

Does Managerial Ownership, Audit Committee, And Audit Quality Moderate The Effect Of Fraudulent Financial Reporting On Company Value?

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Abstract: Fraud of financial reporting is inherent in every company because of the information asymmetry. Therefore, the influence of fraudulent financial reporting needs considering to protect external stakeholders such as investors and creditors. This study aims to examine the effect of fraudulent financial reporting on company value, which is moderated by managerial ownership, audit committee, and quality of audit. This study uses the population which consists of public companies from the Kompas100 Index on the Indonesia Stock Exchange during the period 2013 to 2017. Data analysis techniques used both simple and multiple linear regression, using SPSS version 17.0. This study found that fraud in financial reporting had a significantly negative impact on company value. This study also found that managerial ownership did not moderate the fraudulent financial reporting effect on company value, the audit committee weakened the negative impact of fraudulent financial reporting on company value, and audit quality reinforced the negative influence of fraudulent financial reporting on company value.

Index Terms: Fraud of financial reporting, company value, managerial ownership, audit committee, audit quality.

1. INTRODUCTION

The information served on the financial statements needed consideration for decision-makers (Wild, 2004). Inaccurate information on the financial statements will bring a negative influence on stakeholders. The financial statements must reflect the actual condition of the company and do not contain biased information that can mislead the users for making economic decisions. Still, it is common to find financial reporting stacked against the actual condition. It happens because of widespread fraud practices committed by a group of people, including management in financial reporting. An example of financial fraud practices in Indonesia's public company is the misrepresentation of the financial statements of PT Bank Bukopin Tbk period 2016. The misstatement of the financial statements was subsequently revised and restated by PT Bank Bukopin Tbk with significant changes on the post of fees and other income. The income change significantly affected the significant decreased in net income on the financial statements of PT Bank Bukopin Tbk for the period 2016 (Kontan, April 30, 2018). Fraud of financial reporting committed by management will impact company value. Management as an agent, expected to manage the company following the principal's goals with managerial ownership because the management position is equal to the shareholders as the company's owner. The existence of managerial ownership can also trigger financial reporting fraud because management operates management function and the supervisory function at once. Therefore, this study assumes that managerial ownership can moderate the influence of fraudulent financial reporting on company value. Supervision of company management by an independent party can be carried out by a committee of audit and an

independent auditor. A competent audit committee member will be able to manage the company effectively to minimize the asymmetry of information and reduce fraud on financial reporting. Fraud of financial reporting minimized is expected to raise the company value. So, this study assumes that the committee of audit can moderate fraud in financial reporting impact on company value. High audit quality shows the higher external auditor's capability to detect fraudulent financial reporting companies will affect the lower the company value. The high audit quality expected to produce high-quality information. It convinces that financial reporting presented following applicable accounting standards and describes the actual conditions of the company, so the information is relevant and reliable for decision making. Hence, this study assumes that audit quality can moderate fraudulent financial reporting impact on company value. This study uses samples that consist of public companies from the Kompas100 Index listed in the Indonesia Stock Exchange because they have a high level of liquidity, large market capitalization, well fundamentals, and worthy financial performance (bona fide). The samples are secondary data, consisting of financial statements and annual reports during the period 2013 to 2017. The chosen period reflects the current conditions of each company and expected to acquire representative sample data.

2. LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

2.1 Agency Theory

Agency theory defines the contractual relationship between principals and agents to assist principals in achieving company goals by delegating some authority to make decisions to agents. The agency relationship between the principal and the agent gives increasing costs of the agency like the cost of monitoring, bonding expenditures, and residual loss (Jensen & Meckling, 1976). Supervision costs represent costs incurred by principals to oversee management actions in managing the company, such as

