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AUDIT QUALITY ON ACCOUNTING MISSTATEMENTS IN COMPANIES UNDER CAPITAL MARKET PRESSURE

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Abstract

This study aims to empirically test the effect of audit quality on accounting misstatements and determine whether the occurrence of accounting misstatements can be moderated with capital market pressure. This study used data from LQ45 index companies listed on the Indonesian Stock Exchange from 2017 to 2021, with a total research sample of 90. The hypothesis testing technique was panel regression analysis with a random effect model. This study found that audit quality does not affect accounting misstatements, and capital market pressure could not moderate the effect of audit quality on accounting misstatements. This research was conducted by adding capital market pressure as a moderating variable which is believed to be able to strengthen/weaken the effect of audit quality on accounting misstatements, so this study's sample consists of the LQ45 index, which represents the companies in Indonesia with the most substantial capital market pressure. The results of this study imply that the companies incorporated in the LQ45 index are blue chip companies in Indonesia, so the LQ45 Index companies are the right choice for investors to place their funds in the shares of these companies. In future research, it is better to add samples to companies actively traded in the Asia Pacific region by excluding the 2020 and 2021 period.

Keywords: *Audit quality; Accounting misstatements; Capital market pressure.*

Abstrak

Penelitian ini bertujuan untuk menguji secara empiris pengaruh kualitas audit terhadap salah *accounting misstatements* dan menentukan apakah terjadinya *accounting misstatements* dapat dimoderasi dengan tekanan pasar modal. Penelitian ini menggunakan data perusahaan indeks LQ45 yang terdaftar di Bursa Efek Indonesia tahun 2017 sampai dengan tahun 2021, dengan jumlah sampel penelitian sebanyak 90. Teknik pengujian hipotesis adalah analisis regresi panel dengan model *random effect*. Penelitian ini menemukan bahwa kualitas audit tidak mempengaruhi *accounting misstatements*, dan tekanan pasar modal tidak dapat memoderasi pengaruh kualitas audit terhadap *accounting misstatements*. Penelitian ini dilakukan dengan menambahkan tekanan pasar modal sebagai variabel moderasi yang diyakini dapat memperkuat/melemahkan pengaruh kualitas audit terhadap *accounting misstatments*, sehingga sampel penelitian ini terdiri dari indeks LQ45 yang mewakili perusahaan dengan tekanan pasar modal yang paling substansial di Indonesia. Hasil penelitian ini mengimplikasikan bahwa perusahaan yang tergabung dalam indeks LQ45 merupakan perusahaan *blue chip* di Indonesia, sehingga perusahaan Indeks LQ45 merupakan pilihan yang tepat bagi investor untuk menempatkan dananya di saham perusahaan tersebut. Pada penelitian selanjutnya sebaiknya menambahkan sampel pada perusahaan yang aktif diperdagangkan di kawasan Asia Pasifik dengan mengecualikan periode tahun 2020 dan 2021.

Kata Kunci: Kualitas audit; *Accounting misstatements*; Tekanan pasar modal.

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INTRODUCTION

Accounting misstatements occur when there is a discrepancy between the company's management's financial statements and applicable accounting standards due to various factors, including audit quality (Dechow et al., 2011). A qualified auditor can examine a company's financial statements to ensure their accuracy. However, if the auditor's quality is poor, the auditor can detect accounting fraud in a company. The financial statements of PT Garuda Indonesia Tbk (GIIA) were audited by public accountants from BDO Indonesia, which can support these claims. BDO Indonesia found no accounting misstatements made by PT Garuda Indonesia Tbk (GIIA) management in the 2018 financial statements. BDO Indonesia's public accountants cannot detect any accounting irregularities at PT Garuda Indonesia Tbk (GIIA). To consult with external parties/clients, the public accounting firm must implement an optimal quality control system (Pusat Pembinaan Profesi Keuangan, 2019). As a result, audit quality significantly impacts the frequency of accounting misstatements in businesses.

