

The Effect of Ownership Structure, Audit Committee, Company Size, and Audit Quality on the Integrity of Financial Statements on Manufacturing Companies Listed on IDX

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The Effect of Ownership Structure, Audit Committee, Company Size, and Audit Quality on the Integrity of Financial Statements on Manufacturing Companies Listed on IDX

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Abstract

A list of financial data (e.g., account balances, transactions, and changes in value) is given over a period of time. This information may be utilized by readers of financial statements to help them make economic choices. So, the businesses that want to be trusted must provide honest financial accounts. The study sought to investigate the relationships between several measures of corporate control, management control, the audit committee, and size, on the accuracy of financial statements for manufacturer companies listed on the IDX. The population utilized in this study consists of 169 businesses, while the sample is made up of just 43 companies. This study used the assistance of SmartPLS software to analyze the information. The study's findings indicate that Institutional Ownership and the Audit Committee are linked to financial statements' integrity. Meanwhile, these three factors (i.e., size of the company, level of managerial ownership, and audit quality) have no impact on the financial statements' integrity.

Introduction

Financial statements contain a variety of information that is required by the various users of financial statements, including investors, creditors, employees, suppliers, customers, the government, and the general public, as material for evaluation and consideration in the course of decision-making. Financial statements also contain information that is required by the government. The financial statements that are provided must be trustworthy and have high integrity in terms of their fair presentation, and this is the case (Harun et al, 2020). Integrity is a moral principle that is unbiased and honest; someone who has high integrity sees facts as they are and communicates these facts as they are; someone with low integrity sees facts as they are and expresses these facts as they are (Mulyadi, 2011). As a result, confirming that companies that present honest financial statements or what they are like the conditions that occur in their companies currently reflect the value of the company and become a positive signal in order to influence the opinions of investors, creditors, or other interested parties becomes a positive signal to influence their opinions.

However, not all businesses are in a favorable position to alter accounting data, particularly in financial statements, in order to make it seem that the business is viable and competent, thus attracting the attention of the public or investors to participate in the business. As a result, the number of judicial cases involving accounting irregularities has risen significantly in recent years. It is possible that certain businesses provide information in financial statements without taking the integrity element into consideration, in which case the information presented is not accurate and unjust to some of the consumers of financial statements (Andriansano & Nuryantoro, 2015). In recent years, there has been a rise in the number of instances of

1

accounting data manipulation, particularly in financial statements. It has been determined that PT Garuda Indonesia Tbk (Persero) made a mistake in relation to the case by the Financial Services Authority (OJK) in 2019. The case has involved several large companies in Indonesia, including an airline company owned by the government of Indonesia, which has been dragged into it since 2019. a presentation of the 2018 Annual Financial Statements as of December 31, 2018 PT Garuda Indonesia has been charged with the matter, and the company's external auditor has been subject to penalties by the Ministry of Finance as a result of the charges.

In order to survive and achieve business goals and objectives, every firm is needed to have audit quality since all operational operations in the company must adhere to set standards in order to be successful. For this reason, the business's management must be able to establish a system that is properly regulated by an audit quality that is present in the firm in all of its operations in order for the company to succeed (Ermawati et al, 2020).

Regulation 55/POJK.04/2015 establishes that the audit committee is tasked with evaluating and auditing financial information that has been made public by the company, as well as other reports regarding the financial status of companies and public firms, and then making recommendations to the board of directors.

Institutional ownership signifies the effect on the management performance of companies of having institutional shareholders, which has a correlation to the financial reporting of the firm. Both the percentage of institutional voting rights and the percentage of institutional ownership are included in the institutional ownership chart. Managers are more likely to be entrepreneurial and therefore care about the financial well-being of the business when they have shares in the company, since they are under financial pressure to make the best choices and present the most honest financial accounts.

When a business is large, the financial statements managers give are more trustworthy. There are several ways to indicate the size of a company. Attention from both the market and the general public puts pressure on companies to provide accurate financial accounts and make themselves responsible to the public.

