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Corporate Governance and Share Price: Audit Quality as a Moderation

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Abstract— *This study aims to: (1) To test and obtain empirical evidence of the effect of the board of directors on stock prices in automotive companies listed on the Indonesia Stock Exchange. (2) To test and obtain empirical evidence of the influence of the board of commissioners on stock prices in automotive companies listed on the Indonesia Stock Exchange. (3) To test and obtain empirical evidence of the influence of the board of directors and the board of commissioners on stock prices with audit quality as a moderator in automotive companies listed on the Indonesia Stock Exchange. The population in this study are 14 automotive companies listed on the Indonesia Stock Exchange in 2019-2021. The sampling technique used was purposive sampling, then the number of samples used in this study were 11 automotive companies with a total of 3 (three) years of observations, namely 33 observations. The analysis used is multiple linear regression analysis with Stata software. From the research results, the following results are obtained: (1) The board of directors has no effect on stock prices. (2) Board of commissionersNoeffect on stock prices. (3) Audit quality is able to strengthen the influence of the board of directors on stock prices.*
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Keywords— *Board of Directors, Board of Commissioners, Audit Quality, Stock Price.*

I. INTRODUCTION

The automotive industry is one of the industrial sectors which can support revenue for the country that is the producer, therefore the automotive industry sector is important for countries in the world. Seeing this phenomenon, countries in the world are competing with each other to produce automotive in order to increase the economic income of each producing country. The development of the industrial world, to be precise in Indonesia, is currently running so rapidly that there is a lot of competition that is getting tougher, business people are also required to be more creative and have better advantages with other competitors, this is due to the increasing interest in the business community in Indonesia. This is one of the positive things for economic growth in Indonesia, because more and more new companies are popping up, it will automatically absorb more and more workers for the sake of the smooth running of the company. One industry that is experiencing rapid development is the automotive industry, where you can see many developments in vehicles from year to year.

The automotive sub-sector is a company whose activities are engaged in the vehicle industry such as cars and motorcycles. The automotive industry is an industry that is experiencing very tight competition, the development of automotive companies is growing quite rapidly thus attracting the attention of investors to invest in the automotive sector, why is that because many Indonesians use cars and motorcycles for their daily transportation Susanti (2021).

The automotive industry is an industry engaged in producing public needs in the form of vehicles as a means of transportation. The automotive industry is one type of business that is growing rapidly in Indonesia. The increasing number of automotive companies is proof that the automotive industry has attracted many parties. This can be seen from the increasing number of products from automotive companies and the components used, both in type and quantity. Ermiati, Amanah, Harahap, & Siregar (2019). This year, the performance of a number of automotive issuers has greatly developed. An example is revenue from PT Astra International TBK (ASII), whose revenue reached IDR 143.69 trillion, an increase of 33.80% compared to the same period the previous year. ASII's net profit even increased to 105.77% by touching IDR 18.

The share price is a reflection of the company's value in the eyes of society. Share price is a very important factor to note and indicators are used to measure shareholder wealth. company value is indicated by the share price and as a measure of the effectiveness of the company Hartono (2016: p. 180). The higher the stock price, the higher the value of the company and vice versa. The stable condition of the company's stock price can indicate that the company's condition is good and in line with the company's value. Sulastri (2017) Low shares can mean that the company's performance is not optimal, but if the stock price is high, it can reduce the ability of investors to buy these shares. Determining the high or low stock price is useful for market entry and exit strategies which can be used to determine the direction of further stock movement (Rahmadewi, 2018). So the stock price is important for the company. Corporate governance is related to the phenomenon of investors' belief in company management that managers will provide benefits to investors and believe that managers will not embezzle or invest shares in projects that are unprofitable and tied to funds or capital invested by investors.

Companies that have high value can increase the prosperity of shareholders, so that shareholders can invest their capital in the company. With increasingly fierce competition, it is expected that the company can run in a balanced manner while still paying attention to Good Corporate Governance. The establishment of a company must have clear objectives, but the first goal is to achieve maximum profit Hidayat (2018).

Good corporate governance can be defined as a system that regulates and controls companies in creating added value and reducing the possibility of fraud occurring in the company. Corporate governance is one of the key elements that includes a series of relationships between company management, the board of commissioners, shareholders and other stakeholders. The implementation of good corporate governance can help companies increase their company value and attract the attention of shareholders because the company has tried to minimize risks in decision making so that company value can be increased Utami and Muslih (2018). The purpose of corporate governance is to create added value for all interested parties (stakeholders). Theoretically,

The board of directors can affect stock prices, because the board of directors has influence regarding the mechanism of corporate governance on the ups and downs of the company's stock price. The board of directors has sufficient knowledge to manage the company's performance. The results of research conducted by Prastiwi, et al. (2019) found evidence that the board of directors has a positive effect on stock prices. In contrast to the results of Pratama's research (2021), Putri (2017) found evidence that the board of directors has a negative effect on stock prices.