The most recent previous study that focused on the effect of audit quality on accounting misstatements had a different conclusion. Most studies state that accounting misstatements occur because of the low-quality audits that carry out the audit process of a company's financial statements. This statement is supported by the findings of studies conducted by (Alia et al., 2020; Alves, 2013; Alzoubi, 2016, 2018; Astami et al., 2017; Chen et al., 2011; Choi et al., 2018; Khalil & Ozkan, 2016; Rusmin et al., 2014; Soliman & Abd-Elsalam, 2014; Sumiadji et al., 2019). On the other hand, some studies claim that auditor quality does not affect accounting misstatements, such as the findings of the studies conducted by (Alhadab & Clacher, 2018; El-Helaly et al., 2018; Habbash & Alghamdi, 2017; Nor Azhari et al., 2020; Tsipouridou & Spathis, 2012; Yaşar, 2013). As a result, there are inconsistencies in the findings of previous studies, with some claiming that audit quality significantly affects accounting misstatements. In contrast, others claim that audit quality does not affect accounting misstatements.

The inconsistency of audit quality's effect on accounting misstatements shows that other variables can explain the association between audit quality and accounting misstatements. Market pressure is an exciting factor explaining the relationship between audit quality and accounting misstatements. Capital market pressure is one of the driving factors that can force accounting misstatements because the numbers in the financial statements significantly affect stock prices (Watts & Zimmerman, 1990). (Bartov et al., 2001) studied the Meeting or Beating Earning Expectations (MBE) phenomenon. This research is also supported by (Al-Shattarat et al., 2022; Skinner & Sloan, 2002; Veenman & Verwijmeren, 2021), which state that investors will react positively when the numbers in the financial statements are in line with investors' expectations.

Conversely, investors will react negatively when the numbers in the financial statements do not match investors' expectations. Buying the company's shares indicates investors' positive reaction so that the share price will rise. In the meantime, unfavourable reactions are conveyed by selling the company's shares, causing the share price to decline—meeting or Beating Earning Expectations (MBE) forces management to always meet investor expectations. When the numbers in the financial statements do not match investor expectations, management will intentionally misstate the company's financial statements. It is supported by research conducted by (Badertscher, 2011; Dechow et al., 2011; Dechow & Skinner, 2000; Di Meo et al., 2017; Ettredge et al., 2010; Kałdoński et al., 2020a). Therefore, this research was conducted by adding capital market pressure as a moderating variable which is believed to answer the inconsistencies in the results of previous studies regarding the effect of audit quality on accounting misstatements.

LITERATURE REVIEW

Agency Theory

Agency theory arises when the principal delegate's authority to the agent to manage the principal's company (M. C. Jensen & Meckling, 1976). According to agency theory, principals and agents are solely motivated by their interests, which results in agency conflict. Agency conflicts result in information asymmetry when shareholders (principals) do not get complete information. Because of this information asymmetry, management is motivated to maximize its profits by acting opportunistically, one of which is to commit accounting misstatements. To avoid the agent's opportunistic actions, the principal assigns an independent third party, namely a high-quality independent auditor whose job is to examine and supervise the agent's actions so that the principal avoids losses due to the agent's opportunistic actions.

Signalling Theory

The signalling theory put forward by Spence, (1973) initially explained the problem of inequality in the labour market. However, the developing signalling theory refers to signals given by management to shareholders (investors). Signals to investors are information that can influence investors' perceptions of the company's condition. This perception concludes that the company's quality exceeds its competitors. Therefore, signalling theory can explain how capital market pressure can be one of the motivations for management to commit accounting misstatements.

