. RESEARCH METHODOLOGY

4.1. Location and Research Design

The research design in this study is to see the relationship between the independent variables, namely the announcement of the Financial Restatement with the reaction of the capital market as the dependent variable and Corporate Governance as the moderating variable. In this study used control variables, namely Type of Industry (K1), Company Size (K2), and Leverage (K3).

This study analyzes eight variables consisting of one dependent variable, namely the capital market response (Y), one independent variable, namely: Financial Restatement (X), and Corporate Governance as a moderating variable, which consists of BOD Size (Z1), Independent Board of Commissioners (Z2), Institutional Ownership (Z3), Institutional Ownership (Z4), and Audit Committee Competence (Z5).

This research was conducted using secondary data from the Indonesia Stock Exchange website (www.idx.co.id), the company's official website, and the Indonesian Capital Market Directory (ICMD). The period used is the financial statement period 2014 – 2019 of companies listed on the Indonesia Stock Exchange in 2022. Data collection and analysis was carried out in 2022. The time used in this study was about three months, from March to May 2022.

4.2. Population or Samples

The sample period is between 2014 and 2019, and data on companies that carry out Financial Restatement are sourced from the Indonesia Stock Exchange website. The sampling technique was carried out by purposive sampling in order to obtain samples that were in accordance with predetermined criteria. The criteria used to select the sample are as follows:

1. The company is consistently listed on the Indonesia Stock Exchange from 2014 – 2019.
2. Companies that publish annual financial reports on the IDX website link for the 2014-2019 period which are stated in Rupiah (Rp).
3. Conducted Financial Restatement for the period 2014-2019.

4. Have complete data on independent board of commissioners, board of directors, and ownership characteristics

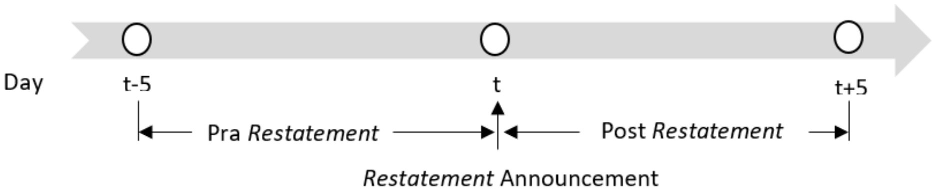

Figure 2

4.3. Data Collection Method

This research uses the method of collecting documentation and literature study. The documentation method is a way of collecting data by recording and studying documents or archives that are in accordance with the research problem. The method is carried out by collecting all secondary data such as financial reports from www.idx.co.id, the company's website and the Indonesian Capital Market Directory (ICMD).

4.4. Data Analysis Method

Data analysis in this study was carried out using the SPSS 25.0 application. This application was chosen because it suits the needs and ease of operating procedures. Data analysis in this study begins with descriptive analysis, data quality test, classical assumption test and hypothesis testing using regression analysis.

The analytical model used to test the hypothesis by using Moderated Regression Analysis (MRA). This regression analysis was carried out in two stages of testing, namely:

1. The first stage is multiple regression which is carried out without any moderating variables. The Research Model is as follows:

(1) $CAR = \beta_0 + \beta_1 RES_{i,t} + \beta_7 AGE + \beta_8 SIZE + \varepsilon$

2. The second stage is regression which is carried out with the interaction between the dependent variable, moderating and independent variables. The Research Model is as follows:

(2) $CAR = \beta_0 + \beta_1 RES_{i,t} + \beta_2 RES_{i,t} * BOD_{i,t} + \beta_7 AGE + \beta_8 SIZE + \varepsilon$

(3) $AR = \beta_0 + \beta_1 RES_{i,t} + \beta_3 RES_{i,t} * KOIN_{i,t} + \beta_7 AGE + \beta_8 SIZE + \varepsilon$

(4) $CAR = \beta_0 + \beta_1 RES_{i,t} + \beta_4 RES_{i,t} * INST_{i,t} + \beta_7 AGE + \beta_8 SIZE + \varepsilon$

(5) $CAR = \beta_0 + \beta_1 RES_{i,t} + \beta_5 RES_{i,t} * OWNMAN_{i,t} + \beta_7 AGE + \beta_8 SIZE + \varepsilon$

(6) $CAR = \beta_0 + \beta_1 RES_{i,t} + \beta_6 RES_{i,t} * EXPERT_{i,t} + \beta_7 AGE + \beta_8 SIZE + \varepsilon$

V. EMPIRICAL RESULTS

5.1. Descriptive Statistics

This analysis is used to obtain an overview of the research variables. If the data is in the form of ratio or numeric data, then the statistical measure uses the average value, standard deviation, minimum value and maximum value. If the data is in the form of a categorical scale, it is presented in the form of amounts and percentages. The following are the results of the descriptive statistical recapitulation on the variables of Financial Restatement, Abnormal Return, BOD size, independence of the board of commissioners, institutional ownership, managerial ownership, and audit competence.

