FINANCIAL RESTATEMENT AFFECTING FACTORS ANALYSIS ON INDONESIA MANUFACTURING COMPANIES

Cornelia Clarissa Marjono*
Lindrawati
Universitas Katolik Widya Mandala Surabaya, Jl. Dinoyo 42-44, Surabaya, Indonesia
**corneliaclarissamarjono@yahoo.co.id*

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ABSTRACT
Research Purposes. *The purpose of this research is to examine and analyze the influence of corporate governance, ownership structure, financial performance, audit quality, related party transaction, and founders on board towards financial restatement of Indonesia manufacturing companies.*
Research Methods*. The design of this research is a quantitative research. The objects of this research are Indonesia Stock Exchange manufacturing companies of 2013-2017. Data analysis technique used in this research is logistic.*
Research Results and Findings. *The result of this research shows that corporate governance represented by board of commissioner positively affect financial restatement, board of director negatively affect financial restatement, while independent commissioner and audit committee have no effect towards financial restatement. Ownership structure has no effect towards financial restatement. Financial performance, audit quality, and related party transaction also have no effect towards financial restatement. While, founders on board positively affect financial restatement.*

ABSTRAK
Tujuan Penelitian. *Penelitian ini bertujuan untuk menguji dan menganalisis pengaruh corporate governance, struktur kepemilikan, kinerja keuangan, kualitas audit, transaksi pihak berelasi, dan pendiri dewan terhadap financial restatement perusahaan manufaktur Indonesia.*
Metode Penelitian. *Desain penelitian ini adalah penelitian kuantitatif. Objek penelitian ini adalah perusahaan manufaktur Bursa Efek Indonesia tahun 2013-2017. Teknik analisis data yang digunakan dalam penelitian ini adalah regresi logistik.*
Hasil dan Temuan Penelitian *Hasil penelitian ini menunjukkan bahwa corporate governance yang diwakili oleh dewan komisaris berpengaruh positif terhadap financial restatement, dewan direksi berpengaruh negative terhadap financial restatement, sedangkan komisaris independen dan komite audit tidak berpengaruh terhadap financial restatement. Kinerja keuangan, kualitas audit, dan transaksi pihak berelasi juga tidak berpengaruh terhadap financial restatement. Sedangkan pendiri di dewan berpengaruh positif terhadap financial restatement.*

INTRODUCTION

According to Indonesia's Otoritas Jasa Keuangan Regulation No. 29/POJK.04/2016, annually, every go public company is obliged to report their company performance by releasing their annual report that is required to contain the company's annual financial statement (Otoritas Jasa Keuangan, 2016). In Indonesia, the preparation of financial statements refers to Standar Akuntansi Keuangan (SAK) which adopted International Financial Reporting Standards (IFRS) since January 1st, 2012. In the preparation process of financial statements, the conceptual structure of financial statements required the entity to apply accrual-based accounting (Ikatan Akuntan Indonesia, 2018), where income will be recognized in the period where the income was made and expense will be recognized in the same period with the related income (Warren, Reeve and Duchac, 2016). Unfortunately, this accrual accounting system gives the managers discretion in registering economic occurrences and transactions of the company which could inflict opportunistic behavior of the managers. Managers could seek personal gain by acknowledging income earlier than it is or acknowledging expense of current period into expense of previous or future periods. Management will make efforts to report information that increases their credibility even though it is necessary for them to cover the real company performance and release false financial statements.

The annual report that contains the company's financial statements is prepared by the company's managers. On the other hand, the agency relationship between the owner of economic resources (principal) and manager (agent) in a company will trigger a conflict of interest, thereby encouraging the manager's opportunistic behavior. Bad quality financial statements and a lot of mistakes in the financial report will end up requiring the company to re-release their financial statements or known as financial restatement (Butar, 2018). Financial restatement defines a process to revise and correct the previously released financial statement to rectify mistakes, disobedience, or violations of general accounting principles (Abdullah, Yusof and Nor, 2010).

Financial restatement has been around since the early 1980s. But, the study about financial restatement became more aggressive after the occurrence of the audit global scandal. The Enron case and WorldCom case were a case of financial manipulation and accounting malpractice which caused the fall of huge companies and a massive loss to the international financial institutions due to the bankruptcy of Enron and WorldCom. Financial restatement could be done to increase the integrity of financial information or due to an obligation of the company to apply accounting changes required by the standard. On the other side, financial restatement also allows the managers the opportunity to manipulate accounting data so that they could use the complexity of the restatement to remove any trace of profit management (Anggraini and Dianawati, 2017). As a result, financial restatement is considered as a mirror of credibility of bad companies and the existence of bad quality financial statements.

Lukviarman (2016) argues that corporate governance mechanisms are needed to solve agency problems in companies. The corporate governance mechanism is a rule, procedure, and clarity of the relationship between those who control or supervise company decisions and those who make decisions, in this case, are company managers. Therefore, good corporate governance mechanisms, including good ownership structures in a company are needed to prevent managers from submitting financial reports that fail to reflect the real economic reality of the company and minimize the use of financial restatements in companies because corporate governance mechanisms will increase managerial oversight. This study describes four corporate governance mechanisms: board of commissioners, independent commissioner, board of directors, and audit committee. This study also discusses the impact of institutional ownership, managerial ownership, and foreign ownership as part of good ownership structures on financial restatements.