Audit Quality

Audit quality can be described as the auditor's capacity to identify material errors in the audited financial statements (L. E. DeAngelo, 1981). (DeFond & Zhang, 2014) also defines *audit quality* as the ability of the auditor to detect violations of accounting standards applicable to the auditee's financial statements. Agency conflicts require that auditors audit the financial statements with high audit quality. Agency conflict arises when there is a separation of roles in a company where one party acts as the company's owner or principal. The other party acts as management (agent) who takes care of the operations and carries out the company's daily activities (Eugene F. Fama, 1980; Fama & Jensen, 1983; M. C. Jensen & Meckling, 1976). Each party seeks to maximize the benefits that can be obtained. Principals try to maximize profits by demanding that agents give their best performance. The agent's desire to maximise profit while requesting the maximum remuneration creates agency conflict, which is a conflict of interest between the principal and the agent (Chintrakarn et al., 2018; Young et al., 2008). This conflict encourages shareholders to carry out supervisory activities to control the activities carried out by management, so that shareholder profits are protected (M. C. Jensen & Meckling, 1976). One of the supervisory activities carried out is by delegating independent auditors who have good quality and who can ensure that the information submitted by management is information that is free from misstatements (Cohen & Zarowin, 2010; Dechow et al., 2011; Ettredge et al., 2010; Habib & Jiang, 2014).

In this study, audit quality is measured using the size of the audit firm, where there are two sizes of audit firms. There are Big-4 audit firms consisting of (1) Ernst & Young (EY); (2) Klynveld Peat Marwick Goerdeler (KPMG); (3) PricewaterhouseCoopers (PWC); (4) Deloitte and other than four audit firms are non-Big 4. Audit firm size is used to measure audit quality because several studies prove that Big-4 audit firms provide higher quality (Alzoubi, 2018; L. E. DeAngelo, 1981; Francis & Yu, 2009). In addition, Big-4 audit companies also have a high reputation which makes auditors at Big-4 audit firms always give their best efforts to maintain their reputation (Francis, 2004). Big-4 audit firms have higher human and technological resources than non-Big-4 audit firms, so Big-4 audit firms can audit a company's financial statements more intensively and have intense audit tests. Big-4 audits are more independent from their clients (L. E. DeAngelo, 1981) and have higher standard control systems (Francis, 2004; Khurana & Raman, 2004). Therefore, the size of audit firms is the choice to measure audit quality in this study.

Accounting Misstatements

The financial statements prepared by the company's management have different categories, one of which is accounting misstatements (Dechow et al., 2011). Accounting misstatements are a gap between the financial statements presented by the company's management with applicable accounting standards (Dechow et al., 2011; Ettredge et al., 2010). International Standard on Auditing (IAS) 240 states that accounting misstatements can occur due to unintentional or intentional errors (fraud). The indicator distinguishing between error and fraud is what causes accounting misstatements. Accounting misstatements are declared as fraud if accounting misstatements occur intentionally by the company's management. However, if accounting misstatements occur accidentally, it is an error. Some of the literature consulted for this study focuses on earnings management. It is because there are similarities in management motivation in carrying out earnings management and accounting misstatements, so the literature on earnings management can also be used as a reference in research on accounting misstatements (Dechow et al., 1996).

There are two primary motivations for management to make accounting misstatements (Spathis, 2002). The first motivation is that management wants to maximize its compensation; this can be explained by agency theory. Agency conflict occurs when there is a separation of roles in a company. One party acts as the company's owner or principle, while the other party oversees the company's operations and carries out its daily tasks as management (agent) (Eugene F. Fama, 1980; Fama & Jensen, 1983; M. C. Jensen & Meckling, 1976). Each party seeks to optimize the benefits that can be obtained. This dispute between the principal and agent is referred to as agency conflict. The agent seeks to maximize profit by requesting the highest compensation (Young et al., 2008). However, the principal's demands that the agent always performs at his best put the agent under pressure. Agents will always try to provide information that aligns with shareholders' expectations. Of course, this information is easy to provide in the condition of the company's stable performance and continues to grow. Conversely, if the company's conditions are unfavourable, while shareholders demand that management provide information following their expectations, it will encourage management to intentionally commit accounting misstatements (Dechow et al., 2011; Ettredge et al., 2010). The second motivation for management to make accounting misstatements is related to government policies, among others, to avoid taxes (Dechow et al., 2011; Spathis, 2002), to get compensation from the government, lobbying for government assistance to renegotiate contracts with lenders and labour unions (H. DeAngelo et al., 1994).