Variable	N	Std. Deviation	Minimum	Mean	Maximum
RES	80	94,13207	-833,99	-12,0160	3,70
Size (Log 10)	80	13,42	10,99	12,11	14,26
Age	80	20,00	4,00	35,00	112,00
BOD	80	2.11889	2.00	5.0625	13.00
KOIN	80	0,09502	0,20	0,3887	0,80
OWNMAN	80	0,15761	0,00	0,0613	78,00
INST	80	0,29707	0,00	0,5451	0,99
CAR	80	0,11790	-0,24	0,0069	0,45

Figure 3

5.2. Pengujian Asumsi Klasik

Before entering the regression analysis to calculate whether the moderating variable can make the interaction with the independent variable have a significant effect on the Y variable, it is necessary to test the classical assumptions first so that the resulting estimation results are not biased. This test consists of normality test, heteroscedasticity test and multicollinearity test

1. Multicollinearity Test

   Based on the calculation shows that the regression model does not have a multicollinearity problem. This can be seen from the tolerance value is greater than 0.1 and the VIF value is below 10. Thus, it can be concluded that there is no multicollinearity problem in the data.

2. Heteroscedasticity Test

   Based on the results of heteroscedasticity testing using the scatter plot test, it can be seen that the data is spread above and below the zero point. So it can be concluded that there is no heteroscedasticity problem in the regression model.

3. Hypothesis Test

   The stages in the analysis begin by calculating the effect of Financial Restatement on Abnormal Return before there is a moderating variable, and the second stage is tested again after there is a moderating variable.

Models	Coefficients	Standard Error	Standardize Beta	t statistics	Sig
Financial Restatement	-0,001	0,000	-0,394	-3,814	0,001
Res*BOD	-10,687	2,340	-0,419	-4,567	0,001
Res*KOIN	-128,807	63,45	-0,212	-2,030	0,046
Res*Ownman	**33,763**	**37,160**	**0,093**	**0,909**	**0,366**
Res*INST	12,462	17,195	0,074	0,725	0,047
Res*EXPERT	**27,805**	**27,523**	**0,103**	**1,010**	**0,316**

Figure 4

The significance value for the interaction variable between financial restatement and abnormal return is 0.001 and this value is less than 0.05. This means that H0 is rejected and Ha is accepted, then there is a negative and significant effect between Financial Statements on Abnormal Return. Thus the hypothesis which states that the Announcement of Financial Restatement has a negative effect on Abnormal Return can be accepted because it is significant, so hypothesis 1 is accepted. The significance value for the interaction variable between financial restatement and BOD (Res*BOD) is 0.001 and this value is less than 0.05. This means that the BOD measure is able to moderate the relationship between Financial Restatement and Abnormal Return. However, based on the table, the direction of the relationship between the interaction of Financial Restatement with the BOD measure is negative. This indicates that the BOD measure cannot increase the reaction of the capital market so that the second hypothesis is still rejected because although it is significant, the direction of the relationship is negative.

The significance value for the interaction variable between financial restatement and the independence of the board of commissioners (Res*KOIN) is 0.046 and this value is less than 0.05. This means that the independence of the board of commissioners is able to moderate the relationship between Financial Restatement and Abnormal Return. However, based on the table, the direction of the relationship between the interaction of Financial Restatement with the independence of the board of commissioners is negative. This indicates that the independence of the board of commissioners cannot increase the reaction of the capital market so that the third hypothesis is rejected. the significance value for the interaction variable between financial restatement and managerial ownership (Res*OWnman) is 0.366 and this value is greater than 0.05. This means that managerial ownership is not able to moderate the relationship between Financial Restatement and Abnormal Return. However, based on the table, the direction of the relationship between the interaction of Financial Restatement with managerial ownership is positive. This indicates that managerial ownership can increase the reaction of the capital market so that the fourth hypothesis is still rejected because even though the direction of the relationship is correct, it is not significant.