From the preceding discussion, it can be seen that the approach to solving this problem in this study is as follows: Can institutions influence the financial statements' integrity? While institutional ownership may influence the validity of financial statements, does it in any way negatively damage their integrity? Are management-controlled financial statements affected by their integrity? As audit committees make public company financial statements more credible, does their presence have an effect on financial statements' integrity? 4 Is there a correlation between the size of the company and the validity of the financial statements? How is the audit quality connected to the financial statements' integrity?

These objectives, which stem from the nature of the issue, are as follows: In order to verify if the financial integrity of a business is affected by institutional ownership, assess the quality of the financial statements. The goal of this research is to discover if management control over financial statements influences the overall financial integrity. The audit committee reviews the accounting to see whether they are accurate and comprehensive. 4) To measure the influence of a company' size on the financial reports' correctness. Whether the audit has an effect on the integrity of the financial statements, do the audit and then conduct a test to see if that is the case

3

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Literature Review

Agency Theory

Jensen & Meckling (1976) defined agency theory as a contractual arrangement in which one or more people, acting as the principal, delegate responsibility to an agent to carry out tasks in line with the employment contract since none of them is able to run their own business. When it comes to operating the business, management is ethically responsible and competent, aiming to optimize the welfare and profit of the organization.

Financial Report Integrity

According to Chen et al. (2020) the integrity of financial statements is defined as the degree to which financial statements accurately reflect the real existing economic environment. A company's internal duty to the owner's resources is shown via the presentation of financial accounts, which must be done properly and honestly. Financial statements with integrity may demonstrate to the public the accuracy of information pertaining to the company's financial situation, allowing users of financial statements to make decisions based on the information presented. The magnitude of the integrity of financial statements may be split into two categories, namely, conservatism and earnings management, which can be assessed separately. Companies that suffer from management failure will attempt to mask their company's performance issues by raising sales and net income; thus, conservative accounting procedures are required to prevent this manipulation (Machdar & Nurdiniah, 2017). In light of this reasoning, it is acceptable to utilize the idea of conservatism as a gauge for the integrity of financial statements to assess their accuracy.

Conservatism

According to Andreas et al. (2017) the precautionary principle in financial reporting means that the business does not rush into recognizing and measuring assets or earnings, and that it promptly acknowledges any debts or losses that may arise as a result of these actions. This concept is used in accounting, leading to the selection of an accounting technique that concentrates on the method with lower asset and profit reporting while having greater debt reporting. As a result, lenders will be protected against downside risks arising from financial statements that show underestimated net assets and financial statements that convey bad news in a timely way, among other things. Savitri (2016) said that the use of the concept of conservatism in Indonesia is triggered by the use of PSAK as the standard for accounting records in the country. The recognition of the conservative principle in PSAK is evident in the fact that different recording techniques may be used under the same circumstances. Consequently, different numbers will appear on the financial accounts, and earnings will be more cautious as a consequence.

Institutional Ownership

Institutional ownership refers to the ownership of a company's stock by local and international organizations. Corporate performance is better monitored under institutional ownership, and it has the potential to become an effective monitoring mechanism in every decision made by management (Savitri, 2016). It is possible for institutional ownership to be quantified by the percentage of share ownership held by the institution divided by the total number of shares outstanding, with the result that the share ownership may be converted into voting rights controlled by the institution.

Article Error (ETS)

While the percentage of shares can have an impact on the process of preparing financial statements, this does not rule out the possibility of manipulation by management to benefit

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itself. In order to minimize or even eliminate the incident, the institution can supervise the performance of the company's management and encourage managers to focus more on improving the company's performance, which will reduce opportunistic behavior that will be carried out by the management team.

Managerial Ownership

In corporate finance, managerial ownership is defined as the proportion of a company's shares held by the company's top executives. Managerial ownership may be seen from two perspectives, namely the agency approach and the imbalance approach, both of which are valid. First and foremost, the agency approach views management ownership as an instrument or technique that will be utilized to minimize agency conflicts between many claims against a corporation. The imbalance approach sees the management ownership structure mechanism as a means of reducing the information imbalance between insiders and outsiders by increasing the disclosure of information inside the business, according to the approach.