The corporate governance mechanism of a company plays a role in encouraging the company to adopt good accounting policies and to carry out the supervisory function of the company managerial so that the company can issue higher quality financial reports and minimize financial restatement. Research by Kusumo and Meiranto (2014); Siregar and Rahayu (2018) shows that board of commissioners, independent commissioners and audit committees has no effect on financial restatement because a larger number of board does not necessarily increase the effectiveness of the monitoring function. However, the results of Butar's research (2018) show that the audit committee has a negative effect on financial restatement, while the independent commissioner has no effect because the presence of an independent commissioner does not guarantee the effectiveness of the monitoring function. Anggraini and Dianawati's research (2017) shows that the audit committee has a positive effect on financial restatement because the frequency of audit committee meetings that is too frequent can cause a decrease in the independence of the audit committee and time efficiency.

Institutional ownership will increase company supervision by institutional investors so that it can minimize opportunistic management behavior and can reduce incidents of financial restatement (Kusumo and Meiranto, 2014). However, this is not in accordance with the results of research from Butar (2018); Siregar and Rahayu (2018) which show that institutional ownership has no effect on financial restatement because the presence of institutional investors are not guaranteed better company supervision. Managerial ownership will reduce agency problems because there are managers who also act as owners so that financial restatement can be reduced. However, the results of research from Kusumo and Meiranto (2014); Siregar and Rahayu (2018) explain that managerial ownership has no effect on financial restatement because managerial ownership does not guarantee better company monitoring. Foreign ownership will demand higher governance standards and foreign investors tend to monitor the company's reporting process so that this will reduce financial restatement practices (Hasnan and Hussain, 2015).

With regard to corporate governance mechanisms, this study also discusses the impact of founders on board on financial restatement because company founders tend to have strong control over the organization and as part of the board, founders on board are also responsible for the company's financial statements. The presence of company founders on the board of companies will increase the chances of presenting manipulated financial statements as an attempt by the founders to avoid a negative response from the public if the company's financial statements indicate poor company performance results. However, this is not in accordance with the research results of Hasnan and Hussain (2015) which show that the presence of founders on board has a negative effect on financial restatements because founders on board can improve the quality of financial reporting and increase supervision so that the occurrence of financial restatements can be avoided.

General Accountability Office (GAO, 2002) describes 9 categories of financial restatement (Cost or Expense; Revenue recognition; Securities-related; Restructuring, assets, or inventory; Reclassification; Other; Acquisition and merger; Related party transactions; In-process research and development) that occurs voluntarily and can be an indication of a financial restatement carried out to correct fraudulent financial reporting and / or accounting errors. GAO explains that restatement occurs primarily because of improper accounting treatment for costs or expenses and because of improper accounting for revenue. In addition, restatements also occur due to inadequate disclosure or inaccurate accounting for revenues, expenses, liabilities or assets that involve transactions or relationships with related parties. Therefore, this study also discusses the effect of financial performance which is directly related to recording company’s revenue and expenses as well as the effect of related party transactions on financial restatement.

Hasnan, Rahman and Mahenthiran (2013) found that poor financial performance can motivate managers to improve the appearance of the company's financial statements so later on, companies will carry out financial restatements to fix previous financial reports. However, the results of research by Hasnan and Hussain (2015) show that financial performance has no effect on financial restatement because the manipulation of financial statements can be caused by other things such as a political situation. Moreover, Hasnan and Hussain's research (2015) also shows that related party transactions have a positive effect on financial restatement because many related party transactions are carried out as a result of earnings management activities.

Financial restatement occurs because a company corrects previously reported public financial information, either voluntarily or because it is required by auditors or regulators (GAO, 2002) so that this study also examines the effect of audit quality on financial restatement. High audit quality will be able to detect irregularities in accounting policies as early as possible and be able to detect acts of manipulation of financial statements by clients, so could minimize the possibility of financial restatement. This is in accordance with the results of research by Hasnan and Hussain (2015) which show that audit quality has a negative effect on financial restatement.

In Indonesia, issues related to financial restatement occurred quite often. In 2002, a financial statement investigation of Kimia Farma and discovered that the value of operating profit presented in the financial statements is higher than the real value. Kimia Farma was proven to increase the price value in their inventory list causing an overstatement; as a consequence, Kimia Farma was required to do a financial restatement (Tempo, 2003). Not only that, in 2019 the financial statements of Garuda Indonesia gets a lot of attention because Garuda Indonesia acknowledged that all transactions with Mahata Aero Teknologi valued at US$ 239 Million as a 2018 income even though this contract has a long term period of 15 years with Garuda Indonesia and 10 years with Sriwijaya. As a consequence, Garuda Indonesia was required to do a financial restatement for their 2018 financial statements (CNN Indonesia, 2019). These cases showed that financial restatement done by many companies could be motivated by various reasons.

Research on financial restatement needs to be done due to the occurrence of intentional financial restatement done by the management which of course inflicts financial loss towards many sides especially the users of financial statements. Motivation and reasons that cause the occurrence of financial restatement should be known to minimize misstatement due to fraud and inform the users of financial statements that when a financial restatement occurred, the previous financial statements have become invalid and have to be re-reviewed.