Based on Figure 4, it can be seen that the significance value for the interaction variable between financial restatement and institutional ownership (Res*INST) is 0.047 and this value is less than 0.05. This means that institutional ownership is able to moderate the relationship between Financial Restatement and Abnormal Return. Based on the table, the direction of the relationship between the interaction of Financial Restatement with institutional ownership is positive. This indicates that the existence of institutional ownership can increase the reaction of the capital market so that the fifth hypothesis is accepted. the significance value for the interaction variable between financial restatement and audit committee competence (Res*Expert) is 0.316 and this value is greater than 0.05. This means that the competence of the audit committee is not able to moderate the relationship between Financial Restatement and Abnormal Return. However, based on the figure 4, the direction of the relationship between the interaction of Financial Restatement and the competence of the audit committee is positive. This indicates that the existence of a good audit committee competence can increase the reaction of the capital market but not significantly so that the sixth hypothesis is still rejected.

5.3. Discussion

Based on the results of data analysis that has been done, two hypotheses are accepted and four hypotheses are rejected. The hypothesis which states that Financial Restatement has a negative effect on Abnormal Return is accepted. Signal theory (signaling theory) by Akerlof (1970) which is rooted in information asymmetry, states that investors will respond to various information submitted by issuers in the capital market, including restatements. Financial Restatement is basically a negative signal for the capital market. Incorrect information can mislead market participants in making decisions. Such a situation can of course reduce investor confidence in the information submitted by the company. Anderson and Yohn (2005) found that investors' perceptions of the reliability of accounting information after the restatement decreased. In line with the results of this study, research conducted by Pertami (2016) also shows that the restatement event negatively affects abnormal returns in manufacturing companies listed on the IDX. This means that when the company announces a restatement, investors become unsure of the information they receive so that it can reduce their confidence in the information and result in a decrease in abnormal returns. According to Palmrose (2004) in his research, he revealed the market reaction to the restatement of 403 companies that announced the restatement, showing a negative abnormal return.

The fifth hypothesis states that financial restatement has a positive effect on capital market reactions with institutional ownership as a moderating variable. This means that the existence of institutional ownership can increase the reaction of the capital market after the occurrence of financial restatement, so that the fifth hypothesis is accepted. The existence of institutional investors is considered a positive signal because it can be an effective monitoring mechanism in every decision taken by managers (Pambudi, 2020). Institutional ownership has an important meaning in the management of supervision because institutional ownership will encourage more optimal supervision. According to Sofyaningsih and Pancawati (2011), increasing institutional ownership makes the supervisory function run effectively and makes management more careful in managing the company. Such supervision will certainly ensure the welfare of stock holders. The influence of institutional ownership as a supervisory agent is strengthened through their sizeable investment in the capital market. Kurniawati et al. (2015) stated that the ownership structure as measured by institutional ownership has a positive influence on market reactions.

The second and third hypotheses state that the number of the Board of Directors is too many and the composition of the Board of Independent Commissioners adds to the negative effect of the occurrence of Financial Restatement. The negative impact of the increasing number of directors and the composition of the independent board of commissioners on the market reaction emphasizes that in a company, the more independent directors and commissioners are formed, the more difficult it will be for the company to clarify its decision making due to the interests of each party. In addition, the negative impact can be caused by imperfect information or asymmetric information between the company's directors and company owners who delegate all decisions to the board of directors.

The results of the research on the fourth and sixth hypotheses state that managerial ownership and audit committee competence are not able to moderate the relationship between Financial Restatement and Abnormal Return. This can be due to the fact that there are still some investors who think that managerial ownership has no effect on the occurrence of financial restatements, even managers are considered to have the opportunity to increase their own profits rather than the company's profits. The competence of the Audit Committee is also considered to only affect audit procedures in companies that carry out restatements rather than increasing investor investment.