Managerial ownership refers to the quantity of share ownership held by management in relation to total managed capital. Managerial ownership has the potential to restrict departure from corporate policy. A method that can be used to enhance the integrity of financial statements is managerial ownership, which is one of the techniques that may be used. Business managers who own this proportion of the company, on the other hand, are more likely to take more responsibility in carrying out their responsibilities and to make the best choices (Supratiningrum, 2019).

Audit Committed

The likelihood of an auditor uncovering mistakes in a client's books relies on the auditor's technical abilities, whereas the act of reporting mistakes is determined solely by the auditor's independence. The more the audit quality, the greater the financial statements will be seen as having integrity and worthy of being relied upon as a foundation for decisions. the company's financial statements (Supratiningrum, 2019). It is characterized as an examination in which the auditor is the principal judge. If the audit conducted by the auditor satisfies the requirements or auditing standards, then it may be described as of good quality. Independent auditors, factors utilized in performing audits, and professional quality are all important criteria for auditing (Ermawati et al, 2020).

Harun et al (2020) performed study that shown that audit quality has a direct impact on presentation of financial statements, while Suprantiningrum (2019) conducted another research that showed audit quality had no effect on the presentation of financial statements. The hypotheses, based on the research above, are as follows:

Company Size

In his research, Verya et al. (2017) discovered that the bigger a business becomes, the higher the pressure from shareholders for the corporation to produce more integrated financial statements. Small businesses seek to demonstrate to investors that their company's performance is likewise strong, therefore they would falsify financial statements in order to attract investors. Furthermore, since big corporations are subjected to significant political costs, large corporations have a tendency to use accounting rules that may decrease the value of profits reports in order to minimize the size of political expenses. This demonstrates that the size of a business may have an impact on the conservatism of its financial reports (Savitri, 2016).

Article Error (ETS)

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Audit Quality

As defined by the Professional Standards of Public Accountants (SPAP), auditors are qualified if, in the course of carrying out the audit, they comply with all applicable laws and auditing standards. Auditing standards include a variety of topics, including the professional qualifications of the independent auditor, the judgments made throughout the course of the audit, and the production of the auditor's report.

Because Arthur Andersen KAP, which is one of the major five KAPs, has been declared insolvent, this research evaluates audit quality using the big four and non-big four KAP groups as a basis. Companies are obliged to utilize KAP services when providing reports or information about the company's performance to users of financial statements. KAP with a solid reputation is thought to enhance the trustworthiness of the financial statements, according to the experts. Affiliation with the Big Four Worldwide Accounting Firm, the KAP, indicates that this is true (Oktadella, 2011).

Effect of Institutional Ownership on Financial Statement Integrity

One may presume that institutional investors are capable of scrutinizing financial statements in order to guarantee that they are not susceptible to manipulation (Supratinigrum, 2019). Therefore, institutional ownership is a state that a business may be in if it has shares that it owns. Institutions can easily oversee and control management, giving them the opportunity to enhance the performance of the business. Institutional ownership has the capability of reducing management's desire to act in their own best interests.

According to study done by Wardhani & Samrotun (2020), who examined the link between organizational ownership and financial statement integrity, this result is also backed up by evidence. Although the results of this study do not accord with the results of Hamid & Sholikhah's (2017) research, which showed that institutional ownership had no effect on financial statements, the findings of this study have to be taken into consideration. This study's findings will be based on the results of the preceding research.

H1: Institutional ownership affects the integrity of financial statements

Effect of Managerial Ownership on Financial Statement Integrity

Company managers who own a significant portion of the company will be more accountable for making the best decisions for the company's welfare, and they will be more likely to report financial statements that contain true and honest information, resulting in a high level of financial statement integrity (Verya et al. (2017) It may be inferred that managerial ownership of shares can aid in the unification of conflicts of interest between management and shareholders, with the result that the greater the degree of managerial ownership of shares, the better the performance of the business is seen to be by shareholders. Ownership by the manager is also a factor in increasing more responsibility to meet the desires of shareholders and is a factor in which the manager owns his or her own stock.