This research was conducted with purpose to examine and analyze the influence of corporate governance, ownership structure, financial performance, audit quality, related party transaction, and founders on board towards financial restatement of manufacturing companies listed in Indonesia Stock Exchange in the 2013-2017 period. The manufacturing industry is chosen because the manufacturing industry has both a high level of complexity and transaction intensity. This thing increases the possibility of misstatement in the financial statements which in the end might require the company to do a financial restatement. This research uses the period of 2013-2017 to make sure the result of this research is relevant to the current condition. This research is expected to be beneficial as a reference or comparison for the next researcher that will have a similar topic and as advice for inventors in making decisions of investment.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

This section reviewed related literature to the study. It deals with the conceptual review, theoretical review and empirical review. The study explains the following concepts as they are used in this study: agency theory, financial restatement, corporate governance, ownership structure, financial performance, audit quality, related party transaction, and founders on board.

Agency Theory

Agency theory explains the relation between the manager side (agent) and principle side (investor), where principle delegates the authority of decision making in the company to the manager side to make sure the operational process is running smoothly (Jensen and Meckling, 1976). The existence of these agency relationships often result in problems where the manager does not always follow the same direction as the investor and prioritize their interest. In the end, managers' reluctance in optimizing stakeholder’s wealth will cause agency problems that might affect the presentation of financial statements which is the manager’s responsibility (Kusumo and Meiranto, 2014)

Financial Statement and Financial Restatement

Warren, Reeve and Duchac (2016) stated that financial statements are reports that summarize events that influence the company. The purpose of financial statements is to provide information that would benefit the economic decision-making process for the majority of financial statement users. Financial restatement defined as a revision and correcting process of released financial statements to fix mistakes, disobedience, or violation of general accounting principles (Abdullah, Yusof and Nor, 2010). Kieso, Weygandt and Warfield (2014) stated that financial restatement happened as a consequence due to mistakes or a change in accounting principles. Financial restatement done due to changes in accounting principles required by PSAK is a financial restatement that should be done by companies which means this is not an indication of manipulation done by the management. While financial restatement is done because the company changed their accounting policy voluntarily or because of mistakes means financial restatement could indicate that there might be manipulation done by the companies’ management.

Hypothesis Development

Corporate Governance

Corporate governance is a structure and method used to make sure the organization achieves its interests and how to decide ways of monitoring the operational process of an organization. Lukviarman (2016) opines that a mechanism to protect principles’ interests is needed to solve agency problems, to implement good management principles or good corporate governance (GCG). This research describes four types of corporate governance mechanisms namely board of commissioners, independent commissioner, board of directors, and audit committee.

Board of commissioners defined as a part of a company with obligation and responsibility to collectively supervise and advise management to make sure the company is applying GCG (Komite Nasional Kebijakan Governance, 2006). In implementing its supervisory function, board of commissioners also have to push the company to adopt a good accounting policy as the foundation in preparing financial statements as mistakes in financial statements would inflict the investors as the main user of financial statements (Butar, 2018).

The internal meeting by the board of commissioners is a media required to be held and attended by the whole members to discuss and evaluate company performance that has been done by their management. A board of commissioners with a high meeting frequency shows that they carry out their duties diligently. With the increasing frequency of board of commissioners' meetings, the supervision of the directors who compile the financial statements of a company will be more effective, resulting in better and improved released financial statements. Therefore, companies with a more effective board of commissioners supposedly should have less financial restatement occurred due to misstatement or foul (Kusumo and Meiranto, 2014).

$H1_a$: Board of commissioners has a negative effect on financial restatement.

Independent commissioner is members of board of commissioners which are unaffiliated with the directors, other board of commissioners and controlling stakeholders, also free from business relation or any other relation that could affect their ability to be independent or to take action solely in favor of the company (Komite Nasional Kebijakan Governance, 2006). As part of the board of commissioners, the independent commissioner also has the duty to supervise and provide advice to the board of directors, however, the supervision carried out by the independent commissioner will be better (Kusumo and Meiranto, 2014).

Independent commissioners have a strong incentive to provide a more effective supervisory function compared to affiliated commissioners due to their need to maintain a good reputation as independent commissioners. Supervising done by independent commissioners could minimize the risk of manipulation or moral hazard practice done by the management (Siregar and Rahayu, 2018). Therefore, more proportion held by independent commissioners, means less financial restatement would occur.

$H1_b$: Independent commissioners has a negative effect on financial restatement.

Board of directors is defined as a body trusted with the authority to make economic decisions that could affect the prosperity of investors' capital, employee security, community economic health, also power and executive interests (Molz, 2015). Board of directors needs to supervise and make sure the company managers do their obligation concerning the stakeholders' interests. The board of directors meeting provides the board of directors with an opportunity for the board of directors to discuss the company's performance. Therefore, routine board of directors meetings could increase company performance and increase the effectivity of directors' supervisory function towards the company management who compile the financial statements, so that financial restatement practices due to misstatement or fraud can be minimized (Schwartz-Ziv and Weisbach, 2013). With a more effective board of directors in a company, less possibility of a financial restatement would occur (Anggraini and Dianawati, 2017).

$H1_c$: Board of directors has a negative effect on financial restatement.

Audit committee is a body of a company that is responsible to help the board of commissioners in doing supervisory functions that involve review of company internal control, review financial statement quality, and review company internal audit effectiveness (Lukviarman, 2016). The company audit committee effectiveness would optimize supervisory function that would improve the financial statement quality and financial restatement could be avoided. This thing is supported by Butar's research discovery (2018) that proved the audit committee had a negative effect on financial restatement.