The board of commissioners can affect stock prices, because the board of commissioners has the authority to oversee the running of the company. The board of commissioners is tasked with supervising and providing guidance and advice to management relating to the management of the company. The results of research conducted by Primary (2021) found evidence that the board of commissioners has a positive effect on stock prices. In contrast to the results of Putri and Irma's research (2017) found evidence that the board of commissioners has a negative effect on stock prices.

This study adds audit quality as a moderating variable. The auditor helps reduce the risk of material misstatement by ensuring that financial reports are prepared according to established standards. Lower risk of misstatement will increase confidence in the stock market, which will further reduce the company's cost of capital (Hoti et al, 2012). External auditors add value through their independent assessment of the reliability of financial reporting in accordance with accounting principles.

The effectiveness of the audit in finding reports that do not match accounting information depends on the quality of the auditor. The market considers auditor size to be of higher quality. A quality audit plays an important role in maintaining confidence in the reliability of financial reports (Ugwunta, Ugwuanyi, & Ngwa, 2018).

Audit quality according to Christiawan (2002) is determined by two things, namely competence and independence. Auditor competence can be seen through the size of the public accounting firm. The use of quality audit services by using auditors from the big four KAPs can also help increase investor confidence in making investment decisions (Nariman, 2015).

II. Literature Review and Hypotheses Development

Signal Theory

Signaling theory was first introduced by Spence (1973) suggesting that when a signal is given a signal, the sender (owner of the information) tries to provide relevant pieces of information that can be utilized by the recipient. The receiving party will then adjust its behavior according to its understanding of the signal. Signal theory provides an illustration that a signal or signal is an action taken by company management that provides guidance to investors about how management views the company's prospects Brigham and Houston (2015). Signal theory explains why companies have an incentive to provide financial statement information to external parties. The company's encouragement to provide information is because there is information asymmetry between the company and outsiders because the company knows more about the company and future prospects than outsiders (investors, creditors). One way to reduce information asymmetry is to provide signals to outsiders, one of which is in the form of reliable financial information and will reduce uncertainty regarding future company prospects.

The relationship between signal theory and corporate governance is that this theory can distinguish between companies with high scores and companies with low values. In this case corporate governance gives a positive signal to outside investors regarding the company's prospects in the future, meaning that it has a high value so that it always generates profits for investors and provides a signal about companies that are relatively not prone to bankruptcy.

The relationship between signal theory and stock prices is that this can be used as a signal for investors to predict how much the stock changes. Investors' responses to positive and negative signals greatly affect market conditions, they will react in various ways in response to these signals, such as hunting for sold shares or taking action in the form of not reacting or waiting and seeing developments first and then taking action. The company is able to use its assets productively so that it can generate large profits. This can be used as a signal for investors in predicting how much the stock changes.

Hypothesis

Based on the framework above, the hypotheses proposed in this study are:

The Influence of the Board of Directors on Share Prices

The board of directors is fully responsible for managing the company in two respects, namely for the interests and objectives of the company, as well as representing the company both inside and outside the court. The more boards in the company will provide a form of oversight of the company's performance which is getting better, with good and controlled company performance, it will produce good profitability and will be able to increase the company's stock price and the company's value will also increase. Research conducted by Rizki Fandy Pratama and Ismawati (2021) in his research concluded that the board of directors has a positive effect on stock prices. Based on the description above, the hypothesis can be formulated as follows:

H1: The board of directors has a positive effect on stock prices

The influence of the board of commissioners on stock prices

The board of commissioners as an organ of the company has collective duties and responsibilities for supervising and providing advice to the directors and ensuring that the company implements good corporate governance. The existence of a board of commissioners in carrying out supervision can encourage the formation of a clean, transparent and professional management work pattern. With the formation of such a work pattern, good corporate governance will be created so that there will be an increase in the company's stock price. Research conducted by Rizki Fandy Pratama and Ismawati (2021) in his research concluded that the board of commissioners has a positive effect on stock prices. Based on the description above, the following hypothesis can be formulated:

H2: The Board of Commissioners Has a Positive Influence on Stock Prices

Audit Quality as a Moderator of the Influence of the Board of Directors and the Board of Commissioners on Share Prices

This study adds audit quality as a moderating variable. The auditor helps reduce the risk of material misstatement by ensuring that financial reports are prepared according to established standards. Lower risk of misstatement will increase confidence in the stock market, which will further reduce the company's cost of capital (Hoti et al, 2012). External auditors add value through their independent assessment of the reliability of financial reporting in accordance with accounting principles.

