e-ISSN: 2721-3013, p-ISSN: 2721-3005
DOI: https://doi.org/10.38035/jafm.v4i1
Received: 20 January 2023, Revised: 23 February 2023, Publish: 31 March 2023

DINASTI RESEARCH
JAFM
JOURNAL OF ACCOUNTING AND FINANCE MANAGEMENT
E-ISSN: 2721-3013, P-ISSN: 2721-3005
https://dinastires.org/JAFM
editor@dinastires.org
0811 7401 455

The Effect Of Local Ownership, Audit Quality, Audit Committee, And Financial Performance on Company Value

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Abstract: Corporate value is used by management in running the business to maximize shareholder wealth. Local ownership, audit quality, audit committee, and financial performance have prospects in the future so that investors will be interested in investing. This population is in manufacturing companies that pay dividends during the period 2016 to 2021 which are listed on IDX so the sample used is 222 companies. The method used is panel data regression. Findings of local ownership, size audit, audit tenure, audit committee, total asset turnover, and return on assets have a significance on company value, on the contrary debt to assets has no significance on company value. It is suggested that companies can improve local ownership and audit quality in making corporate strategy decisions to increase company value, in addition to financial performance to maximize profits that reflect the company internally.

Keywords: Local Ownership, Audit Quality, Audit Committee, Financial Performance

INTRODUCTION

The capital market in Indonesia has begun to develop rapidly and has encouraged investors to allocate some assets to be invested in financial assets to generate profits, so investors need to make decisions based on facts, data, and analysis to reduce the high risk caused by macro and micro factors. Companies that have reached a high level will certainly see in determining the capital structure and financing policy by looking at the company's prospective situation efficiently (Vernimmen et al., 2018). Management runs the company not only to maximize the profits but to increase the market share price and the company's progress, on the other hand, investors only compare stock prices between companies that see good quality to get maximum profit. The phenomenon of stock prices in Indonesia experiencing instability based on the news release from www.okezone on 10 May 2022. the Jakarta Stock Exchange Composite Index decreased by 396 shares, stabilized at 140 shares, and increased by 162 shares. Therefore, this phenomenon can result in gains or losses for the companies and investors involved.

One phenomenon that occurs is the decline in shares in the company PT. Unilever Indonesia Tbk (UNVR) experienced a decline of 22.91% resulting in negative returns throughout 2021 with a listed share price of IDR 4,700/share where UNVR shares have decreased in the last five years by 45%, on the contrary, it is hoped that shareholders will continue to improve company performance to be able to increase company value news release from www.cnbcindonesia on 18 March 2021.

The growth of company value in Indonesia changes every year depending on public interest in the stock exchange while low company value means the cost of replacing company assets is high than the stock price so the stock is undervalued otherwise high company value means company stock is more expensive than the cost of assets. In this case, the stock price is considered high. Company value is one of the future benefits where to optimize the value of the company management cooperation is required to improve the company's performance as much as possible. In addition, financial reports provide a signal about the company's growth prospects as the first consideration for investors before investing, while corporate governance can build a reliable business environment and strengthen the company's competitiveness to increase corporate value.

The following are factors that can increase company value, although research results are not always consistent. Local ownership encourages rapid company growth and gains good credibility as one that can increase company value, as well as reduce costs for monitoring management. Results of previous studies by (Sunday and Kwenda, 2021) state that domestic ownership has a significant effect on company value.

Audit quality is a reliable source of accounting information which is reflected in improving performance to ensure investor confidence in estimating company value to reduce agency conflicts as a guarantee that financial statements have been audited fairly, besides that the relationship between auditors and clients who are not professionally committed will result in poor performance quality impact on company value. Results of previous studies (Wijaya, 2020) stated that audit quality has a significant effect on company value. previous studies (Shubita, 2021) state the client retention period has no significant effect on company value.

The audit committee can reduce agency problems by monitoring optimally as a beneficial factor for firm value in detecting fraudulent financial reporting arising from the scope of managers and shareholders. Results of previous studies (Iheyen, 2021) state that the audit committee has a significant effect on company value.