VI. CONCLUSION

1. The first hypothesis testing proves that there is a negative influence between Financial Restatements on Abnormal Returns that can be accepted. This shows that companies that restate their previous financial statements will face a decrease in abnormal returns.
2. Testing the second hypothesis does not prove that the presence of a BOD measure can increase the reaction of the capital market. This may be due to the fact that in a company, the more directors are formed, the more difficult it will be for the company to clarify its decision making due to the interests of each director.
3. Testing the third hypothesis does not prove that the independence of the board of commissioners can increase the reaction of the capital market. The results showed a significant negative relationship between financial restatement and capital market reactions moderated by an independent board of commissioners. This may be because the large number of commissioners can make coordination between boards very difficult.
4. Testing the fourth hypothesis does not prove that the existence of managerial ownership can moderate the relationship of financial restatement to the reaction of the capital market. This could be due to the fact that there are still some investors who believe that the proportion of share ownership owned by the management is not able to provide a change in the occurrence of financial restatements because the management has a great opportunity to prioritize their personal interests over the interests of the owners of capital to increase the value of the company because they have voting and bargaining rights power.
5. Testing the fifth hypothesis proves that the existence of institutional ownership can increase the reaction of the capital market. A higher percentage of institutional ownership will encourage an increase in abnormal returns after the occurrence of financial restatements. This is because the effect of monitoring tasks carried out by institutional investors becomes more effective in the case of companies conducting financial restatements.
6. Testing the sixth hypothesis does not prove that the existence of a good audit committee competence can increase the reaction of the capital market. Most likely, this is because the competence of the audit committee can only improve audit procedures in companies that carry out financial restatements rather than increasing investor investment.

REFERENCES

[1]. Abbott, L. J., Parker, S., and Peters, G. F. 2004. Audit Committee Characteristics and Restatements. Auditing, 23(1): 69–87.
[2]. Akerlof, George A. 1970. The Market for "Lemons": Quality Uncertainty and the Market Mechanism. The Quarterly Journal of Economics, 84(3): 488–500.
[3]. Altarawneh, M., Shafie, R., and Ishak, R. 2020. Chief executive officer characteristics and Financial Restatements in Malaysia. International Journal of Financial Research, 11(2): 173–186.
[4]. Amr, Nazieh E., and El-Masry, Ahmed A. 2008. The Impact of corporate governance on the timeliness of corporate internet reporting by Egyptian listed company. Managerial Finance, 34: 848-867.
[5]. Anderson, K. L., and Yohn, T. L. 2005. The Effect of 10k Restatements on Firm Value, Information Asymmetries, and Investors' Reliance On Earnings. SSRN Electronic Journal.
[6]. Anggraini, D. I., and Dianawati, W. 2019. Pengaruh Corporate Governance Terhadap Financial Restatement Pada Perusahaan Di Indonesia. Jurnal Akuntansi Universitas Jember, 15(2): 36.
[7]. Arifin,Z. 2004, Solusi Msalah Agensi Perusahaan Publik si Indonesia: Pendekatan Game-Modeling and Pendekatan Positif Empiris. Jurnal Siasat Bisnis,1(9) : 35-47.
[8]. Ayu, Maristiana. 2013. Pengaruh Kualitas Pengungkapan Informasi Terhadap Volume Perdagangan Saham Dan Return Saham Studi Empiris Pada Perusahaan LQ-45 Di BEI. Jurnal Akuntansi and Keuangan Universitas Bandar Lampung, 4(2).
[9]. Bartov, E., Radhakrishnan, S., and Krinsky, I. 2000. Investor Sophistication and Patterns in Stock Returns after Earnings Announcements. The Accounting Review, 75(1): 43–63.
[10]. Bradbury, Michael, Mak, Yuen, and Tan, S. 2006. Board Characteristics, Audit Committee Characteristics and Abnormal Accruals. Pacific Accounting Review, 18: 47-68.
[11]. Brigham and Houston. 2014. Essentials of Financial Management. Dasar-dasar Manajemen Keuangan. Terjemahan Ali Akbar Yulianto. Buku 2. Es=disi 11. Jakarta: Salemba Empat.
[12]. Bushee, Brian J. and Noe, Christopher F. 2000. Corporate Disclosure Practices, Institutional Investors, and Stock Return Volatility. Journal of Accounting Research, 38: 171-202.
[13]. Butar, Sansaloni Butar. 2018. The Causes and consequence of restatements in Indonesia. Jurnal Akuntansi and Auditing Indonesia, 22(1).
[14]. Callen. Jeffrey, Segal, Dan, and Livnat, Joshua. 2005. Accounting Restatements: Are They Always Bad News for Investors?. CFA Digest, 37(1): 61–63.
[15]. Cheng, Y. 2017. Corporate Governance and Bidder Abnormal Returns in M&A. ITM Web of Conferences, 12: 6.
[16]. Chtourou, Marrakchi S., Bédard, J., and Courteau, L. 2001. Corporate Governance and Earnings Management. SSRN Electronic Journal, 418: 656-7050.
[17]. Constantinou, Costas, Trigeorgis, Lenos, and Vafeas, Nikos. 2005. Target Board Structure and Takeover-Induced Abnormal Returns in The UK. Corporate Ownership and Control, 3(1): 101-113.