Audit committee with a higher frequency of meetings could result in better and more effectively supervise, preparation, and information presentation process of financial statements. Previous study showed that audit committee meetings frequency that is done for a minimal four times a year could have negative affect towards financial restatement because an active audit committee tends to do more effective supervision (Abbott, Parker and Peters, 2004). Therefore, companies with more effective audit committee supposedly should have less financial restatement occurred due to misstatement or foul.

$H1_d$: Audit committee has a negative effect on financial restatement.

Ownership Structure

Ownership structure is a structure or composition of how much stock ownership exists in a single company entity (Situmorang and Hadiprajitno, 2015). Stock ownership structure that will be discussed in this research is institutional ownership, managerial ownership, and foreign ownership.

Institutional ownership is a percentage of stock ownership by institutional investors. These institutional investors are banks, investment companies, insurance companies, or ownership by other companies (Sukirni, 2012). The existence of this institutional ownership could become an effective supervisory mechanism for whatever decision is taken by managers. Institutional ownership could optimize supervisory functions that will encourage company managers to focus more on company performance while decreasing opportunistic behavior or prioritizing personal gain, resulting in better quality financial statements, and financial restatement could be avoided (Ardianingsih and Ardiyani, 2010).

H2$_a$: Institutional ownership has a negative effect on financial restatement.

Managerial ownership is a composition of stockholders from the management part of the company like directors, managerial ranks, and commissioners who are responsible to make decisions in the company (Diyah and Erman, 2009). The existence of managerial ownership in a company solves the agency problems due to the existence of managers who also taking part as the owner (Kusumo and Meiranto, 2014). The existence of greater management ownership in the company will be able to overcome the problem of conflict of interest by aligning the interests of managers with those of shareholders so that the quality of financial reports which are the responsibility of managers will also increase and financial restatement can be minimized (Kusumo and Meiranto, 2014).

H2$_b$: Managerial ownership has a negative effect on financial restatement.

Foreign ownership is the sum of stocks of Indonesian companies owned by foreigners, either an individual or institutional (Rustiarini, 2011). Foreign investors will be more interested in investing their capital into a good-performing company and could provide good quality financial statements (Hasnan and Hussain, 2015). This is due to foreign investors demanding higher management standards and minority rights protection to increase the quality of the statements. The previous study showed us that the higher amount of capital invested by the foreigner will encourage them to do more effective supervision towards the company they invested in (Yulius, 2013). Therefore, more supervision towards the company especially towards the preparation of financial statements would result in better quality of financial statements and financial restatement could be avoided.

H2$_c$: Foreign ownership has a negative effect on financial restatement.

Financial Performance

Financial performance is the performance achieved by a company in a certain period of time. Financial performance illustrates the healthiness of the company (Sutrisno, 2009). Management should report the utilization of resources managed by them and financial performance is the indicator of results done by the management as a form of accountability towards the investors. Poor financial performance could motivate managers to improve the appearance of the company's financial position (Bell, Szykowny and Willingham, 1991). This thing is done probably to decrease the threats of losing their job or for their personal gain. Conversely, a better company financial performance will of course minimize the motivation for manipulation of financial statements so that the quality of financial reports is better and financial restatement can be avoided. The higher financial performance of a company, the less possibility of financial restatement done by the company (Hasnan and Hussain, 2015).

H3 : Financial performance has a negative effect on financial restatement.

Audit Quality

Audit quality is audit implementation done with reference to the applicable audit standards so that it could discover, reveal and also report a violation done by the client (Rosnidah, 2010). Audit quality is also related to auditors' obedience in doing their job to make a relevant audit report and dependable or unbiased. The higher the quality of the audit, the more violations or errors of the financial statements the auditor may discover as early as possible.

Industry-specialized auditors will produce higher quality audits because they have more experience serving specific industry clients. Industry-specialized auditors also have a better understanding of the client's industry conditions, so that they are able to minimize irregularities in management's financial reporting practices. Industry-specialized auditors tend to have more understanding and comprehensive skills thus will affect their increase of auditor quality in detecting unintentional mistake (error) or intentional mistake (foul) in financial statements. Therefore, a high-quality auditor will result in better quality financial statements and minimize the possibility of financial restatement.

H4 : Audit quality has a negative effect on financial restatement.

Related Party Transaction

According to PSAK No. 7, related party transaction is a transfer or delegation of resource, service, or obligation that happened between the entity of reporter and related parties, despite the existence of price charged (Ikatan Akuntan Indonesia, 2018). Related party transaction could be utilized by management to filter their personal gain (Ardaninggar, 2019). Management as the decision-making party may take advantage of transactions with related parties such as people or close family members or related entities for personal gain, even though these transactions may not have occurred. From that exposure, related party transaction could be seen as opportunistic transaction when during the transaction with related parties there is an objective to expropriation. Of course, this transaction will create financial reports that do not reflect actual conditions and poor reporting quality. Related party transaction could increase the possibility of financial restatement to occur as a result of financial restatement manipulation (Hasnan and Hussain, 2015).

H5 : Related party transaction has a possitive effect on financial restatement.