Investors and creditors assess the financial performance of information signals to avoid losses in investment decisions by increasing company assets will increase sales which has an impact on increasing net income and having debt is a means for companies to develop business operations optimally which increases company value. Results of previous studies by (Seno and Thamrin, 2020) that total asset turnover has a significant effect on company value, while the research results by (Endri and Fathony, 2020) that return on assets is significant to company value, while the research results by (Bon and Hartoko, 2022) that debt to assets is significant to company value.

We contribute by assessing the impact of economic changes with a focus on Indonesia which has undergone several reforms in the last six years that are of concern to the company's future. The collapse of manufacturing companies causes a loss of investor confidence, so a balance is needed between local ownership, audit quality, audit committees, and financial performance which can affect investor interest and market regulation in investment decision-making by utilizing the findings of this study.

LITERATURE REVIEW

Agency Theory

Agency theory explains the relationship agent’s relationship with the principal as in this case the agent acts in the interests of the principal, and the agent can act on opportunism that causes several losses. In this case, the agency is the company's anxiety about conflicts that cause costs that can later arise against unfavorable prospects in the future which can reduce company value (Mallin, 2019).

Signaling Theory

The signal theory is a source of information about the role of management in achieving good company performance, besides that as a signal to investors about the company's opportunities in the future. So the signal theory allows investors to distinguish between companies that have good and bad company values when making investments through financial statement information. In addition, it is good news that investors have confidence in the company to invest (Brigham and Houston, 2017).

Company Value

Company value is an investor's picture of the company's success, which is often associated with stock prices. A high company value indicates good company credibility. Therefore, a company value that is greater than one explains that the company earns higher returns, whereas a value less than one explains that the company does not earn high returns (Robinson et al., 2020).

Local Ownership

Local ownership is the number of shares owned by a country that contributes to strengthening the capital structure which is expected to increase market growth, besides that local ownership will have an impact on improving governance, thus playing a role in stabilizing the market from the uncertainty associated with consistent foreign capital flows a stable which has a positive impact on firm value (Setiany et al., 2020). A greater institutional percentage can increase long-term company profits but the public cannot monitor management efficiently so individual ownership cannot yet affect company value, results by (Rohim et al., 2019) that domestic ownership significant to company value than local ownership is signal of internal information management decisions made is optimal or not in maximizing investor welfare.

Audit Quality

High audit quality can reduce agency costs with the transparency and credibility it provides to the market where big 4 audit firms have a good reputation than big 4 non-audit firms which will have a sizeable impact on stock market prices that affect company value (Nkiru et al., 2022). The auditor's long tenure is indeed the case not impairing audit quality creating a better understanding of the client's business can reduce the likelihood of reporting misstatements. Besides that, a long audit period between the client and the auditor can harm the auditor's performance in an attitude of independence. the findings by (Izukwe and Jeroh, 2022) that audit tenure is not significant to company value. while the findings from (Yolandita and Cahyonowati, 2022) that audit size is significant to company value, then the audit period does not have a large impact on company value. On the other hand, a large audit company will improve company performance through financial records, so the existence of audit quality can predict the future as a signal in determining investment decisions for market participants.

Audit Committee

The audit committee is responsible for oversight of financial reporting, regulatory compliance, and risk management. Members of the audit committee include those who can understand financial reports well. The main function of the audit committee will be to review reports and make recommendations at the annual meeting on better corporate policy decisions, in addition to encouraging management to carry out their duties efficiently to increase corporate value (Whittington and Pany, 2016). The existence of an audit committee is considered beneficial for internal and external auditors, which includes: a nomination committee, audit scope, audit results, and internal control that can provide investors with a good view of companies that optimize company value. Found in line with agency theory, which is expected to handle disputes between management and external auditors that contribute to detecting fraudulent financial reporting that can affect company value. Findings made (Özcan, 2021) state that the accounting and financial expertise of the audit committee has a significant effect on company value, and audand committee expertise is a positive signal for designing investment strategies for investors.