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supervision costs by the committee of audit and external auditor. In Indonesia, the audit committee must be owned by a public company following the Financial Services Authority Regulation Number 55/POJK.04/2015 Article 2 (two). The audit committee members are made up of independent parties formed by and responsible to commissioners board in giving assistance to do the functions and roles to supervise management. The financial statements checked for fairness following applicable accounting standards by external auditors before published. High quality of audit showed a higher ability in detecting fraud in financial reporting by an external auditor. Audit quality is a market assessment of the auditor's probability of finding and reporting violations in the accounting system of a company (Ahmad & Ahmad, 2018; DeAngelo, 1981). Bonding costs represent costs incurred by management as an agent, as a guarantee that management will not take actions that can disserve external parties as principals. Bonding costs involve the costs incurred by management to prepare quarterly financial statements. Residual loss is a cost that arises because of interest conflict among the agent and the principal, which can reduce the owner's welfare. Managerial ownership is the internal and external parties' ownership separation to alleviate conflict of interest (Jensen and Meckling, 1976). Managerial ownership included ownership share by managers, directors, commissioners, or employees as compensation. Agency cost also aims to minimize fraudulent financial reporting existence by management because principals cannot fully trust management. Fraud of financial reporting is a willful omission or misstatement of disclosure material in the financial reports to swindle the financial reports' users, so the financial reports are not presented following applicable regulations (The Statement on Auditing Standards No. 99 cit. Anonymous, 2003). Fraud of financial reporting included the following actions:

1. Manipulate, misstate, or change accounting records or other supporting documents used to prepare financial statements.
2. Eliminate significant information or transactions in the financial statements.
3. Not following the accounting standards intentionally and consistently.

2.2 Hypothesis Development

2.2.1 Fraudulent Financial Reporting Impacts on Company Value

Fraudulent financial reporting affected negatively on company value (Rukmana, 2018). It shows that the higher the fraud of financial reporting, the lower the company value. On the contrary, the more minimized the financial reporting fraud, the higher the company value. The practices of fraudulent financial reporting will produce low-quality information and decrease company value. Conversely, high-quality information provided by minimizing fraud of financial reporting will increase the value of the company. As a consequence, this study proposed the following hypotheses:

H₁: Fraudulent financial reporting negatively impacts on company value.

2.2.2 Managerial Ownership Moderates Fraudulent Financial Reporting Effect on Company Value

Company value and managerial ownership have negative relation (Khan et al., 2012). Managerial ownership has effected negatively on company value (Sugiarto, 2011; Sukirni, 2012). Fraudulent financial reporting more often happens to companies having internal's share ownership (Dunn, 2004; Ahmad & Ahmad, 2019). The high managerial ownership's proportion will encourage management to manage the company following personal interests and benefits. Therefore, high managerial ownership potentially causes higher financial reporting fraud impacted the lower the company value. Therefore, this study proposed the following hypotheses:

H₂: Managerial ownership moderates fraudulent financial reporting effect on company value.

2.2.3 Audit Committee Moderates Fraudulent Financial Reporting Impact on Company Value

Audit committee expertise has proven improving financial statements quality (Mutmainnah and Wardhani, 2013). Independent members of the audit committee and the possibility of fraudulent financial reporting have negative relation (Owens-Jackson et al., 2009). Audit committee member who has financial expertise negatively affected financial reporting fraud (Prasetyo, 2014). The background of audit committee members in the major of accountancy and financial affairs will be the basis for an adequate understanding of the business processes in a company related to accounting policies and financial reporting. The higher level of audit board member composition in accounting and finance background, the more competent in conducting supervision, to minimize financial reporting fraud. If fraud of financial reporting minimized, the company value would rise. Therefore, this study proposed the following hypotheses:

H₃: The audit committee moderates fraudulent financial reporting impact on company value.

2.2.4 Audit Quality Moderates Fraudulent Financial Reporting Influence on Company Value

The Big 6 Public Accounting Firm (PAF) produced a higher quality of audit than non-Big 6 PAF (Becker et al., 1998). Audit quality has a significantly positive influence on the integrity of financial reports (Nurjannah and Pratomo, 2014). External auditors from large PAF can produce high-quality audits because they have a high reputation, high-quality human resources, and control most of the market share in the audit services. A large PAF is a PAF affiliated with the Big 4 PAF. A small PAF is a PAF that has not affiliated with the Big 4 PAF. High quality audits expected to produce high-quality financial reporting. High-quality information, the information presented in financial reporting following applicable accounting standards, describes the company's actual condition, so the information is relevant and reliable for decision-making. Therefore, this study proposed the following hypotheses:

H₄: Audit quality moderates fraudulent financial reporting influence on company value.