Savero et al. (2017) found that managerial ownership has an effect on the integrity of financial statements, which is consistent with their findings. However, Haq et al. (2017) found that managerial ownership has no effect on the integrity of financial statements, which is in conflict with the findings of their research. Financial statements are a kind of financial report. Based on the findings of the previous research, the hypotheses in this study are as follows:

H2: Managerial ownership affects the integrity of financial statements

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Influence of the Audit Committee on the Integrity of Financial Statements

The audit committee plays a significant role in the quality and integrity of the financial statements issued by the business in line with the committee's duties and goals. Additionally, it means that financial statements must not be deceptive and in line with widely recognized accounting standards. In order to be effective in their oversight function, audit committee members should be comprised of individuals who are not affiliated with the business's management and are independent of the day-to-day activities, and also those who have the requisite knowledge to fulfill the oversight responsibilities.

The authors of this paper argue that the audit committee's influence on the integrity of financial statements is given credit in the context of Savero et al. (2017) which concludes that the audit committee influences the quality of financial statements. Awalin et al. (2020) argues that audit committees have no impact on the integrity of financial accounts. This study's findings will be based on the results of the preceding research.

H3 : The audit committee has an effect on the integrity of the financial statements

Effect of Firm Size on Financial Statement Integrity

The size of a company has a significant impact on its ability to provide financial accounts in a trustworthy manner. The greater the size of the firm, the higher the expenses that motivate businesses to disclose information honestly so that financial statements are presented in an accurate and timely manner in order to achieve public accountability (Supratinigrum, 2019). Generally speaking, the bigger the company, the more cautious it will be in presenting financial statements, as opposed to small businesses, which prefer to portray the condition of businesses that are doing well in order for investors to participate in the firm.

Research conducted by Fajaryani (2015) found that the size of a company has an impact on the integrity of its financial reports; however, these findings are inversely proportional to research conducted by Supratinigrum (2019), who found that the size of a company has no impact on how financial statements are presented. who are honest and trustworthy. Based on the findings of the previous research, the hypotheses in this study are as follows:

H4 : Firm size affects the integrity of financial statements

Effect of Audit Quality with Financial Statement Integrity

The possibility of an auditor discovering misstatements on his or her client is dependent on the technical ability of the auditor, whereas the act of issuing a misstatement report is dependent on the independence of the auditor without regard to the client's financial statements or other financial statements. High audit quality will result in financial statements that are accurate and reliable, and can be relied upon as a foundation for decision-making by users. the monetary figures in the financial statements (Supratinigrum, 2019). As stated by the International Auditing Standards Board, audit quality is a reflection of an examination conducted by the auditor. When an auditor's audit is of high quality, it means that it complies with applicable laws and regulations as well as auditing standards. Professional quality, independent auditors, factors utilized in performing audits, and the preparation of audit reports are all examples of audit standards (Ermawati et al, 2020).

In line with this are the findings of research conducted by Harun et al. (2020) which found that audit quality has an impact on the presentation of financial statements with integrity. However, these findings are at odds with those of research conducted by Supratinigrum (2019), which