Founders on Board

Founders are the founder and initiator of the business idea, who could be an individual or a group of people. Founders on board mean the presence of the company founder in the company board. The company founders have a strong emotional commitment. Company founders tend to protect the organization and avoid any bad possibility that could happen towards the company they build. A foul financial restatement could be one of their efforts to avoid public announcement of their company's financial failure. Due to their desire to cover their company's poor and humiliating performance, financial statements manipulation was done which results in the requirement of financial restatement (Hasnan and Hussain, 2015).

H6 : Founders on board has a possitive effect on financial restatement.

RESEARCH METHOD

The design of this research is quantitative research. The research period is five years from 2013-2017. The type of data used in this research is quantitative data and qualitative data in a form of manufacturing company annual reports listed in Indonesia Stock Exchange of 2013-2018 period. The qualitative data used in this study is data related to the reasons for the company for conducting financial restatements. Data of 2018 period is used because this study looks at the presence or absence of financial restatements carried out by companies on the company's financial statements in year t + 1. These annual reports were acquired from the website BEI (www.idx.co.id), where all data were in a form of secondary data. The data collection method used in this research is documentation.

Research population is manufacturing companies listed in Indonesia Stock Exchange. This population sample was taken using the purposive sampling method with the following criteria:

1. Manufacture company listed in Indonesia Stock Exchange continuously in the period of 2013-2018.
2. Manufacture company which annual reports provided in the Indonesia Stock Exchange website continuously in the period of 2013-2018.
3. Manufacture company that presents financial statements in Rupiah currency.
4. Manufacture company which annual reports provide information regarding frequencies of board of commissioners meetings, board of directors meetings, and audit committee meetings.

Based on applied criteria, 63 companies acquired out of 315 samples.

This research implements logistic test data analysis with the logistic regression model formula (1) as follow:

$$Ln\,\frac{FR}{1-FR} = a - \beta_1 BC - \beta_2 IC - \beta_3 BD - \beta_4 AC - \beta_5 IO - \beta_6 MO - \beta_7 FO - \beta_8 FP - \beta_9 AQ + \beta_{10} RPT + \beta_{11} FOB + \varepsilon \qquad \text{.......(1)}$$

A description of the variables used in this study is presented in table 1.

Table 1. Variables Definition and Measurement

Definition	Variable	Measurement	Source
FR	Financial Restatement	Proxied by a dummy variable which is 1 for companies that do financial restatement in year t+1 and 0 for companies that do not do financial restatement in year t+1	(Kusumo and Meiranto, 2014)
BC	Board of commisioners	Measured by looking at the frequency of board of commissioners' meetings in one year	(Marsha and Ghozali, 2017)
IC	Independent commissioner	Measured by comparing the number of independent commissioners with the total number of commissioners	(Kusumo and Meiranto, 2014)
BD	Board of directors	Measured by looking at the frequency of board of directors' meetings in one year	(Mardiyati, 2012)
AC	Audit committee	Measured by looking at the frequency of audit committee's meetings in one year	(Anggraini and Dianawati, 2017)
IO	Institutional ownership	Measured by comparing the number of institutional shareholders with the number of outstanding shares of companies in the capital market.	(Kusumo and Meiranto, 2014)
MO	Managerial ownership	Measured by comparing the number of managerial stock ownership with the number of outstanding shares of companies in the capital market.	(Kusumo and Meiranto, 2014)
FO	Foreign ownership	Measured by comparing the number of foreign ownership of shares with the number of outstanding shares of companies in the capital market.	(Hasnan and Hussain, 2015)
FP	Financial performance	Obtained by expressing net profit as a proportion of total assets	(Simbolon and Sueb, 2016)
AQ	Audit quality	Measured by comparing the number of clients assets in a particular industry with the total assets of all clients from all KAP in certain industries, using a dummy variable, i.e. 1 if the company is audited by a specialized auditor more than 30%, and given a value of 0 if the company is audited by a non-specialized auditor less than 30%	(Panjaitan, 2014)
RPT	Related party transaction	Measured by comparing the total value of the account's financial position for related party transactions with total assets	(Feliana, 2007)
FOB	Founders on board	Measured by the dummy variable, i.e. 1 for companies that have founders on board and 0 for companies that do not have founders on board	(Hasnan and Marzuki, 2017)

Source: Compiled by the Researcher, 2020

RESULTS AND DISCUSSION

<u>*Result*</u>

Descriptive Statistics Results

This section presents descriptive statistics, regression and test of hypotheses results of the study. Descriptive statistics results could be seen at table 2 and table 3.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Average	Std. Deviation
Board of commissioners	315	1	36	6,84	5,248
Independent commissioner	315	0,00000	1,00000	0,40779	0,12429
Board of directors	315	4	60	18,20	11,163
Audit committee	315	2	36	6,68	4,908
Institutional ownership	315	0,00000	0,99770	0,67520	0,22446
Managerial ownership	315	0,00000	0,87329	0,03714	0,10403
Foreign ownership	315	0,00000	0,99770	0,31958	0,33368
Financial performance	315	-0,37671	0,40184	0,05369	0,10116
Related party transaction	315	0,00000	0,41800	0,05774	0,08276

Source: Annual report 2013-2017

Table 3. Variable Frequency of Audit Quality, Founders on Board and Financial Restatement