[18]. Daud, Rulfah M., and Syarifuddin, Nur Afni. 2008. Pengaruh Corporate Social Responsibility Disclosure, Timeliness, Dan Debt To Equity Ratio Terhadap Earning Response Coefficient (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia). Jurnal Telaah Dan Riset Akuntansi, 1(1): 82–101.

[19]. Davidson, R., Goodwin-Stewart, J., and Kent, P. 2005. Internal Governance Structures and Earnings Management. Accounting and Finance, 45(2): 241–267.

[20]. Davidson, R., Goodwin-Stewart, J., and Kent, P. 2005. Internal Governance Structures and Earnings Management. Accounting and Finance, 45(2): 241–267.

[21]. Dewi, Dian Nirmala. 2017. Reaksi Pasar atas Isu pada Peristiwa Accounting Restatement. Jurnal Riset Akuntansi and Keuangan, 1: 230.

[22]. Diyah, Pujiati and Erman, Widanar. 2009. Pengaruh Struktur Kepemilikan Terhadap Nilai Perusahaan: Keputusan Keuangan Sebagai Variabel Intervening. Journal of Economics, Business, & Accountancy: ventura, 12(1): 71-86.

[23]. Gleason, Cristi A. Jenkins, Nicole T. and Johnson, W. Bruce. 2008 The Contagion Effects of Accounting Restatements. The Accounting Review, 83(1): 83-110.

[24]. Hartzell, J. C., Sun, L., and Titman, S. 2014. Institutional investors as monitors of corporate diversification decisions: Evidence from real estate investment trusts. Journal of Corporate Finance, 25: 61–72.

[25]. Hasnan, Suhaily., Zin, Norazzie Md., and Hussain, A R Mohamed. 2019. International Journal of Engineering and Advanced Technology (IJEAT), 8(6S3): 2249 – 8958

[26]. Hennes, K. M., Leone, A. J., and Miller, B. P. 2012. Auditor Dismissals Around Accounting Restatements. SSRN Electronic Journal.

[27]. Hidayat, A. A., and Utama, S. 2017. Board characteristics and firm performance: Evidence from Indonesia. International Research Journal of Business Studies, 8(3): 137-154.

[28]. Himmelberg, Charles, Hubbard, R.Glenn, and Palia, Darius. 1999. Understanding the Determinants of Managerial Ownership and Link Between Ownership and Performance. Journal of Financial Economics, 53: 353-384.

[29]. Isgiyarta, Jaka and Tristiarini, Nila. 2005. Pengaruh Penerapan Prinsip Corporate Governance terhadap Abnormal Return pada saat Penguuman Laporan Keuangan. Jurnal Bisnis and Ekonomi, 12(2): 169-187.

[30]. Jensen, M. C., and Meckling, W. H. 1976. Theory of the Firm: Managerial Behavior, Agency Cost, and Ownership Structure. Journal of Financial Economics, 3(4): 305-360.

[31]. Jogiyanto, H. 2017. Teori Portofolio and Analisis Investasi. Yogyakarta: BPFE-Yogyakarta.

[32]. Kurniawati, L., Sahala, M., Octavianus, RJN. 2015. Pengaruh Kepemilikan Institusional terhadap Kebijakan Dividen, and Harga Saham. Jurnal Manajemen, 15(1): 59-74.

[33]. La Porta, R., F. Lopez-De-Salines, and A. Shleifer. 1999. Corporate Ownership Around the World. Journal of Finance, 54(2): 471-517

[34]. McMullen, D. and Raghunanthan, K. 1996. Enhancing Audit Committee Effectiveness. Journal of Accountancy, 182, 79-81.

[35]. Nuswandari, Cahyani, 2009, Good Corporate Governance Dalam Persperktif Teori Agensi, Dinamika Keuangan and Perbankan, 1(1): 47 – 53.

[36]. Omer, T. C., Shelley, M. K., and Tice, F. M. 2019. Do director networks matter for financial reporting quality? Evidence from audit committee connectedness and restatements. Management Science, 66(8): 3361–3388.

[37]. Palmrose, Z. V., Richardson, V. J., and Scholz, S. 2004. Determinants of Market Reactions to Restatement Announcements. Journal of Accounting and Economics, 37(1): 59–89.

[38]. Pambudi, Agung Satriya. 2020. Institutional Ownership, Managerial Ownership And Earning Management. International Journal of Scientific and Research Publications, 10(8): 656 – 664.