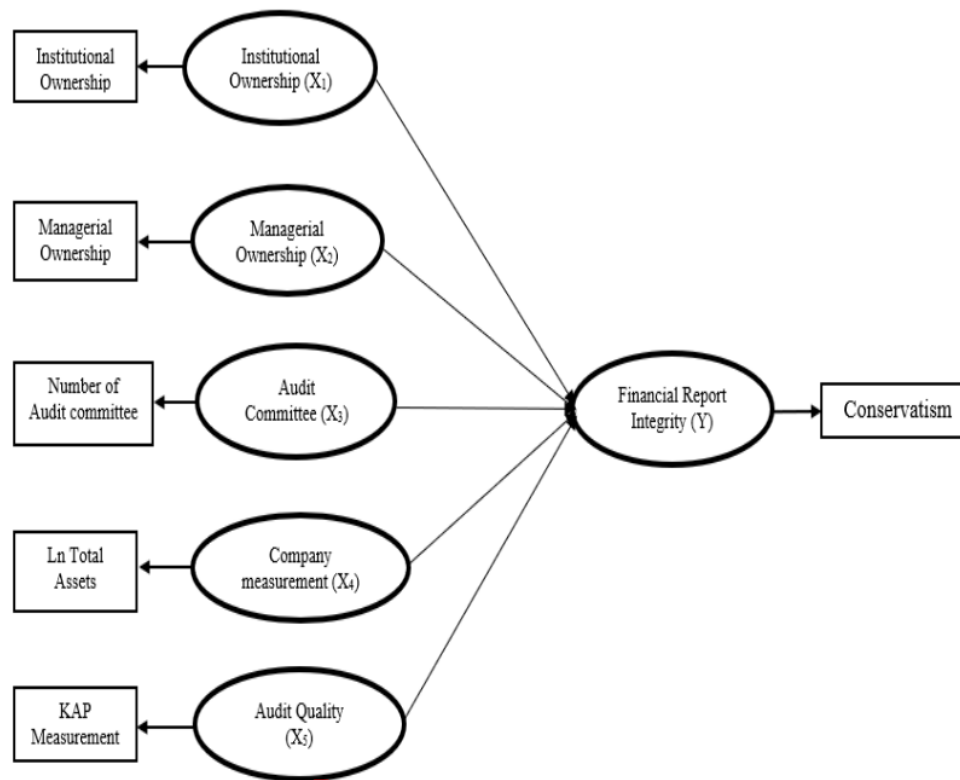
1 found that audit quality has no effect on improving the integrity of financial statements. Based on the findings of the previous research, the hypotheses in this study are as follows:

H5: Audit quality affects the integrity of financial statements

Methods

Variable Identification and Operational Definition

The variables used in this study are exogenous variables consisting of institutional ownership, managerial ownership, audit committee, firm size, and audit quality. And the endogenous variable in this study is the integrity of financial statements



1 Figure 1. Conceptual Framework

Integrity of Financial Statements

1 Integrity of Financial Statements describes that financial statement information is presented honestly and correctly in accordance with the qualitative characteristics of accounting information in accordance with the provisions of Financial Accounting Standards. In this study, it was measured using the conservatism index. The conservatism index is used for reasons of conservatism identification which presents understate financial statements that have less risk than overstate financial statements. Conservatism in this study was measured using a nominal scale, namely (1) conservative and (0) optimistic. The measurement of conservatism in this study is to use criteria based on Widya's research in Savitri(2016) the criteria put forward include: (a) Companies that use the average inventory method will be more conservative than

1 those using the FIFO method; (b) Companies that use the declining balance depreciation method are relatively more conservative than companies that use the straight-line method; (c) Companies that use the declining balance amortization method are relatively more conservative than companies that use the straight-line method; (d) Companies that recognize research costs as expenses in the current year will tend to be more conservative than companies that recognize research costs as assets.

From the four criteria above, it can be concluded that if the company meets two, three, or four of the above criteria, it can be classified as conservative (1), if the company only meets one or does not meet any of the above criteria, the company is classified as optimistic (0).

Institutional Ownership

Institutional ownership is the proportion of share ownership owned by institutions, namely companies or other institutions at the end of the company's financial reporting year (Istiantoro, et al, 2018).

Institutional Ownership=(Number of shares owned by institutional)/(Number of outstanding shares)

Managerial Ownership

Managerial ownership is share ownership owned by management who actively participates in making company decisions, including commissioners and directors.