2.3 Conceptual Framework

This study examines fraudulent financial reporting as an independent variable, company value as the dependent variable, as well as managerial ownership, audit committee,

and audit quality as moderating variables. Chart 1 shows the conceptual framework of this study.

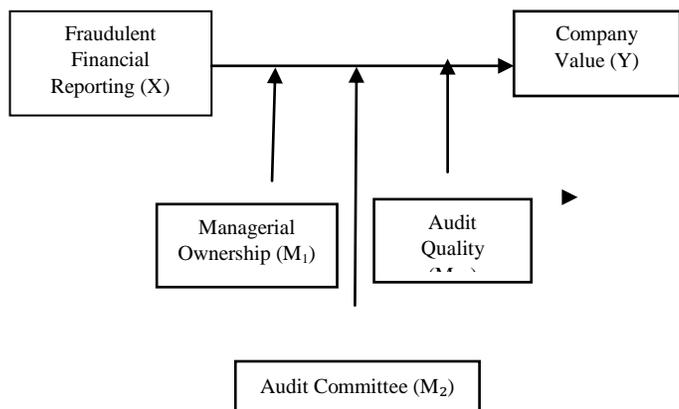


Figure1 Conceptual Framework

3. RESEARCH METHOD

3.1 Population and Sample

This study's population consists of public companies from Kompas100 Index on the Indonesia Stock Exchange during the period 2013 to 2017. The determination of the sample uses a sampling method with certain considerations and specific objectives or purposive sampling (Algifari, 2013). The following are the sample criteria:

1. A listed company in the Indonesia Stock Exchange that always included Kompas100 Index during the period 2013 to 2017.
2. The company always publishes complete financial statements audited by PAF based on Financial Accounting Standards and annual reports for the period 2013 to 2017.
3. The company uses currency in rupiah from 2013 to 2017.
4. The company uses twelve months (annual) period for financial reporting that ends on December 31 each period.
5. The company has data needed in this study.

Based on several predetermined criteria, the number of samples obtained was 180. This study used analysis techniques of a simple and multiple linear regression using SPSS version 17.0.

3.2 Dependent Variable

3.2.1 Company Value

The value of the company in this study is proxied by modifying Tobin's Q (Klapper & Love, 2004). The formula is:

$$\text{Tobin's Q} = \frac{\text{(MVE + DEBT)}}{\text{TA}}$$

Description:

- Tobin's Q = Value of the company
- MVE = Total market price or closing price of outstanding ordinary shares end of the period
- DEBT = Liability's book value
- TA = Total of company assets book value

3.3 Independent Variables

3.3.1 Fraudulent Financial Reporting

Fraud in financial reporting is proxied by the Fraud Score Model (the F-score Model). In the F-Score Model, fraud of financial reporting is measured by predicting the possibility of financial reporting fraud with a risk approach (Dechow et al., 2011). The formula of the F-Score Model is:

$$\text{F-Score} = \text{Prob (FFR)} / 0.0037$$

TABLE 1 Component Calculation of Model F-Score

No.	Information	Formula
1	Prob (FFR) or Probability (Fraudulent Financial Reporting)	$e^{(\text{Predicted Value})} / (1 + e^{(\text{Predicted Value})})$, with e-value of 2.71828183
2	Predicted Value	$-7,893 + 0.790 * \text{RSSTACC} + 2.518 * \Delta \text{REC} + 1.191 * \Delta \text{INV} + 1.979 * \text{SOFTASSETS} + 0.171 * \Delta \text{CASHSALES} - 0.932 * \Delta \text{ROA} + 1.029 * \text{ISSUE}$
3	RSSTACC	$(\Delta \text{WC} + \Delta \text{NCO} + \Delta \text{FIN}) / \text{Average Total Assets}$
4	ΔWC (Working Capital)	$(\Delta \text{Current Assets} - \Delta \text{Cash and Short-term Investments}) - (\Delta \text{Current Liabilities} - \Delta \text{Debt in Current Liabilities})$
6	ΔNCO (Non-Current Operating Assets)	$(\Delta \text{Total Assets} - \Delta \text{Current Assets} - \Delta \text{Investment and Advances}) - (\Delta \text{Total Liabilities} - \Delta \text{Current Liabilities} - \Delta \text{Long-term Debt})$
7	ΔFIN (Financial Assets)	$(\Delta \text{Short-term Investments} + \Delta \text{Long-term Investments}) - (\Delta \text{Long-term Debt} + \Delta \text{Debt in Current Liabilities} + \Delta \text{Preferred Stock})$
8	Average Total Assets	$(\text{Total Assets}_{t-1} + \text{Total Assets}_t) / 2$
9	ΔREC (Receivables)	$\Delta \text{Account Receivables} / \text{Average Total Assets}$
10	ΔINV (Inventory)	$\Delta \text{Inventory} / \text{Average Total Assets}$
11	SOFTASSETS	$(\text{Total Assets} - \text{Property, Plant, \& Equipment} - \text{Cash and Cash Equivalents}) / \text{Total Assets}$
12	$\Delta \text{CASH SALES}$	$(\Delta \text{Sales} / \text{Sales}_{t-1}) - \Delta \text{Account Receivables} / \text{Account Receivable}_{t-1}$
13	ΔROA (Return on Assets)	$(\text{Earning}_t / \text{Average Total Assets}_t) - (\text{Earning}_{t-1} / \text{Average Total Assets}_{t-1})$
14	ISSUE	1 if the company issues long-term debt or common stock at year t and 0 if the company does not issue long-term debt or common stock in year t

Source: Dechow et al., 2011

3.4 Moderator Variables

3.4.1 Managerial Ownership

Managerial ownership measured by the management's share ownership percentage. The companies' managerial ownership calculated as much as their managerial ownership percentage. The companies without managerial ownership measured 0%.

3.4.2 Audit Committee

The following formula measured the committee of audit:

$$\text{KOMADT} = \frac{\text{The Number of the Audit Committee Members in Accountancy and Finance Background}}{\text{Total Audit Committee Member}} \times 100\%$$

3.4.3 Audit Quality

Quality of audit calculated using a variable of the dummy. The audited company by a Big 4 PAF is coded by 1. The company audited by a non-Big 4 PAF is coded by 0.

3.4.4 Simple Linear Regression Model

The simple linear regression model uses to analyze fraudulent financial reporting impact on company value. The simple linear regression equation model of this study:

$$\text{TOBIN'S Q} = \alpha + \beta_1 \text{F-SCORE} + \epsilon$$

Description:

TOBIN'S Q	= Company value
F-SCORE	= Fraud of financial reporting
β_1	= Regression coefficient
ϵ	= Error

3.4.5 Multiple Linear Regression Model

The multiple linear regression model uses to analyze fraudulent financial reporting impact on company value, which moderated by managerial ownership, committee of audit, and audit quality. The multiple linear regression equation models of this study:

$$\text{TOBIN'S Q} = \alpha + \beta_1 \text{F-SCORE} + \beta_2 \text{KEPMNJ} + \beta_3 \text{KOMADT} + \beta_4 \text{KUAADT} + \beta_5 \text{FKEMPNJ} + \beta_6 \text{FKOMADT} + \beta_7 \text{FKUAADT} + \epsilon$$

Description:

TOBIN'S Q	= Company value
F-SCORE	= Fraud of financial reporting
KEPMNJ	= Managerial ownership
FKEMPNJ	= Interaction between fraud of financial reporting and managerial ownership (interaction 1)
KOMADT	= Audit committee
FKOMADT	= Interaction between fraud of financial reporting and audit committee (interaction 2)
KUAADT	= Audit quality
FKUAADT	= Interaction between fraud of financial reporting and audit quality (interaction 3)
$\beta_1 - \beta_7$	= Regression coefficient
ϵ	= Error

4. RESULT AND DISCUSSION

4.1 Overview and Object of Study

The determination of this study's samples provided in Table 2.