Variable	Definition	Value	Frequency	Percentage
Audit quality	Audited by a specialized auditor more than 30%	1	95	30,159%
	Audited by a non-specialized auditor less than 30%	0	220	69,841%
	Total		**315**	**100%**
Founders on board	Companies that have founders on board	1	106	33,651%
	Companies that do not have founders on board	0	209	66,349%
	Total		**315**	**100%**
Financial Restatement	Companies that do financial restatement in year t+1	1	53	16,825%
	Companies that do not do financial restatement in year t+1	0	262	83,175%
	Total		**315**	**100%**

Source: Annual report 2013-2018

Table 2 explains minimum value, maximum value, average, and deviation standards of the variables. Average number of board of commissioners in the period of 2013-2017 is 6,84 with deviation standards valued at 5,248. Average value 6,84 shows that the company on average performs board of commissioners meetings as much as 6,84 times a year. The average number of independent commissioners in the period of 2013-2017 is 0,40779 with deviation standards of 0,12429 shows that generally manufacture companies have independent commissioners as much as 40,779% from the total of company board of commissioners. The average number of the board of directors is 18,20 with deviation standards valued at 11,163. Average value 18,20 shows that on average companies perform board of directors meetings as much as 18,20 times in one year. This means the effectiveness of the company board of directors in carrying out their obligation to supervise company management performed well. The average number of audit committees is 6,68 with deviation standards valued at 4,908. The average number of 6,68 shows that on average the company performs audit committee meetings as much as 6,68 in a year.

The average number of institutional ownership is 0,67520 with deviation standards valued at 0,22446. This shows that on average the company is owned by institutional investors as much as 67,520%. The average number of managerial ownership is 0,03714 with deviation standards valued at 0,10403. This shows that the amount of ownership owned by company management such as directors, management, and company commissioners is quite small as 3,714%. The average number of foreign ownership is 0,31958 with deviation standards valued at 0,33368. This shows that on average companies owned by foreign investors are 31,958%.

The average number of financial performances is 0,05369 with deviation standards valued at 0,10116. This shows that on average a company experiences profit with a return value of 5,369%. The average number of related party transactions is 0,05774 with deviation standards valued at 0,08276. This shows that the total value of financial position accounts from transactions with related parties is only 5,774% so that the opportunity to utilize this related party transaction also tends to be small.

Table 3 shows frequency of dummies variables. According to table 3, there are 220 samples or 69,841% samples audited by non-specialized auditors. From this data, it could be concluded that companies audited by non-specialized auditors is more than compared to company percentage audited by specialized auditors. According to table 3, there are 106 samples or 33,651% samples of companies that have founders on board. From this data, it could be concluded that at least there is one-third of sampled companies have founders on their company board. According to table 3, there are 53 samples or 16,825% company samples that done financial restatement in year t+1, while as much as 262 samples or 83,175% companies sampled didn't do financial restatement in year t+1. From this data, it could be concluded that only a small portion of companies did a financial restatement in year t+1.

Goodness of Fit Test Results

Test results of the fit model could be seen in table 4. The presence of first -2LogL is bigger than second -2LogL fulfilled the H0 and shows that model on hypothesis fit with data.

Table 4. The value of -2 Log Likelihood

Step	Chi-square	Sig.	Definition
1	7,753	0,458	The regression model is proper to use.

Source: SPSS Output

Hosmer and Lemeshow Test Results

The results from the Hosmer and Lemeshow test could be seen in table 5. Significant level higher than 0.05 shows that the regression model is proper to use.

Table 5. Hosmer dan Lemeshow

-2 Log Likelihood	Value
Block 0	285,457
Block 1	262,932
Definition	Model fit with the data.

Source: SPSS Output

Nagelkerke's R Square Test Results

In the logistic regression test, determination coefficient is shown by looking at the value of Nagelkerke's R Square, which could be seen in table 6. Value of Nagelkerke's R Square shows that dependent variable variability of this research could be explained by independent variables as much as 11,6%, while the rest valued at 88,4% explained by other independent variables.

Table 6. The Value of Nagelkerke's R Square

Step	-2 Log Likelihood	Cox & Snell R Square	Nagelkerke's R Square
1	262,932	0,069	0,116

Source: SPSS Output

Hypothesis Test Results

Based on table 7, the resulting regression equation model is as follows:

Table 7. Logistic Regression Test

Variable	B	S.E.	Sig	Exp(B)	Definition
Board of commissioners	0,091	0,036	0,011	1,095	Significant, Positive
Independent commissioner	0,307	1,298	0,813	1,359	Not significant
Board of directors	-0,039	0,019	0,042	0,961	Significant, Negative
Audit committee	0,025	0,030	0,403	1,025	Not significant
Institutional ownership	0,156	0,884	0,860	1,169	Not significant
Managerial ownership	1,705	1,651	0,302	5,501	Not significant
Foreign ownership	0,236	0,582	0,685	1,266	Not significant
Financial performance	2,055	1,633	0,208	7,803	Not significant
Audit quality	-0,409	0,359	0,255	0,664	Not significant
Related party transaction	-0,845	2,171	0,697	0,429	Not significant
Founders on board	1,390	0,442	0,002	4,014	Significant, Positive
Constant	-2,928	1,110	0,008	0,054	