Capital Market Pressure

Capital market pressure is an external factor that significantly affects the occurrence of accounting misstatements (Dechow et al., 2011). That is because management is very concerned about investors' reactions to financial information announced by management, where financial information significantly influences stock values (Eugene F. Fama, 1980; Watts & Zimmerman, 1990). Investors' reaction to financial information is evidenced by the Meeting or Beating Earnings expectation (MBE) phenomenon proposed by (Bartov et al., 2001), which concludes that investors will react positively if financial information follows investor expectations and vice versa. However, a long time ago, before (Bartov et al., 2001) discovered the MBE phenomenon (Spence, 1973) discovered the signalling theory, which is also supported by (Zhang & Wiersiema, 2009), explained that financial information is a signal conveyed by management to stockholders regarding the condition of the company. Based on the signal theory, management always tries to give a positive signal to the stockholders to give a positive response. Management's expectation to always give a positive signal can motivate management to always give their best performance in improving the shareholders' welfare. On the other hand, the expectation to always give a positive signal can also pressure management, so when the company's conditions are not favourable, management tends to make accounting misstatements (Dechow et al., 1996). Therefore, capital market pressure has a significant positive effect on the occurrence of accounting misstatements.

Capital market pressure in this study was measured using the book-to-market ratio; this is because the book-to-market ratio can provide a clear description of the pressure faced by management to always give a positive signal to stockholders (Dechow et al., 1996; Ettredge et al., 2010). The book-to-market ratio is computed by dividing the book value of an equity by its market value. The lower ratio indicates that the stock's market value is higher than its book value, indicating that management must continue to strive to maintain a low book-to-market ratio. The management way to keep the ratio low is always to give a positive signal to the stockholders so that they will react positively by maintaining share ownership and increasing their share ownership in the company. On the other hand, if management cannot give a positive signal to investors, investors will react negatively by reducing share ownership in the company, which will result in stock prices falling and the book-to-market ratio increasing. The phenomenon of meeting or beating earnings expectations implies that management must always provide profit information according to stakeholder expectations. By informing company profits under stakeholder expectations, management seeks to achieve goals and increase company value (Theiri et al., 2022). If the company's performance worsens, management will implement earnings management strategies to avoid job losses (Salehi et al., 2018). Therefore, the lower the book-to-market ratio indicates, the greater the capital market pressure experienced by management and vice versa.