Managerial ownership=(Number of shares owned by management)/(Number of outstanding shares)

Audit Committee

The audit committee is a committee formed by the board of commissioners in order to help carry out its duties and functions, the audit committee has roles and responsibilities to monitor and supervise the audit of financial statements, the audit committee members are at least three people.

The audit committee in this study was measured by using the number of audit committees in a company each year.

Company Size

Company size is the size of a company that can be seen from the total assets. The size of the company in this study is calculated by the natural logarithm of the total assets owned by the company.

Company Size = Ln Total Assets

Quality Audit

Audit quality is a possibility where the auditor can report his findings well or not about a violation that occurred in the client's accounting system (Hamid & Solikhah, 2017).

In this study, audit quality is measured using a dummy variable, where 1 is given to companies audited by KAP affiliated with the big four and 0 if the company is audited by KAP affiliated with non-big four.

Population and Sample

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2019 with a total population of 169 companies. The sampling method

1 used is purposive sampling technique. Purposive sampling technique is a sampling technique with certain considerations. (Sugiyono, 2016). The criteria for sampling are as follows (1) Manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019; (2) Companies that actively issue financial reports for the period 2017-2019 (3) Companies that issue financial statements in rupiah currency for the period 2017-2019; (4) Companies that have data on Institutional Ownership, Managerial Ownership, Audit Committee, and Independent Auditor Report in accordance with applicable regulations.

Data Analysis Technique

The data analysis techniques used in this research are Outer Model Analysis, Inner Model Analysis, and Hypothesis Testing using the SmartPLS 3.3.3 program.

Convergent Validity

The indicators are assessed based on the correlation between the item score/component score and the construct score, the expected value is > 0.6 .

Discriminant Validity

The indicator reflective measurement model was evaluated from cross loading using construct measurement.

Average Variance Extracted (AVE)

The expected Average Variance Extracted value is > 0.5 .

Composite reliability

To evaluate composite reliability if the value achieved is > 0.70 , it can be said that the construct has high reliability.

Cronbach's Alpha

A variable can be declared reliable if it has Cronbach's alpha value > 0.6

Results and Discussion

Outer Model Analysis (Measurement)

Outer Model Analysis is a measurement model that is connected through indicators or paths that connect the model to the research. Research should go through the process of evaluating the validity and reliability of a variable in the outer model so that the relationships that occur in this research model can be tested and implemented properly (Garson, 2016).

Convergent Validity Test

Convergent Validity aims to determine the validity of the relationship between each indicator and its latent construct or variable. In this study using the limit loading factor with an expected value of > 0.6 .

1 Table 1. Outer Loading

| | (X1) Institutional Ownership | (X2) Managerial Ownership | (X3) Audit Committee | (X4) Company Size | (X5) Audit Quality | (Y) Financial Report Integrity |
|--------------------------------------|------------------------------------|---------------------------------|----------------------------|-------------------------|--------------------------|---|
| 1 Number of Audit Committee | | | 1,000 | | | |

| | | | | | | |
|-------------------------|-------|-------|--|-------|-------|-------|
| Institutional Ownership | 1,000 | | | | | |
| Managerial ownership | | 1,000 | | | | |
| Conservatism | | | | | | 1,000 |
| Ln Total Assets | | | | 1,000 | | |
| KAP Size | | | | | 1,000 | |

Source: Processed data from Smart PLS 3

The Outer Model value or correlation between indicators and latent variables has met convergent validity because all constructs have values above 0.6 and the path model is also supported by the Outer Loading Results Table. In Table 1 shows the number 1,000, which means that all indicators for each variable latent has a valid relationship and there is no elimination of each indicator.

Convergent Validity Test

Discriminant Validity is used to ensure that each concept or measurement indicator of each latent variable or construct is different from other variables..