The effectiveness of the audit in finding reports that do not match accounting information depends on the quality of the auditor. The market considers auditor size to be of higher quality. A quality audit plays an important role in maintaining confidence in the reliability of financial reports (Ugwunta, Ugwuanyi, & Ngwa, 2018).

Audit quality according to Christiawan (2002) is determined by two things, namely competence and independence. Auditor competence can be seen through the size of the public accounting firm. The use of quality audit services by using auditors from the big four KAPs can also help increase investor confidence in making investment decisions (Nariman, 2015).

H3: Audit quality strengthens the influence of the board of directors on stock prices

H4: Audit quality strengthens the influence of the board of commissioners on stock prices

III. METHOD

According to Sugiyono (2019), population is a broad term for persons and items that academics have chosen to study and from which they have made conclusions. All 14 automobile companies that were listed on the Indonesia Stock Exchange in 2019–2021 make up the population of this study. The data for all automotive companies listed on the Indonesia Stock Exchange for 2019-2021 used in the research are described as follows:

TABLE 1. Automotive Companies Listed on the Indonesia Stock Exchange in 2019-2021

NO	Code	Company name
1	ASII	Astra International Tbk
2	AUTO	Astra Otoparts Tbk
3	BOLT	Garuda Metalindo Tbk
4	BRAM	Indo Kordsa Tbk
5	GDYR	Goodyear Indonesia Tbk
6	GJTL	Gajah Tunggal Tbk
7	IMAS	Indomobil Sukses Internasional Tbk
8	INDS	Indospring Tbk
9	LPIN	Multi Prima Sejahtera Tbk
10	TIME	Multistrada Arah Sarana Tbk
11	NIPS	Nipress Tbk
12	PRAS	Prima Alloy Steel Universal Tbk
13	SMSM	Happy Perfect Tbk
14	DRMA	Dharma Polimetal Tbk

Source: Processed data, 2023

The sample is part of the number and characteristics of the population (Sugiyono, 2019). The sampling technique used is purposive sampling, namely the sampling technique with certain considerations. The criteria for determining the sample in this study are:

1) Automotive companies listed on the Indonesia Stock Exchange for the 2019-2021 period.
2) Automotive companies whose annual reports are accessible and have complete data according to the variables studied from 2019-2021

Based on the above criteria, the number of samples used in this study were 11 automotive companies. The sample data used in the research is described as follows:

TABLE 2. Summary of research sample acquisition

No		Amount
1.	Automotive companies that have been listed on the IDX for the research period, namely 2019-2021	14
2.	Consecutive unregistered automotive companies from 2019-2021	(1)
3.	Automotive companies whose annual reports cannot be accessed and do not have complete data according to the variables studied from 2019-2021	(2)
Number of Company Samples		11
Number of observations 2019-2021 (3 x 11)		33

Source: Processed data, 2023

Based on Table 2 above, it can be explained that the study population is 14 company units listed on the Indonesia Stock Exchange for the 2019-2021 period and the sample used in this study was 11 company units with a total of 3 (three) years of observations, namely 33 observations.

The operational definition of a variable is a definition given to a variable in the form of a term that is tested specifically or by measuring criteria. The operational definition terminology must have an empirical reference for measuring variables in a way that obtains understandable information. The following describes the operational definition of each variable, namely:

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The dependent variable is a variable that is affected or becomes a result because of the independent variables (Sugiyono, 2019). The dependent variable in this study is stock prices. The price of a share that occurs on the stock market at a certain time is determined by market participants and is determined by the demand and supply of the relevant shares in the capital market, Jogiyanto (2017: 141). According to Gustmainar and Mariani (2018) stock prices are measured by closing prices because the closing price at the end of the period is considered unchanged.

The independent variable or independent variable is a variable that influences or becomes the cause of the change or the emergence of the dependent/bound variable (Sugiyono, 2018: 39). The independent variables in this study are as follows:

The National Committee on Governance Policy (KNKG) (2006:17) states that the directors as company organs are in charge and responsible for managing the company. The following is the formula for the number of the Board of Directors, namely:

Number of board of directors =Σ board of directors (1)

The National Committee on Governance Policy (KNKG) (2006: 3) states that the board of commissioners as an organ of the company has a collective duty and responsibility for supervising and providing advice to the directors and ensuring that the company implements good corporate governance. The size of the board of commissioners is measured using the indicator of the number of members of the board of commissioners of a company. The following is the formula for the number of the Board of Commissioners:

Number of commissioners =Σ board of commissioner (2)