TABLE 2
The Determination of The Samples

No.	Description	Amount
1	The number of listed companies on the Kompas100 Index Indonesia Stock Exchange	100
2	The number of companies not always listed on the Indonesian Stock Exchange Kompas100	(29)

Index during the period 2013 to 2017

3	The number of companies always listed on the Indonesian Stock Exchange Kompas100 Index during the period 2013 to 2017	71
4	The number of companies did not use currencies of rupiah during the period 2013 to 2017	(9)
5	The number of companies did not provide complete data needed in this study	(10)
6	The number of companies has variable values that are too extreme (outliers) so that they do not pass the classic assumption test	(16)
7	The number of companies samples	36
8	The number of years of observation	5
	The total samples	180

Source: Processed Data, 2019

4.2 Results of Statistical Descriptive Test

The statistical descriptive test results presented in Table 3 and Table 4.

TABLE 3

Statistical Descriptive Test Results of Non-Dummy Variables

Variable	Amount of data	Minimum Value	Maximum Value	Average Value	Standard Deviation Value
Company Value (TOBIN'S Q)	180	0.552820	4.043223	1.545069	0.692931
Fraudulent Financial Reporting (F-SCORE)	180	0.111854	2.455460	0.632265	0.467542
Managerial Ownership (KEPMNJ)	180	0.000000	0.079270	0.002903	0.008684
Audit Committee (KOMADT)	180	0.200000	1.000000	0.573796	0.226029

Source: Processed Data, 2019

TABLE 4

Statistical Descriptive Test Results of Dummy Variables

Variable	Amount of Data	Percentage (%)
Audit Quality:		
- The audited company by PAF of Big 4	118	65.6
- The audited company by PAF of Non-Big 4	62	34.4
Total	180	100

Source: Processed Data, 2019

4.3 Classical Assumption Test Results

4.3.1 Normality Assumption Test

The normality assumption test used the test of statistics, with the Kolmogorov-Smirnov (K-S) approach, to avoid biased tests and to facilitate analysis. The normality assumption test's result served in Table 5.

TABLE 5

The Result of Normality Assumption Test with Kolmogorov-Smirnov

Dependent Variable	Independent Variables	Significance (2 sides)
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Company value (TOBIN'S Q)	Fraudulent financial reporting (F-SCORE), managerial ownership (KEPMNJ), audit committee (KOMADT), audit quality (KUAADT), interaction 1 (FKEPMNJ), interaction 2 (FKOMADT), and interaction 3 (FKUAADT)	0.161
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Source: Processed Data, 2019

The normality assumption test result had a significance value of 0.161 on the alpha of 0.05. So, the data had a normal distribution.

4.3.2 Multicollinearity Assumption Test

The multicollinearity assumption test used the test of statistics, with tolerance value and Variance Inflation Factor (VIF) value. The multicollinearity test result served in Table 6.

TABLE 6
The Result of Multicollinearity Assumption Test

No.	Variable	Tolerance Value	VIF
1	Fraudulent financial reporting (F-SCORE)	0.108	9.242
2	Managerial ownership (KEPMNJ)	0.241	4.144
3	Audit committee (KOMADT)	0.330	3.030
4	Audit quality (KUAADT)	0.262	3.813
5	Interaction 1 (FKEPMNJ)	0.251	3.984
6	Interaction 2 (FKOMADT)	0.103	9.750
7	Interaction 3 (FKUAADT)	0.292	3.426

Source: Processed data, 2019

The result of multicollinearity testing showed that each independent variable had a tolerance value of more than 0.1. Besides that, the VIF value for each variable was less than 10. So, the data were free from multicollinearity.

4.3.3 Heteroscedasticity Assumption Test

The heteroscedasticity assumption test used the test of statistics, with the White Test. The heteroscedasticity assumption test's result served in Table 7.