Financial Performance

Financial performance helps identify company strengths and weaknesses in the decision-making process, good financial performance can reduce agency costs, and encourage management to disclose more detailed financial reports as information signals before making investments (Kieso et al., 2019). Total asset turnover is the effectiveness of a company's effectiveness in managing its funds, where high asset turnover to generate sales can generate every rupiah invested in the company. Conversely, slow asset turnover indicates that the assets owned are too large compared to the ability to sell them, to maximize shareholder wealth which gives confidence to investors to invest their capital, providing signal information about the company's prospects for users of financial statements. The results of the research conducted (Simorangkir, 2019) state that asset turnover has a significant effect on company value. Return on assets measures management's ability to perform efficiently in managing its assets to obtain profits within a certain period, besides having an important role in the survival of the company in the future, investors will take advantage of the company's growth opportunities. The results of research conducted by (Bon and Hartoko, 2022) state that return on assets has a significant effect on company value. Debt to assets describes the extent to which the company uses external funds to purchase assets. Debt will keep the company's management working as well as possible to meet the company's goals so that shareholders do not need to exercise excessive management oversight and agency costs can be reduced. The results of research conducted by (Iqramuddin et al., 2020) stated that debt to assets affects company value. Therefore, an increase in financial performance will lead to an increase in company value.

Hypothesis

The hypothesis will undergo data testing that is presumptive by collecting evidence for research results as follows:

H1: Local ownership affects company value
H2: Audit size affects company value
H3: Audit tenure affects company value
H4: Audit committee affects company value
H5: total asset turnover affects company value
H6: Return on assets affects company value
H7: Debt on assets affects company value

RESEARCH

This study uses quantitative data with a secondary data approach. Designed to collect data describing characteristics, events, and situations by testing hypotheses to determine the relationship between the dependent, independent, and control variables. The dependent variable is the value of the company with the proxy used by price to book value. While the independent variables used are local ownership, audit size, tenure audit, audit committee, total asset turnover, return on assets and debt to assets. As for the control variable current assets are used to control variables that are thought to have a positive effect. The variables in this study determine the possibility of a relationship. The research data was obtained from the annual financial reports of each company whose closing prices were found through IDX's official website. This research involves one of the objects of research using a manufacturing company listed on the Indonesia Stock Exchange. Using a purposive sampling method, namely companies that distribute dividends for six years during the 2016-2021 period. In population research, the criteria include (1) Manufacturing companies listed on the IDX for the 2016-2021 period. (2) For manufacturing companies that distribute final dividends during the 2016-2021 period. (3) Manufacturing companies have complete financial report data and stock closing price data to measure the variables in this study.

Analysis Tools

Data analysis uses Panel Data Regression where the time dimension of this study involves observations at a certain period (time series) at a certain time from the number of companies through the website www.IDX.co.id (cross-section), using the General Least Squared (GLS) estimation method to get more precise, efficient and stable results. as follows: Y (Company Value) = $\beta 1LOCALit + \beta 2QAit + \beta 3ATit + \beta 4ACit + \beta 5TATOit + \beta 6ROAit + \beta 7DARit + \beta 8CRit + e$
where e is the residual, i = the amount of data processed by the company, and t = year.

Operational Variable

The operational variable that explains the formula for independent variables, dependent variables, and control variables are as follows:

Table 1. Operational Variables

variable	Formula	Source	Scale
PBV (Y)	Price per share / Book Value per Share	(Aggarwal and Padhan, 2017)	Ratio
LOCAL (X1)	Total shareholder percentage by local institutional	(Abedin et al., 2022)	Ratio
QA (X2)	firms audited by Big 4 = 1 not firms audited by Big 4 = 0	(Abba and Sadah, 2020)	Nominal
AT (X3)	Number of audit firm periods with clients	(Aca et al., 2020)	Interval
AC (X4)	Audit Committee Finance and Accounting Expertise / Total Number of Audit Committee	(Azam and Wang, 2021)	Ratio
TATO(X5)	Net Sales / Total Assets	(Luu, 2021)	Ratio
ROA (X6)	Net Profit / Total Assets	(Ferriswara et al., 2022)	Ratio
DAR (X7)	Total Liabilities / Total Assets	(Dang and Do, 2021)	Ratio
CR (C1)	Current Asset / Current Liabilities	(Salim and Prasetia, 2022)	Ratio

RESULT AND DISCUSSION

Data processing activities with Eviews version 12 are used to help determine the best model to analyze the data used in performing the significance test of panel data regression analysis, as follows: (1) Descriptive statistical test. (2) Selection of Classical Assumption Test Regression Model. (3) Hypothesis Testing. Descriptive data analysis was used to describe the results of research data consisting of the minimum, maximum, mean, and standard deviation of each of the variables studied. The number of samples that meet the criteria is 37 companies. For a total of six years, there are 222.