[39]. Pamudji, Sugeng and Aprillya Trihartati. 2010. Pengaruh Independensi and Efektivitas Komite Audit Terhadap Manajemen Laba. Jurnal Dinamika Akuntansi, 2(1): 2085- 4277 Vol.2.

[40]. Pertami, Yuli S F. 2016. Pengaruh Restatement Laporan Keuangan terhadap Abnormal Return. Sistem Informasi, Keuangan, Auditing and Perpajakan (SIKAP), 1(1): 29-35

[41]. Plumlee, M. A., and Yohn, T. L. 2011. An Analysis of the Underlying Causes Attributed to Restatements. SSRN Electronic Journal, 24(1): 41-64.

[42]. Putri, Ni Ketut W., Rustiarini, NW., and Dewi, Ni Putu S. 2021. Board Characteristic and Financial Restatement. Jurnal Keuangan and Perbankan, 3 (25): 492-507.

[43]. Ramadhanti, N. A and Suryani, Elly. 2020. Pengaruh Dewan Komisaris Independen, Komite Audit, Leverage, and Opini Audit Terhadap Financial Restatement (Studi Kasus pada Perusahaan Badan Usaha Milik Negara Yang Terdaftar di Bursa Efek Indonesia Periode 2015-2018. E-Proceeding of Management, 7(2): 2355–9357.

[44]. Ramalingegowda, S., Utke, S., & Yu, Y. 2020. Common Institutional Ownership and Earnings Management. Contemporary Accounting Research.

[45]. Randa, Fransiskus and Liman, Wiese. 2011. Analisis Perbedaan Abnormal Return and Volume Perdagangan Saham Sebelum and Sesudah Pengumuman Indonesian CSR Awards. Jurnal Sistem Informasi Manajemen and Akuntansi, 10(2): 151 -168.

[46]. Sahputra, Krishna and Diantimala, Yossi. 2018. Analisis Dampak Peristiwa Divestiture Anouncement Dan Financial Statement Restatement Terhadap Market reaction Pada Perusahaan Yang Terdaftar Di Bursa Efek Indonesia. Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi (JIMEKA), 3(4): 638-649.

[47]. Scholz, S. 2013. Financial restatement trends in the United States: 2003-2012. Center for Audit Quality, 1–43.

[48]. Scott, William R. 2009. Financial Accounting Theory. Fourth Edition. USA Prentice Hall, Inc.

[49]. Smaili, N., and Labelle, R. 2015. Corporate governance and accounting irregularities: Canadian evidence. Journal of Management & Governance, 20(3): 625–653.

[50]. Sofyaningsih, Sri and Pancawati, Hardiningsih. 2011. Struktur Kepemilikan, Kebijakan Dividen, Kebijakan Utang and Nilai Perusahaan. Dinamika Keuangan and Perbankan, 3(1): 68-87

[51]. Spence, Michael. 1973. Job Market Signaling. The Quarterly Journal of Economics. Oxford University Press, 87(3): 355-374.

[52]. Sukma, Hamdi Aulia and Nurhayati, Ratna. 2020. Analisis Reaksi Pasar Modal terhadap Perusahaan yang Melakukan Penyajian Kembali Laporan Keuangan. Gadjah Mada University

[53]. Tandelilin, Eduardus. 2010. Portofolio and Investasi: Teori and Aplikasi. Edisi 1. Kanisius. Yogyakarta.Callen, H.B., Thermodynamics and an Introduction to Thermostatistics. 1998, AAPT

[54]. Vleugels, Sjoerd. 2020. The Effect Of Institutional Ownership On Abnormal M&A Returns. Radboud University.

[55]. Xie, B., Davidson, W. N. and DaDalt, P. J. 2003. Earnings Management and Corporate Governance: The Role of the Board and the Audit Committee. Journal of Corporate Finance, 9(3): 295-316.

[56]. Xu, Q., and Kong, W. 2019. Market Reaction of Financial Restatements of Listed Companies. Advances in Economics, Business ad Management Research, 80(Bems): 517–519.
[57]. Yuliana, R., Purnomosidhi, B., and Sukoharsono, E. G. 2008. Pengaruh Karakteristik Perusahaan terhadap Pengungkapan Corporate Social Responsibility (CSR) and Dampaknya terhadap Reaksi Investor. Jurnal Akuntansi Dan Keuangan Indonesia, 5(2): 245–276.
[58]. Zhu, Z and C. Hu. 2010. Market reactions to financial restatements - evidence from Chinese stock market. 2010 IEEE International Conference on Industrial Engineering and Engineering Management, 2527-2530.