TABLE 7
Heteroscedasticity Assumption Test's Result with White Test

No.	Variable	Significant Value
1	Fraudulent financial reporting (F-SCORE)	0.546
2	Managerial ownership (KEPMNJ)	0.760
3	Audit committee (KOMADT)	0.504
4	Audit quality (KUAADT)	0.081
5	Interaction 1 (FKEPMNJ)	0.891
6	Interaction 2 (FKOMADT)	0.701
7	Interaction 3 (FKUAADT)	0.368

Source: Processed data, 2019

Based on the heteroscedasticity assumption test's result that showed in Table 7, each independent variable had a

significant value of more than 0.05. So, the data were homoscedasticity.

4.3.4 Autocorrelation Assumption Test

The autocorrelation assumption test used the test of statistics, with the Durbin Watson approach. The autocorrelation assumption test's result served in Table 8.

TABLE 8
The Result of Autocorrelation Assumption Test with Durbin Watson

Dependent Variable	Independent Variables	Durbin Watson Value
Company value (TOBIN'S Q)	Fraudulent financial reporting (F-SCORE), managerial ownership (KEPMNJ), audit committee (KOMADT), audit quality (KUAADT), interaction 1 (FKEPMNJ), interaction 2 (FKOMADT), and interaction 3 (FKUAADT)	1.873

Source: Processed Data, 2019

The result value of the Durbin Watson test was 1.873. The total samples were 180. The samples made up of 7 independent variables. The alpha of 0.05. The upper limit value (dU) of 1.8374. The lower limit value (dL) of 1.6761. $1.8374 (dU) < 1.873$ (The value of Durbin Watson) $< 2.1266 (4-dU)$, so the data were free from autocorrelation.

4.4 Results of Regression Analysis

4.4.1 Simple Linear Regression Analysis

The simple linear regression analysis result served in Table 9.

TABLE 9
The Results of Simple Linear Regression Analysis

Variable	Coefficient Value	T Value	Significant Value
Constant	1.751	20.569	0.000
F-SCORE	-0.326	-3.006	0.003

Source: Processed Data, 2019

Based on the result in Table 9, the simple linear regression equation model of this study:

$$\text{TOBIN'S Q} = 1.751 - 0.326 \text{ F-SCORE} + \varepsilon$$

4.4.2 Multiple Linear Regression Analysis

The multiple linear regression analysis results served in Table 10.

TABLE 10
Results of Multiple Linear Regression Analysis

Variable	Coefficient Value	T Value	Significant Value
Constant	1.858	7,030	0.000
F-SCORE (X)	-0.752	-2.415	0.017
KEPMNJ (M ₁)	5.421	0.483	0.630
KOMADT (M ₂)	-1.219	-3.305	0.001
KUAADT (M ₃)	0.702	3.575	0.000
FKEPMNJ (X*M ₁)	16.576	0.692	0.490

FKOMADT (X*M ₂)	1.511	2.858	0.005
FKUAAADT (X*M ₃)	-0.542	-2.318	0.022

Source: Processed Data, 2019

Based on the result in Table 10, the multiple linear regression equation model of this study:

$$\text{TOBIN'S Q} = 1.858 - 0.752 \text{ F-SCORE} + 5.421 \text{ KEPMNJ} - 1.219 \text{ KOMADT} + 0.702 \text{ KUAADT} + 16.576 \text{ FKEPMNJ} + 1.511 \text{ FKOMADT} - 0.542 \text{ FKUAAADT} + \varepsilon$$

4.4.3 Statistical Test of F (Simultaneous Significance Test)

The statistical test of F's results presented in Table 11 and Table 12.

TABLE 11

The statistical test of F result on Simple Linear Regression Analysis

Model	Df	F Value	Significant Value
Regression	1		
Residual	178	9.038	0.003
Total	179		

Source: Processed Data, 2019

The statistical test of F result that served in Table 11 showed the F value of 9.038 and a significant value of 0.003. 0.003 is less than the alpha of 0.05. That result indicated that fraudulent financial reporting had a significant impact on company value.