Descriptive Statistical Results

Table 2. Descriptive statistical results

	N	Min	Max	Mean	Std. Dev
PBV	222	0.189	78.298	5.205	9.596
LOCAL	222	0.001	0.985	0.519	0.308
QA	222	0.000	1.000	0.621	0.486
AT	222	1.000	6.000	3.153	1.676
AC	222	0.000	1.000	0.606	0.253
TATO	222	0.138	3.157	1.040	0.534
ROA	222	-0.199	0.446	0.093	0.081
DAR	222	0.063	0.789	0.360	0.167
CR	222	0.605	10.479	2.751	1.805

Source: Data processed (2023)

Company value has a min value of 0.189 and a max value of 78.298, while the average value is lower than the standard deviation of 5.277<9.867, which means that PBV can be said to be bad because of the very large gap between the highest and lowest during the 2016-2021 period. Local ownership has a min value of 0.001 and a max value of 0.985, the mean higher than the deviation is 0.519>0.308 which means that local ownership can be said to be good because there are no gaps during the 2016-2021 period. Audit size has a min score of 0.000 and a maximum value of 1.000, the mean which is higher than the deviation is 0.621>0.486 which means that the audit size can be said to be good because there are no gaps during the 2016-2021 period. Audit tenure has a min score of 1,000 and a maximum value of 6,000, the mean which is higher than the deviation is 3,153>1,676 which means that audit tenure can be said to be good because there are no gaps during the 2016-2021 period. The audit committee has a min score of 0.000 and a maximum value of 1.000, the mean which is higher than the deviation is 0.606>0.252 which means the audit committee can be said to be good because there are no gaps during the 2016-2021 period. Total asset turnover has a min score of 0.138 and a maximum value of 3.157, the mean which is greater than the deviation is 1.040 > 0.534 which means TATO can be said to be good because there is no gap during the 2016-2021 period. Return on assets has a min score of -0.199 and a maximum value of 0.446, the mean which is greater than the deviation is 0.093 > 0.081 which means that ROA can be said to be good because there is no gap during 2016-2021 period. Debt to assets has a min score of 0.063 and a maximum value of 0.789, the mean which is greater than the deviation is 0.360 > 0.167 which means DAR can be said to be good because there is no gap during the 2016-2021 period. current assets have a min score of 0.605 and a maximum value of 10.476, the mean which is greater than the deviation is 2.751>1.805 which means that CR can be said to be good because there is no gap during the 2016-2021 period.

Classical Assumptions Test

Testing the classical assumptions with the panel data regression approach does not all have to be tested. We only need to use multicollinearity and heteroscedasticity tests. In addition, the normality test is not an absolute requirement, and autocorrelation is only used for time series data (Basuki and Prawoto, 2017) as follows. The results of this study indicate that the VIF of the seven independent variables has a lower VIF value of 10. It can be concluded that this study is free from multicollinearity problems with several independent variables used for the period 2016 to 2021. The results of the test look at the significant values of the independent variables. shows a significance value greater than 0.05. So it was concluded that there were no symptoms of heteroscedasticity in the regression model.

Multicollinearity Results

Table 3. Multicollinearity Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	14.95451	55.93555	NA
LOCAL	3.666823	4.990893	1.296273
QA	1.466293	3.409278	1.289997
QT	0.096533	4.599566	1.009681
AC	4.770467	7.702673	1.138450
TATO	1.334358	6.827639	1.421056
ROA	64.62301	3.716153	1.595729
DAR	23.59162	13.91167	2.460523
CR	0.217922	8.815829	2.646196

Source: Data processed (2023)

Heteroscedasticity Results

Table 4. Heteroscedasticity Results

Panel Period Heteroskedasticity LR Test
Equation: UNTITLED
Specification: PBV C LOCAL QA AT AC TATO ROA DAR CR
Null hypothesis: Residuals are homoskedastic

	Value	df	Probability
Likelihood ratio	32.91224	37	0.6611

LR test summary:

	Value	df
Restricted LogL	-763.6780	213
Unrestricted LogL	-747.2219	213

Source: Data processed (2023)

Regression Data Panel

The results of this study require a panel data regression selection test by going through the Chow test, Hausman test, and Lagrange Multiplier test. In addition, the estimating model that was chosen twice was the Fixed Effect Model which was used as the best equation model for this research.