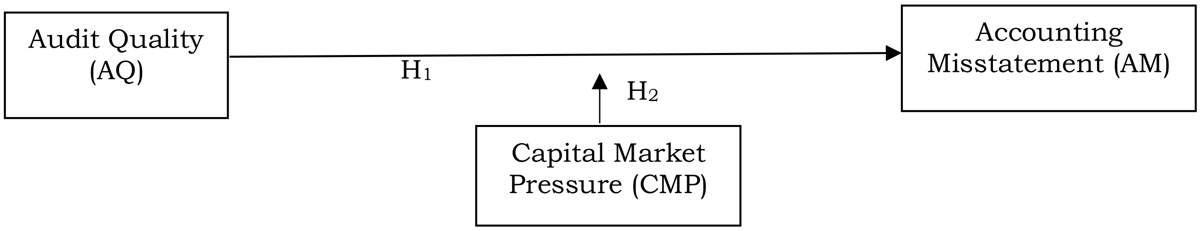
Hypothesis Development

This study begins with a re-examination of the effect of audit quality on accounting misstatements. One way to minimize the costs that shareholders must bear due to agency conflicts is to delegate high-quality auditors. External auditors with high quality will be responsible for overseeing the quality of financial reports, so they are expected to be able to prevent accounting misstatements. According to empirical evidence, audit quality significantly impacts accounting misstatements; the higher the audit quality, the smaller the company will make accounting misstatements. Although there are several studies that state audit quality does not affect accounting misstatements. However, based on the justification of the researchers, where the justification is based on agency theory (M. C. Jensen & Meckling, 1976). Agency theory states that if there is a separation between owners and managers, there will be agency conflict, where agency conflicts cause agency costs. Therefore, if the principal wants optimal benefits from financial information free from misstatements, then the principal must delegate a high-quality auditor; this is related to the cost-benefit trade-off (Doidge et al., 2007). Previous research which states that audit quality has a significant effect on accounting misstatement is research conducted by (Alzoubi, 2016). Based on this explanation, the following hypotheses can be formulated:

H_1: Audit quality has a significant negative effect on accounting misstatements.

The second analysis in this study examines whether pressure from the capital market can mitigate the impact of audit quality on accounting misstatements. As previously explained, the inconsistent relationship between audit quality and accounting errors shows that higher audit quality does not guarantee that financial statements are free of accounting errors, and vice versa. It is because other reasons, including capital market pressure, can also lead to accounting errors (Dechow et al., 2011; Ettredge et al., 2010). Capital market pressure is measured using the book-to-market ratio (Dechow et al., 2011; Ettredge et al., 2010). The lower the ratio, the company's stock price and the higher the book value; this shows that investors have high expectations and are interested in owning the company's shares. The high expectation of investors implies that the information submitted by the company's management follows the expectations of investors (Bartov et al., 2001). The low value of the book-to-market ratio resulted in increasing pressure faced by management to maintain this ratio. This forces management to always try to provide information that follows investor expectations. Suppose the information submitted by management is different from investor expectations. In that case, investors will react negatively by selling the company's shares, resulting in the stock price dropping and the book value-to-market ratio increasing (M. C. Jensen, 2005). Therefore, when the company's financial condition does not match the expectations of investors, it is likely that the company's management will intentionally misstate it. It was forced to be done by management because of the high costs that management must bear if management cannot meet investors' expectations (Graham et al., 2005). One of the factors that can explain the association between audit quality and accounting misstatements is capital market pressure. If the audit quality is good and capital market pressure is low, the probability of accounting misstatements will be low. However, if the audit quality is good while capital market pressure is high, the probability of accounting misstatements will also be high. In other words, capital market pressure can strengthen and weaken the relationship between audit quality and accounting misstatements. Previous research which states that capital market pressure has a significant effect on accounting misstatements, namely research conducted by (Dechow et al., 2011; Ettredge et al., 2010; Kałdoński et al., 2020b). Based on the explanation above, we can formulate the following hypotheses:

H_2: Capital market pressure can moderate the effect of audit quality on accounting misstatements.



RESEARCH METHOD

The approach used in this study is a quantitative approach based on research objectives and a conceptual framework, which is explanatory research. This study investigated the effect of capital market pressure on the relationship between audit quality and accounting misstatements. This research employs three kinds of variables. First, the dependent variable, accounting misstatements, measured using the F-Score model proposed by (Dechow et al., 2011), is a model built on the study of (Beneish, 1999). The second is the independent variable, audit quality, measured using a dummy variable coded one if Big 4 auditors audit the firm observations, 0 otherwise. The last is the moderating variable, capital market pressure, measured using the book-to-market ratio (Dechow et al., 2011). This study uses control variables, including company size, leverage, operating cash flow, owner concentration, sales growth, and entrenchment management. To prevent skewed results, using control variables attempts to control and account for all probable causes of the link between variables.