Source: SPSS Output

$$Ln\frac{FR}{1-FR} = -2{,}928 + 0{,}091BC + 0{,}307IC - 0{,}039BD + 0{,}025AC + 0{,}156IO + 1{,}705MO + 0{,}236FO + 2{,}055FP$$
$$09 - 0{,}4AQ - 0{,}845RPT + 1{,}390FOB + \varepsilon \qquad \ldots\ldots\ldots\ldots\ldots(2)$$

<u>*Discussion*</u>

The Influence of Boards of Commissioners on Financial Restatement

The result of the hypothesis test stated that the boards of commissioners positively influence financial restatement of a company. This test result is in line with the research findings by Yuristrisia and Lukviarman (2008) that shows that there is a positive significant relation between boards of commissioners towards financial restatement of a company. Board of commissioners measured by the frequency of board of commissioners meetings proven to be positively affecting financial restatement of a company allegedly because the frequency of board of commissioners meetings couldn't guarantee the supervisory function to make sure the directors and management of the company work properly. The presence of board of commissioners meetings could only be a formality and the meetings performed were not held to discuss problems related to the company. High frequency of meetings doesn't guarantee that the supervision on director's process of preparing company financial statements will become more effective therefore the more often board of commissioners meetings doesn't guarantee that financial restatement could be avoided. However, the results of this study are not in line with two previous studies, Siregar and Rahayu (2018); Kusumo and Meiranto (2014) which state that the board of commissioners has no effect on the company's financial restatement because the size of the board of commissioners does not guarantee that the monitoring function of the company's directors and managerial functions will run well.

The Influence of Independent Commissioners on Financial Restatement

The hypothesis test result stated that independent commissioners don't have significant influence towards a company financial restatement. This research results are in line with the five previous researches which were Siregar and Rahayu (2018), Butar (2018), Anggraini and Dianawati (2017), Hasnan and Hussain (2015), also Kusumo and Meiranto (2014) which stated that independent commissioners don't have significance towards financial restatement. The hypothesis test result stated that independent commissioners don't have significance towards financial restatement of a company due to the presence of independent commissioners doesn't guarantee any improvement of supervision towards company director and management.

Based on the POJK No.33/POJK.04/2014, the number of independent commissioners of a company must be at least 30% (thirty percent) of the total members of the board of commissioners, while based on the descriptive statistics in table 2, it can be seen that on average the average independent commissioner of the company is only 40.779%. This shows that most companies in Indonesia employ independent commissioners only to comply with capital market regulations and the increase in the number of independent commissioners does not guarantee that it can reduce the occurrence of financial restatements, so that the relationship between independent commissioners and the company's financial restatement is considered irrelevant.

The Influence of Board of Directors on Financial Restatement

Hypothesis test result stated that board of directors has negative influence towards financial restatement of a company. This result is in line with research findings by Hasnan and Marzuki (2017) that shows board of directors have negative influence towards financial restatement of a company. A capable board of directors will be able to supervise the preparation process of financial statements done by the company management properly. Board of directors meetings let the board of directors have an opportunity to discuss ways to improve company performance and increase supervisory effectiveness towards company management that prepare the company financial statements. Not only that, an effective board of directors will result in better quality decision making as well. The existence of an effective board of directors is able to lead and ensure that the company's management runs well and runs according to the company's targets. Therefore, a more effective board of directors will improve the quality of the financial reports produced, so that financial restatement practices can be minimized.

The results of this study are not in line with the results of research by Anggraini and Dianawati (2017) which state that the board of directors has no effect on the company's financial restatement. Anggraini and Dianawati (2017) argue that the board of directors as measured by the size of the board of directors cannot affect the company's financial restatement because the number of boards of directors in the company has a certain scale, it means that the number of boards of directors in the company depends on the company's needs.

The Influence of Audit Committee on Financial Restatement

The hypothesis test result stated that the audit committee is not significant towards a company financial restatement. This result is in line with three previous researches by Siregar and Rahayu (2018); Hasnan and Hussain (2015); Kusumo and Meiranto (2014). Audit committee doesn't have significance towards financial restatement of a company because the increased frequency of audit committee meetings couldn't increase supervisory function towards the management even though audit committee is the on in charge to increase the quality of the company financial statements and create the company a control system to minimize the possibility of any manipulation in the company operation.

Based on POJK No.55/POJK.04/2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee, the audit committee should holds regular meetings at least once in 3 months. Based on the results of descriptive statistics in table 2, it can be seen that the average company conducts audit committee meetings 6.68 times a year. From this, it can be seen that audit committee meeting could only be held to comply with the prevailing regulations so that the relationship between the audit committee and the company's financial restatement is irrelevant.

The Influence of Institutional Ownership on Financial Restatement

The hypothesis test result stated that institutional ownership is not significant towards company financial restatement. This result is in line with the research findings by Siregar and Rahayu (2018) and Butar (2018) that stated that institutional ownership is not affecting financial restatement of a company. Institutional ownership doesn't have significance towards financial restatement of the company because the presence of big institutional ownership doesn't guarantee better supervision towards better management decisions. Other than that, it could happen because financial restatement is one of company policy therefore institutional ownership couldn't affect financial restatement decision of the company. Policies for voluntary financial restatement will vary between companies. Financial restatement is also intended for various parties, not only for institutional investors but for all company stakeholders. Therefore, the relationship between institutional ownership and the company's financial restatement is considered irrelevant.