TABLE 12

The statistical test of F result on Multiple Linear Regression Analysis

Model	Df	F Value	Significant Value
Regression	7		
Residual	172	5.319	0.000
Total	179		

Source: Processed Data, 2019

The statistical test of F result that served in Table 12 showed the F value of 5.319 and a significant value of 0.000, 0.000 is smaller than the alpha of 0.05. That result indicated that fraudulent financial reporting, managerial ownership, audit committee, audit quality, interaction variable 1, interaction variable 2, and interaction variable 3 affected simultaneously significant on company value.

4.4.4 Individual Parameter Significance Test (Statistical Test of t)

The statistical test of t results (statistical tests t) served in Table 13 and Table 14. The results of the hypothesis test provided in Table 15.

TABLE 13

The statistical test of t result for Simple Linear Regression Analysis

Variable	Coefficient Value	T Value	Significant Value
Constant	1.751	20.569	0.000

F-SCORE	-0.326	-3.006	0.003
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Source: Data processed, 2019

TABLE 14

The statistical test of t result for Multiple Linear Regression Analysis

Variable	Coefficient Value	T Value	Significant Value
Constant	1.858	7.030	0.000
F-SCORE (X)	-0.752	-2.415	0.017
KEPMNJ (M ₁)	5.421	0.483	0.630
KOMADT (M ₂)	-1.219	-3.305	0.001
KUAADT (M ₃)	0.702	3.575	0.000
FKEPMNJ (X ₁ *M ₁)	16.576	0.692	0.490
FKOMADT (X ₁ *M ₂)	1.511	2.858	0.005
FKUAAADT (X ₁ *M ₃)	-0.542	-2.318	0.022

Source: Data processed, 2019

TABLE 15

Test Results for Study's Hypotheses

Hypothesis	Results
H ₁ : Fraudulent financial reporting negatively impacts on company value	H ₁ supported
H ₂ : Managerial ownership moderates fraudulent financial reporting effect on company value	H ₂ Not supported
H ₃ : The audit committee moderates fraudulent financial reporting impact on company value	H ₃ supported
H ₄ : Audit quality moderates fraudulent financial reporting influence on company value	H ₄ supported

Source: Data processed, 2019

4.4.5 Determination Coefficient Test (R²)

The determination coefficient test (R²) results served in Table 16 and Table 17.

TABLE 16

Determination Coefficient Test Results for Simple Linear Regression Analysis

Dependent Variable	Independent Variables	Adjusted R ² Value
Company value (TOBIN'S Q)	Fraudulent financial reporting (F-SCORE)	0.043

Source: Data processed, 2019

The results in Table 16 showed that the value of adjusted R² is 0.043 or 4.3%. This value indicated that the company value variable explained by the fraud of the financial reporting variable of 4.3% and the remaining 95.7% described by other variables not included in this study.

TABLE 17

Determination Coefficient Test Results for Multiple Linear Regression Analysis

Dependent Variable	Independent Variables	Adjusted R ² Value
Company value (TOBIN'S Q)	Fraudulent financial reporting (F-SCORE), managerial ownership (KEPMNJ), audit committee (KOMADT), audit quality (KUAADT), interaction 1 (FKEPMNJ), interaction 2 (FKOMADT), and interaction 3 (FKUAAADT)	0.144

Source: Data processed, 2019

The result in Table 17, the value of adjusted R2 is equal to 0.144 or 14.4%. This value showed that the company value variable described by the fraud of financial reporting variable, managerial ownership variable, audit committee variable, audit quality variable, interaction variable 1, interaction variable 2, and an interaction variable 3 of 14.4% and the rest of 85.6 % described by other variables not included in this study.

4.5 Fraud of Financial Reporting Impacted on Company Value

This study's outcomes showed that the regression coefficient value and the significance value of fraudulent financial reporting were -0.326 and 0.003 at alpha (α) of 0.05. The results showed that financial reporting fraud significantly negatively impacted on company value. This study's outcomes indicated that the lower the fraud of financial reporting, the higher the company value. The higher the fraud of financial reporting, the lower the company value. This study result supported a study conducted by Rukmana (2018).