Table 1. The Measurement of Variable

Variable	Calculation	Expected Sign
Accounting Misstatements	$Probability = \frac{e(Predicted\ Value)}{(1 + e(Predicted\ Value)}$ e= 2.71828183 $Predicted\ Value = -7.893 + 0.790 \times (RSST\ Accrual) + 2.518 \times (ch_{rec}) + 1.191 \times (ch_{inv}) + 1.979 \times (soft\ assets) + 0.171 \times (ch_{cs}) - 0.932 \times (ch_{ROA}) + 1.029 \times (issue)$	
Audit Quality	*Audit quality coded 1 if Big 4 auditors audit the firm observations, 0 otherwise.*	-
Capital Market Pressure	$CMP = \frac{Book\ value\ of\ Equity}{Market\ Value\ of\ Equity}$	+
Company Size	*Logarithm natural of total assets*	+/-
Leverage	$Lev = \frac{Total\ Debt}{Total\ Assets}$	+/-
Operating Cash Flow	$OCF = \frac{Operating\ Cash\ Flow}{Total\ Assets}$	+/-
Owner Concentration	*A dummy variable coded 1 if the percentage of shareholding by the top shareholder exceeds 50 percent, 0 otherwise.*	+/-
Sales Growth	$Sales\ Growth = \frac{Sales, t - Sales, t-1}{Sales, t-1}$	+/-
Entrenchment	*A dummy variable coded 1 if the CEO tenure is more than or equal to 3 years, 0 otherwise.*	+/-

Source: The Various Literature (2022).

Table 2. Sample Selection

Criteria of Sample Selection	Total
LQ45 index companies listed in the IDX as of December 31, 2021	45
Less:	
Did not list on the LQ45 index during 2017-2021	(16)
Non-banking/finance companies	(5)
Did not issue an annual report during 2017-2021	(0)
Companies issue new stock during 2017-2021	(6)
Total sample companies	18
Total sample during the observation period (5 years)	90

Source: The Processed Data (2022).

This study uses secondary data for accounting misstatements, audit quality, capital market pressure, company size, leverage, operating cash flow, owner concentration, sales growth, and entrenchment management derived from the company's annual report and stock price information available on the yahoo finance website. This study uses two data panel regression models that aim to answer the proposed hypothesis. Each model is carried out by statistical procedures, with the first stage being the accuracy of the regression model. After determining the appropriate regression model, the classical assumption test is carried out, and then data panel regression analysis is carried out. The two data panel regression models are as follows:\

Model 1

$$AMi,t = \beta 0 + \beta 1AQi,t + \beta 2Sizei,t + \beta 3Levi,t + \beta 4OCFi,t + \beta 5OCi,t + \beta 6SGi,t + \beta 7EMi,t + \varepsilon i,t$$

Model 2

$$AMi,t = \beta 0 + \beta 1AQi,t + \beta 2CMPi,t + \beta 3(AQi,t * CMPi,t) + \beta 4Sizei,t + \beta 5Levi,t + \beta 6OCFi,t + \beta 7OCi,t + \beta 8SGi,t + \beta 9EMi,t + \varepsilon i,t$$

Annotation:
AM : Accounting Misstatements of the company i in year t
AQ : Audit Quality of the company i in year t
CMP : Capital Market Pressure of the company i in year t
Size : Size of the company i in year t
Lev : Leverage of the company i in year t
OCF : Operating Cash Flow of the company i in year t
OC : Owner Concentration of the company i in year t
SG : Sales growth ratio of the company i in year t
EM : Entrenchment Management of the company i in year t

RESULTS AND DISCUSSION

To ensure that the derived regression equation is accurate, unbiased, and consistent, the first step is to select the optimal estimate model. Following the Chow, Hausman, and Lagrange Multiplier tests, the Random Effect Model was selected to test hypotheses 1 and 2 in this investigation. Using the normality and multicollinearity tests, the next step is to test the classical assumption. Table 3 shows that the two regression models in this investigation are normally distributed, as shown by a value greater than 0.05 that is statistically significant.

Table 3. Normality Test

Normality Test	Model 1	Model 2	Criteria	Decision
Probability	0.166	0.198	Sig > 0.05	Pass

Source: The Processed Data (2022).

Table 4 shows that each variable in the two regression equations has a tolerance value of greater than 0.05 and a VIF value of less than 10. Therefore, it can be stated that there are no multicollinearity issues with the two regression equations in this study.