Table 2. Cross Loading

| | (X1) Institutional Ownership | (X2) Managerial Ownership | (X3) Audit Commi ttee | (X4) Company Size | (X5) Audit Quality | (Y) Financial Report Integrity |
|---------------------------------|------------------------------------|---------------------------------|--------------------------------|-------------------------|--------------------------|---|
| Number of Audit Committee | -0,171 | 0,062 | 1,000 | -0,038 | -0,248 | 0,231 |
| Institutional Ownership | 1,000 | -0,744 | -0,171 | 0,056 | 0,169 | -0,251 |
| Managerial ownership | -0,744 | 1,000 | 0,062 | -0,060 | -0,082 | 0,118 |
| Conservatis m | -0,251 | 0,118 | 0,231 | 0,019 | -0,230 | 1,000 |
| Ln Total Assets | 0,056 | -0,060 | -0,038 | 1,000 | 0,061 | 0,019 |
| KAP Size | 0,169 | -0,082 | -0,248 | 0,061 | 1,000 | -0,230 |

Source: Processed data from SmartPLS 3

The cross loading value of each indicator on the latent variable is greater than the cross loading value. Thus, it can be concluded that all variables already have good discriminant validity, because the indicators in the variable block are better than those in other variable blocks.

Average Variance Extracted (AVE) test

To test discriminant validity and convergent validity, it can be seen by the average variance extracted (AVE) method for each latent variable. The expected average variance extracted value is > 0.5 . Based on Table 3, it shows that the average variance extracted for all variables has a value of $1 > 0.5$.

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Composite Reliability Test

Composite Reliability is a measurement of the real reliability value of a variable, the acceptable limit for composite reliability is > 0.7 (Garson, 2016). Based on Table 3, the model shows that the composite reliability value for all variables is above the value of 0.7.

Cronbach's Alpha test

In the early stages of testing the research instrument, it is recommended to use Cronbach's alpha testing criteria to determine a variable is declared reliable if the Cronbach's alpha value has the lowest value of 0.6 (Garson, 2016). Based on Table 3, it shows that the value of Cronbach's alpha from the indicator block which is the measure of the variable is declared reliable because it has a value above 0.6.

Table 3. Construct Reliability and Validity

| | Average Variance Extracted (AVE) | Composite Reliability | Cronbach's Alpha |
|---------------------------------------|----------------------------------|-----------------------|------------------|
| (X1) Institutional Ownership | 1,000 | 1,000 | 1,000 |
| (X2) Managerial Ownership | 1,000 | 1,000 | 1,000 |
| (X3) Audit Committee | 1,000 | 1,000 | 1,000 |
| (X4) Company Size | 1,000 | 1,000 | 1,000 |
| (X5) Audit Quality | 1,000 | 1,000 | 1,000 |
| (Y) Integrity of Financial Statements | 1,000 | 1,000 | 1,000 |

Source: Processed data from SmartPLS 3

Inner Model Analysis (Structural)

According to Garson, (2016) that structural model testing is carried out with the aim of knowing the relationship between variables in the research model is strong or weak and to test the hypotheses that have been formulated.

Coefficient of Determination (R2)

The coefficient of determination (R2) is used to see how big the contribution of variable X to variable Y. In evaluating the inner model with PLS (Partial Least Square) it starts by looking at R2 for each dependent latent variable. Then the implementation is the same as the interpretation of the regression (Garson, 2016).

Table 4. Tabel R²

| | R Square | R Square Adjusted |
|---------------------------------------|----------|-------------------|
| (Y) Integrity of Financial Statements | 0,130 | 0,095 |

Source: Processed data from SmartPLS 3

So it can be concluded by the researcher that the exogenous (independent) variables in this study, namely Institutional Ownership, Managerial Ownership, Audit Committee, Company Size, and Audit Quality can only explain the endogenous (dependent) variable in the form of Financial Statement Integrity by 13%.