4.6 Managerial Ownership Moderated Fraudulent Financial Reporting Effect on Company Value

This study's outcomes indicated the regression coefficient value of interaction between fraud of financial reporting and managerial ownership (β_5) and a significance value were 16.576 and 0.490 on alpha (α) of 0.05. These results showed that managerial ownership did not moderate the fraudulent financial reporting effect on company value.

4.7 Audit Committee Moderated Fraudulent Financial Reporting Impact on Company Value

The study's outcomes indicated the regression coefficient value of interaction between fraud of financial reporting and audit committee (β_7) and a significance value were of 1.511 and 0.005 on alpha (α) of 0.05. Base on that result, the audit committee moderated fraud of financial reporting impact on company value. The audit committee weakened the fraud of financial reporting negative effect on company value. The regression coefficient value of the interaction between financial reporting fraud with the audit committee (β_2) had a positive direction (1,511). That regression coefficient value has the opposite direction with a regression coefficient of financial reporting fraud (β_1), which has a negative direction (-0.752). The study result indicated that the more audit committee member who has the experience and educational background in accountancy and finance, the lower the fraud of financial reporting, so the higher company value.

4.6 Audit Quality Moderated Financial Reporting Fraud Influence on the Company Value

This study's outcomes denoted that the coefficient regression value of interaction between fraudulent financial reporting with audit quality (β_7) and significance value was -0.542 and 0.022 on alpha (α) of 0.05. This result indicated that audit quality moderated fraudulent financial reporting impact on company value. The coefficient regression value of interaction between financial reporting fraud with audit quality (β_7) had a negative direction (-0.542). That coefficient regression value had one direction with the coefficient regression value of fraudulent financial reporting (β_1), which

had a negative direction (-0.752). Quality of audit reinforced the negative influence of fraudulent financial reporting on company value. This result showed that the higher audit quality produced by the external auditor, the higher the ability of external auditor detected fraud of financial reporting, so the lower the company value.

5. Conclusions, Limitation, Suggestion, and Implications

5.1 Conclusions

This study deduced that:

1. Fraud of financial reporting, managerial ownership, audit committee, audit quality, interaction variable between fraudulent financial reporting with managerial ownership (interaction variable 1), interaction variable between fraudulent financial reporting with audit committee (interaction variable 2), and interaction variable between fraudulent financial reporting with audit quality (interaction variable 3) jointly had a significant impact on company value.
2. Fraud of financial reporting had a negatively significant effect on company value.
3. Managerial ownership did not moderate financial reporting fraud effect on company value.
4. The committee of audit weakened fraudulent financial reporting negative impact on company value.
5. Audit quality strengthened fraud of financial reporting negative influence on company value.

5.2 Limitation and Suggestion

This study had a limitation, a limited number of samples, causing this study has not shown managerial ownership moderate fraudulent financial reporting impact on company value yet. The level of managerial ownership in Indonesia's public companies is relatively small, under 5%, so that management did not have significant control over the company. Suggestions for further study to provide higher quality study results preferably use a sample of companies from other countries, such as Malaysia or the United States. Those countries implement a one-tier board system, a system without separation between management function and supervisory function because of the company's owners as a manager and also a supervisor. Managerial ownership level on countries that has a one-tier board system expected to be higher than in Indonesia because management can control and supervise the company at once so can get the empirical evidence.

5.3 Implications

This study's findings have theoretically and practically implications:

1. Indonesia's Financial Services Authority (OJK) expected to establish regulations that must be obeyed by public companies and provide strict legal sanctions against violating public companies to narrow the occurrence of financial reporting fraud. Besides that, the regulations also should regulate specifically related to the number of an audit committee member who has education or experience in accounting or finance adjusted to the company's complexity. So, they can carry out supervision

effectively, support good corporate governance, and minimize the occurrence of financial reporting fraud.

2. Indonesia's government should assign policies to encourage Indonesia's public companies to use audit services from external auditors from Big 4 PAF. So, the audit result has high quality. High audit quality can convince external stakeholders, especially investors and creditors, to make economic decisions. The policies also expected to motivate PAF, increasing its audit quality results.

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