Table 4. Multicollinearity Results

Variables	Model 1		Model 2	
	Tolerance	VIF	Tolerance	VIF
Audit Quality	0.738	1.355	0.690	1.450
Capital Market Pressure	-	-	0.623	1.604
Company Size	0.859	1.164	0.854	1.171
Leverage	0.551	1.815	0.550	1.817
Operating Cash Flow	0.747	1.339	0.615	1.625
Owner Concentration	0.914	1.094	0.891	1.122
Sales Growth	0.834	1.199	0.814	1.299
Entrenchment Management	0.768	1.302	0.746	1.340

Source: The Processed Data (2022).

Table 5. Descriptive Statistics

Variable	Min	Max	Mean	Standard Deviation
Accounting Misstatements	0.15	0.76	0.35	0.15
Audit Quality	0	1	0.91	0.29
Capital Market Pressure	0.02	2.69	0.63	0.43
Company Size (in a trillion rupiah)*	16.62	367.31	86.73	81.28
Leverage	0.00	2.44	0.47	0.53
Operating Cash Flow	-0.01	0.43	0.14	0.11
Owner Concentration	0	1	0.87	0.34
Sales Growth	-1.00	0.99	0.08	0.28
Entrenchment Management	0	1	0.52	0.50

Source: The Processed Data (2022).
*Original amount.

Table 5 shows that the mean accounting misstatements are 0.35 (lower than 1.00), which means that the average sample companies in this study can be classified as having low-risk accounting misstatements. The lowest accounting misstatements is 0.15 (less than 1.00) occurred in Vale Indonesia Tbk and Indocement Tunggal Prakarsa in 2020, indicating a low risk of accounting misstatements for that period. A Big-4 accounting firm audited the financial statements of those companies. The highest accounting misstatement is 0.76 (lower than 1.00), which occurred in Jasa Marga (Persero) Tbk in 2019. Is means that the accounting misstatements risk of Jasa Marga (Persero) Tbk for 2019 also has a low risk. In that period, the financial statements of Jasa Marga (Persero) Tbk were audited by the big-4 accounting firm.

The mean audit quality is 0.91 (close to 1), which means that Big-4 accounting firms audited the average sample companies in this study. Table 6 below shows that most of the companies in this study were audited by the big-4 accounting firm during the observation period; non-big 4 KAPs audit very few companies; this can indicate the audit quality in this sample of companies is less diverse (homogeneous).

Table 6. Audit Quality

Audit Quality	2017	2018	2019	2020	2021
Big-4 Accounting Firm	18	16	16	16	16
Non-Big-4 Accounting Firm	0	2	2	2	2

Source: The Processed Data (2022).

The mean capital market pressure is 0.63 (lower than 1), which means that the average sample companies in this study have a high capital market pressure where the book value of equity is lower than its market value. The highest capital market pressure is 0.02 in Unilever Indonesia Tbk for 2020-2021. It means that the book value of equity Unilever Indonesia Tbk is much lower than its market value, which shows that the capital market pressure faced by Unilever is very high. However, when viewed from the accounting misstatements, Unilever has a low risk (0.26). The low risk of accounting misstatements (0.50) also occurred at Bukit Asam Tbk in 2017, where Bukit Asam Tbk had the lowest capital market pressure with a book-to-market ratio value of 2.69. It means that the book value equity of Bukit Asam Tbk is much higher than its market value which indicates that the capital market pressure is low for the company.

Table 7. Hypothesis Testing

Model	Coefficient	Significance	Decision
Model 1 (AQ → AM)	-0.046	0.416	H_1 Rejected
Model 2 (AQ*CMP → AM)	0.185	0.163	H_2 Rejected

Source: The Processed Data (2022).

Table 7 shows that the first hypothesis in this study was rejected; it means that audit quality does not affect accounting misstatements at LQ45 index companies in Indonesia. Table 7 also shows that the second hypothesis in this study was rejected; it means that capital market pressure could not moderate the effect of audit quality on accounting misstatements.