Hypothesis Results

In this case, the results of the F test are obtained with the F value being 28.109 with a significant rate of 0.00<0.05. In conclusion, the model used in this study can be made. In this regression model, it can be concluded that the independent variables (audit committee, foreign ownership, and financial performance) affect the dependent variable (firm value), using the control variable (dividend payout ratio).

The result of the R square value obtained is 0.900. The results of the coefficient can explain the variation in the value of the company by 90%. The remaining 10% is explained by other influences outside the variables studied.

Table 5. Hypothesis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.968532	1.127824	0.858762	0.3916
LOCAL	1.798391	0.804680	2.234914	0.0267
QA	1.081818	0.478311	2.261745	0.0249
AT	-0.179551	0.036715	-4.890418	0.0000
AC	1.320656	0.666173	1.982450	0.0490
TATO	1.982557	0.401094	4.942873	0.0000
ROA	8.994078	2.292488	3.923282	0.0001
DAR	-1.417844	1.221062	-1.161156	0.2471
CR	0.000309	0.110873	0.002789	0.9978
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.879996	Mean dependent var		11.29700
Adjusted R-squared	0.850165	S.D. dependent var		9.933382
S.E. of regression	3.860430	Sum squared resid		2637.817
F-statistic	29.49898	Durbin-Watson stat		1.603417
Prob(F-statistic)	0.000000			

Source: Data processed (2023)

Discussion

The local ownership variable with a significant value is 0.026 which means the significance is less than 5%. In this case that local ownership has a positive and significant effect on firm value. besides local ownership has the idea to develop corporate governance which has the impact of increasing company value. It can be suggested that local ownership is a material to be able to assess PBV in manufacturing companies. According to (Lestari et al., 2021) state that domestic ownership has a significant effect on company value, according to (Setiany et al., 2020) stated that local ownership is not significant to company value. This finding is in line with the agency theory that local ownership can contribute to company progress which reduces agency costs, while the findings of this theory signal that domestic ownership can increase company capital to finance business operations and reduce external loans.

An audit size variable with a significance value of 0.024 means the significance is less than 5%. In this case, it is concluded that audit size has a positive and significant effect on firm value, so this company's financial statements audited by the Big 4 have an impact on increasing firm value whereas audit size is important for limiting the behavior of interests that increase management performance. It can be suggested that the size of the audit can be used to assess PBV in manufacturing companies. findings by (Alsmairat et al., 2018) that audit quality is significant to company value. and findings by (Abba and Sadah, 2020) that audit size is not significant to company value. In line with Agency theory, it can avoid fraudulent practices by agents or stakeholders, while in line with signaling theory that quality audit services can be an image to the public and investors

Audit tenure variable with a significance value of 0.000 means that the significance is less than 5%. In this case, it is concluded that audit tenure has a negative and significant effect on firm value, so this period of cooperation between audit firms and clients for long periods finds corrections to misstatements that can reduce earnings quality and have an impact on decreasing company value. It can be suggested that the size of the audit can be used to assess PBV in manufacturing companies. findings by (Izukwe and Jeroh, 2022) that tenure audits are significant to firm value. and findings from (Shubita, 2021) that tenure audits are not significant to firm value. In line with the Agency's theory that audit rotations of

3 to 5 years can maintain audit integrity and reduce agency costs that arise, while in line with signal, the theory explains that investors can look at the period of the audit relationship from the annual report to minimize fraud practices.

The audit committee variable shows a significance value of 0.490, meaning that the significance is greater than the 5% significance level. In this case, it can be said that the audit committee has a positive and significant effect on firm value. In addition, the existence of an audit committee makes management better which has an impact on increasing company value. It can be concluded that the audit committee is used as a tool to assess PBV in manufacturing companies. According to (Iheyen, 2021) which states that audit committees are significant to company value. and according to (Bouaine and Hrichi, 2019) which states the audit committee is not significant to company value. These findings are by agency theory which explains that audit committees contribute to detecting fraudulent financial reporting preventing agency costs from arising interest, besides that signal theory consistently explains benefits for investors because high audit committee backgrounds indicate high integrity as material for investment considerations.