The Influence of Managerial Ownership on Financial Restatement

The hypothesis test result stated that management ownership is not significant towards company financial restatement. This result is in line with research findings by Siregar and Rahayu (2018) and Kusumo and Meiranto (2014) which stated that management ownership doesn't affect financial restatement of a company. Managerial ownership has no effect on the company's financial restatement because even though management ownership should be able to solve agency problems, management is often more selfish and unselfish with the wishes of other company owners so that managers will still be motivated to find ways that benefit themselves. Besides that, based on descriptive statistical results, it can be seen that the average of management ownership in companies is very small, hence the company is controlled by the dominant stakeholders and managers are just the representative of the stakeholders. Therefore, management ownership wouldn't guarantee better financial statements, so that the relationship between managerial ownership and the company's financial restatement is considered irrelevant.

The Influence of Foreign Ownership on Financial Restatement

The hypothesis test result stated that foreign ownership is not significant towards company financial restatement. This result is in line with research findings by Hasnan and Hussain (2015) which stated that foreign ownership is not significant towards financial restatement or a company because foreign investors wouldn't guarantee better supervision. Based on the descriptive statistics in table 2, it can be seen that the average foreign ownership of the company is 31,958%. This shows that the proportion of foreign ownership in a company is quite large. However, this sizeable number is also dominated by foreign institutional ownership and as already explained, the existence of institutional ownership also has no effect on the company's financial restatement. Other than that, financial restatement is one of company policy hence foreign investors couldn't directly affect a company's financial restatement decision.

The Influence of Financial Performance on Financial Restatement

The hypothesis test result stated that financial performance is not significant towards company financial restatement. This result is in line with research findings by Hasnan and Hussain (2015) which stated that financial performance is not significant towards financial restatement of a company because financial restatement could occur due to other reasons for example political situation. In addition, the company's financial performance could be affected due to the overall economic factors. Based on the results of descriptive statistics in table 2, it can be seen that the average financial performance as measured by the company's Return on Assets (ROA) is at 5.369%. This ROA is an indication of good financial performance, however, based on the frequency table 3, it can be seen that there are still 53 companies that do voluntary financial restatement. This shows that the financial restatement that occurs could have been caused by other things so that the relationship between financial performance and the company's financial restatement is considered irrelevant.

The Influence of Audit Quality on Financial Restatement

The hypothesis test result stated that audit quality is not significant towards company financial restatement. This result is in line with research findings by Maharsi (2018). Audit quality is not affecting company financial restatement because the presence of companies audited by industry-specific auditors doesn't guarantee material mistake free financial statements. Industry-specialized auditors don't guarantee a better quality financial statement because basically the audit quality is the result of the auditors' individual performance, and it's not related to some company's KAP, so that the relationship between audit quality and the company's financial restatement is considered irrelevant.

The Influence of Related Party Transaction on Financial Restatement

The hypothesis test result stated that related party transaction is not significant towards company financial restatement. Related party transaction is not affecting the financial restatement of a company because not all transactions with related parties are opportunistic transactions used by company managers for their personal gains. All related party transaction done by directors are supposedly done according to regulations (PSAK No.7), policy, and requirements agreed without effects towards the transactions to maximize personal gains (IAI, 2018).

Based on the results of descriptive statistics in table 2, it can be seen that the average company-owned related party transaction is only 5.774%. This shows that there are only a few transactions with related parties that can be used by managers to seek personal gain, but based on frequency table 3, it can be seen that there are still 53 companies that do voluntary financial restatement. This shows that the financial restatement that occurs could be due to other reasons so that the relationship between related party transaction and the company's financial restatement is considered irrelevant.

The Influence of Founders on Board on Financial Restatement

The hypothesis test result stated that founders on board have positive influence towards company financial restatement. The result is in line with research findings by Hasnan and Marzuki (2017) which stated that founders on board have positive influence towards company financial restatement. The presence of founders in the company might increase the possibility of financial restatement. Aside from the founders' very strong emotional commitment to their efforts in protecting the organization using any possible ways, the presence of founders that also bear a role in the company could increase the opportunity for the company founders to manipulate the financial statements according to their needs. The existence of founders on board that has a positive effect on the company's financial restatement is suspected because fraudulent financial reporting can be one of the efforts by the founders to avoid a company's financial failure that is announced publicly.

CONCLUSION

The result of this research shows that corporate governance represented by the board of commissioner positively influences financial restatement, board of directors negatively affect financial restatement, while independent commissioner and audit committee have no effect towards financial restatement. Ownership structure has no effect towards financial restatement. Financial performance, audit quality, and related party transaction also have no effect towards financial restatement, while founders on board positively affect financial restatement. For further research, researchers recommend the use of other independent variables that could affect company financial restatement; could utilize the entire population of companies listed in Indonesia Stock Exchange as objects of research; or could utilize another proxy to measure certain variables.

This research directly has implications as a reference or comparison for future researchers who will examine similar topics regarding financial restatements affecting factors analysis on manufacturing companies. This research is a consideration for investors to pay attention to factors that can affect the company's financial restatement, especially the board of commissioners, board of directors, and founders on board, which in this study are proven to influence companies in conducting financial restatements so that investors can make decisions with maximum returns. This study also provides input for the Financial Accounting Standards Board to consider the influence of corporate governance, ownership structure, financial performance, audit quality, related party transactions, and founders on board on financial restatements, so that they can be used in reviewing PSAK No.25 in the future.

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