Audit quality does not affect accounting misstatements at LQ45 Index companies in Indonesia. The result of this study is consistent with those of (Alhadab & Clacher, 2018; El-Helaly et al., 2018; Habbash & Alghamdi, 2017; Nor Azhari et al., 2020; Tsipouridou & Spathis, 2012; Yaşar, 2013) who found no significant effect between audit quality on earning management or accounting misstatements. In this study, audit quality is proxied by the size of accounting firms, and the size of accounting firms is divided into two types, Big-4 and Non-Big-4. (Francis, 2004) shows that Big-4 auditors have the potential to fail in preventing management from making accounting misstatements. (Francis, 2004) also stated that the resources owned by Big-4 play a more critical role in fighting litigation and regulators, so the ability to detect accounting misstatements does not have a significant difference between Big-4 and non-Big-4. This statement is supported by the argument of (Nor Azhari et al., 2020; Yaşar, 2013), who argues that the Big Four auditors do not contribute to the credibility of financial statements. In addition, it is always indicated in the auditor's report that management is responsible for generating financial statements, therefore there is a chance that the auditor will discover misstatements. However, management refuses to correct the financial statements. This claim can be supported by the fact that Big-4 audited Wijaya Karya Tbk and PP (Persero) Tbk in the 2017 period with common accounting misstatements risk, as well as for 2018–2021. Accounting misstatements period also with low risk even though the financial statements of Wijaya Karya Tbk and PP (Persero) Tbk were audited by non-Big-4 in the 2018–2021 period. Both examples show that audit quality does not significantly affect accounting misstatements.

Capital market pressure could not moderate the effect of audit quality on accounting misstatements. The results of this study confirm the findings of (Duong & Pescetto, 2019), which state that meeting investor expectations by carrying out accounting misstatements is a costly strategy, so management is trying to find other strategies to maintain high valuations and expectations from investors. In addition, the companies' samples of this study are listed in the LQ45 Index, which LQ45 Index are a stable company with entrenchment management. (Di Meo et al., 2017) state that entrenchment management will avoid myopia in high capital market pressure conditions. Management is not rash in meeting investor expectations and is more concerned with long-term profit by conveying more relevant financial information that is free from accounting misstatements. Entrenchment management will not hurt shareholders by "lying" or committing accounting misstatements. This statement is supported by (Fredrickson et al., 1988), who state that CEOs who have served less than three years are prone to making mistakes, but after three years, CEOs begin to gain power, become more confident and become entrenchment. The descriptive statistics support the argument, which reveals that the sample companies' average employment management is 0.52 tends to 1, which indicates that, on the whole, they have effective entrenchment management. Because the sample companies in this study have well-entrenchment management, capital market pressure cannot moderate the effect of audit quality on accounting misstatements.

CONCLUSIONS

The findings of this research indicate that audit quality does not affect accounting misstatements, and capital market pressure cannot moderate the effect of audit quality on accounting misstatements. The argument is that most of the samples used in this study are companies with well-entrenchment management, so management will not sacrifice long-term profit for short-term profit. The results of this study imply that the companies incorporated in the LQ45 Index are blue chip companies in Indonesia, so the LQ45 Index companies are the right choice for investors to place their funds in the shares of these companies.

The results of this study can be used as additional literature on management motivation to make accounting misstatements. The findings of this study can support the findings of (Alhadab & Clacher, 2018; El-Helaly et al., 2018; Habbash & Alghamdi, 2017; Nor Azhari et al., 2020; Tsipouridou & Spathis, 2012; Yaşar, 2013) states that audit quality does not affect accounting misstatements. The results of this study also support the finding of (Duong & Pescetto, 2019) that the capital market does not affect accounting misstatements. These findings become arguments supporting the results of this study where capital market pressure cannot moderate the effect of audit quality on accounting misstatements.

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