The total asset turnover variable with a significance value of 0.000, means that the significance is smaller than 5%. In this case, it is concluded that total asset turnover has a positive and significant effect on firm value. High asset turnover causes the company's management to be more efficient in using its assets to generate net income, which causes an increase in the demand for shares. It can be concluded that total asset turnover can be used as a tool to assess PBV in manufacturing companies. According to (Ichsani et al., 2021) state that total asset turnover is significant to company value, and according to (Jacob and Taslim, 2017) state that asset turnover does not significant to company value. These findings are in line with the signal theory is explains that investors will capture high asset turnover as a positive signal. In this case, the better the company is at managing the assets that the company has to increase sales results, it can maximize the value of the company, to produce promising prospects for investors to invest in the company. while the results of This result are in line with the agency theory wherein an increase in profit, encourages management to disclose detailed financial statements to maintain investor confidence.

The return on assets variable with a significance value of 0.001, means that the significance is smaller than 5%. In this case, the return on assets has a positive and significant effect on firm value. Better growth of the company becomes the prospect of the company being considered good in the eyes of investors, maximizing firm value. It can be concluded that return on assets can be used as a tool to assess PBV in the manufacturing firm. According to (Endri and Fathony, 2020) which states the return on assets is significant to company value, according to (Firdaus, 2020) which states the return on assets does not significant to company value. These findings are in line with the signal theory that a company must provide a positive signal through reliable financial statements that a high return on assets indicates a good prospect of the company using assets to generate profits thus also motivating investors to maximize firm value. In addition, it will indirectly increase stock prices which can maximize the value of the company. While this finding is in line with agency theory which explains the increase in profit, this encourages management to disclose detailed financial statements to increase demand for shares.

The debt to asset variable shows a significant value of 0.247, meaning that it is significantly greater than 5%. In this case debt to assets has a negative and insignificant effect on firm value, relatively high debt to assets is bad news for investors where solvency is not good, which will reduce company value. It can be concluded that debt to assets cannot be used to assess PBV in manufacturing companies. The findings from (Hertina et al., 2021) that debt to assets is not significant to company value. and according to (Ardian et al., 2021) which states that debt to assets is significant to company value. This finding is not in line with the signal theory which explains that companies using external funds to fund business operations are at risk of default on total liabilities. while the agency theory explains that debt that is too high will make the company incur large costs creating problems for management and shareholders.

CONCLUSION

Based on the results that have been carried out in this study it can be concluded that local ownership, audit size, audit tenure, audit committee, total asset turnover, and return on assets have a significant effect on firm value while debt to assets is not significant on firm value. as a control variable weakens the effect of audit size and return on assets on firm value, this explains the decrease in the coefficient. In addition, local ownership, tenure audit, audit committee, total asset turnover, and debt to assets act as control variables which become reinforcement based on the increasing coefficient. current assets which aim to control the relationship between local ownership, audit quality, audit committee, and financial performance on firm value, to avoid errors in the empirical model used in this study. From the results obtained, most of the independent variables affect firm value.

The results of this study can help companies maintain company stability by increasing company value which needs to be considered from large local ownership in companies that have good operating performance as an effective monitor in business continuity that influences decisions taken by management which have an impact on high company value. In addition, audit quality is used in making investment decisions to help companies look at the financial side to improve company performance audit rotation and period to ensure the independence of the auditor and it is advisable to use the services of a reputable auditing company. While the audit committee has a good impact on company value with the ability to manage finance and accounting and can oversee governance to avoid fraudulent practices made by interested parties, on the other hand, in terms of financial performance, total asset turnover, and return on assets have an impact on increasing stock prices, where high total asset turnover illustrates the condition of companies that are efficient in generating large profits and return on assets illustrates profit growth from year to year which can be a positive signal in making investment decisions.

Further research is advised deeper investigation to obtain detailed and correct information about the debt ratio cannot be seen from debt to assets alone because there are other things such as debt to equity.

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