The data analysis technique used is multiple linear regression analysis with Stata software

IV. RESULTS AND DISCUSSION

The descriptive statistics in this study are presented to provide information about the characteristics of the research variables. The descriptive statistics in this study are as follows:

TABLE 3. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
dewandireksi	33	6.363636	2.559519	3	11
dewankomis~s	33	5.212121	2.407768	2	10
hargasaham	33	2375.455	3031.882	122	12325
kadewandir~i	33	3.878788	4.151488	0	11
kadewankom~s	33	3.060606	3.362843	0	10

Source: Processed data, 2023

This test is conducted to determine whether all the independent variables individually affect the dependent variable. The provisions for accepting or rejecting this test are if the significant number is less than 0.05, the alternative hypothesis is accepted and the null hypothesis is rejected (Ghozali, 2018).

The effect of the board of directors on stock prices shows a significant value of 0.726 > 0.05, so it can be concluded that the board of directors has no significant effect on stock prices, so the first hypothesis (H1) is rejected. This can happen because it is confounded by the attitudes and practices of the board of directors (OECD, 1999) in Suranta and Midiastuty (2005).

TABLE 4. Uji t

Source	SS	df	MS			
				Number of obs	=	33
				F(5, 27)	=	6.30
Model	158424958	5	31684991.6	Prob > F	=	0.0005
Residual	135728848	27	5026994.38	R-squared	=	0.5386
				Adj R-squared	=	0.4531
Total	294153806	32	9192306.44	Root MSE	=	2242.1

hargasaham	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
dewandireksi	-170.8483	481.7718	-0.35	0.726	-1159.362	817.6658
dewankomis~s	56.81375	392.4891	0.14	0.886	-748.5074	862.1349
kadewandir~i	1091.72	549.4164	1.99	0.049	-35.58928	2219.03
kadewankom~s	-227.258	496.1967	-0.46	0.651	-1245.37	790.8534
_cons	1518.052	1835.883	0.83	0.416	-2248.868	5284.973

Source: Processed data, 2023

The effect of the board of directors on stock prices shows a significant value of 0.726 > 0.05, it can be concluded that the board of directors has no significant effect on stock prices, so the first hypothesis (H1) is rejected. This can happen because it is confounded by the attitudes and practices of the board of directors (OECD, 1999) in Suranta and Midiastuty (2005).

The effect of the board of commissioners on stock prices shows a significant value of 0.886 > 0.05, it can be concluded that the board of commissioners has no significant effect on stock prices, so the first hypothesis (H2) is rejected. The results of this study indicate that the board of commissioners has not been able to become a mechanism to influence company value. The board of commissioners has the authority to supervise the running of the company if deemed necessary by the board of commissioners, so that the board of commissioners is considered to have no effect on the company's share price because it is only a supervisor who is not directly involved in the company's operational activities. The results of this study are in accordance with what was explained by Jensen and Meckling (1993), namely the more commissioners in a company, the worse the performance of the company because the board of commissioners will have difficulty in carrying out its role, including difficulties in coordination and communication between the boards of commissioners. The decline in company performance will reduce the company's stock price compared to the previous period, so that investor interest in investing in the company will decrease. The large size of the independent board of commissioners will also result in a lack of meaningful discussion, because expressing opinions in large groups generally takes time, it is difficult to reach agreement and results in a lack of cohesiveness on the board of commissioners.

The effect of the board of directors on stock prices with audit quality as a moderator shows a significant value of 0.049 <0.05, it can be concluded that audit quality strengthens the influence of the board of directors on stock prices, so the first hypothesis (H3) is accepted.

The effect of the board of commissioners on stock prices shows a significant value of 0.651 > 0.05, so it can be concluded that audit quality is not able to moderate the effect of the board of commissioners on stock prices, so the first hypothesis (H4) is rejected.

V. CONCLUSION, IMPLICATION AND LIMITATION

The analysis used is multiple linear regression analysis with Stata software. From the research results, the following results are obtained: (1) The board of directors has no effect on stock prices. (2) Board of commissioners No effect on stock prices. (3) Audit quality is able to strengthen the influence of the board of directors on stock prices.

Some suggestions that researchers can convey based on the analysis that has been carried out are as follows:

1) For the company, it is better to focus on the involvement of the board of directors, board of commissioners and institutional shareholders as well as the directions and policies implemented, so that they can have an impact on share prices.
2) For further research, it is expected to be able to use Good Corporate Governance (GCG) mechanisms other than those used in this study, such as managerial ownership and audit committees.
3) This research was only conducted at automotive companies listed on the Indonesia Stock Exchange for the 2019-2021 period, so future research is expected to develop research and expand research objects over a period of more than 3 years.

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