1 Hypothesis test

Each relationship test in PLS is carried out using simulations with the bootstrapping method on the research sample. bootstrapping method aims to test the hypothesis in this study. The test output using the bootstrapping method from the SmartPLS analysis is as follows :

Table 5. Path Coefficients Table

| Hypot hesis | Variable | Regressi on coefficient (β) | Standard error | T Statistics | P Values | informat ion |
|----------------|---|-----------------------------|----------------|--------------|----------|--------------------|
| H ₁ | (X1) Institutional Ownership -> (Y) Financial Statement Integrity | -0,287 | 0,119 | 2,418 | 0,016 | Negative influence |
| H ₂ | (X2) Managerial Ownership -> (Y) Financial Statement Integrity | -0,114 | 0,106 | 1,074 | 0,283 | No effect |
| H ₃ | (X3) Audit Committee -> (Y) Financial Statement Integrity | 0,152 | 0,050 | 3,035 | 0,003 | Positive influence |
| H ₄ | (X4) Company Size -> (Y) Financial Statement Integrity | 0,044 | 0,093 | 0,470 | 0,639 | No effect |
| H ₅ | (X5) Audit Quality -> (Y) Financial Statement Integrity | -0,155 | 0,090 | 1,724 | 0,085 | No effect |

Source: Processed data from SmartPLS 3

1 The first hypothesis (H1)

The first hypothesis in this study states that Institutional Ownership has an effect on the Integrity of Financial Statements in Manufacturing companies in 2017-2019, is accepted. Based on the path coefficients, it is stated that the effect of Institutional Ownership on the Integrity of Financial Statements is 0.016 < 0.05 and the value of is -0.287. This shows that companies that have a high percentage of institutional ownership tend to present overstate financial statements because the company wants its performance to always look good so that investors continue to invest in the long term and from the perspective of investors, they definitely want to receive large dividends.

Second hypothesis (H2)

The second hypothesis in this study, which states that managerial ownership affects the integrity of financial statements in manufacturing companies in 2017-2019, is rejected. Based on the path coefficients, it is stated that the influence of Managerial Ownership on the Integrity of Financial Statements is 0.283 < 0.05. This shows that managerial share ownership is not enough for management who owns managerial shares and those who do not have managerial shares always make conservative financial statements.

Third hypothesis (H3)

The third hypothesis in this study states that the Audit Committee has an effect on the Integrity of Financial Statements in Manufacturing companies in 2017-2019, is accepted. Based on the path coefficients, it is stated that the influence of the Audit Committee on the Integrity of Financial Statements is 0.016 < 0.05 and the value of is 0.152. This shows that companies that

1 have audit committees have carried out good supervision of the presentation of financial statements so that there are no deviations in financial statements.

Fourth hypothesis (H4)

The fourth hypothesis in this study, which states that company size affects the integrity of financial statements in manufacturing companies in 2017-2019, is rejected. Based on the path coefficients, it is stated that the effect of Company Size on the Integrity of Financial Statements is $0.639 < 0.05$. This shows that the size of the company is not a reference for a company to improve the integrity of financial statements so that the size of the company in the sample of companies in this study does not have a strong enough role in the presentation of financial statements with integrity.

Fifth hypothesis (H5)

The fifth hypothesis in this study, which states that audit quality affects the integrity of financial statements in manufacturing companies in 2017-2019, is rejected. Based on the path coefficients, it is stated that the effect of Audit Quality on the Integrity of Financial Statements is $0.085 < 0.05$. This shows that the big four and non-big four KAPs have the same standards and are required to comply with the Public Accountant Professional Standards (SPAP) in carrying out their duties to examine their clients' financial statements so that there are no significant differences and greatly affect the integrity of the financial statements

Conclusion

The results of this study indicate that Institutional Ownership and the Audit Committee have an effect on the Integrity of Financial Statements. Meanwhile, Managerial Ownership, Company Size, and Audit Quality have no effect on the Integrity of Financial Statements. For companies in determining the factors that can support presenting financial statements with more integrity because financial statements are important for users of financial statements to make decisions and see the condition of a company, for company management to present financial statements with integrity and can be trusted because The company's management also needs these financial statements to consider the progress and growth of the company so that it can improve the company's performance without manipulating the financial statements, and for company owners it can be used as material for evaluating the condition of the company. For further research, it is possible to use different research objects and use other variables and increase the observation period.

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