
THE INFLUENCE OF CORPORATE GOVERNANCE AND AUDIT QUALITY ON THE INTEGRITY OF FINANCIAL STATEMENTS (Empirical Study on Transportation Subsector Companies Listed on the Indonesia Stock Exchange 2018-2019)

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Abstract

Integrity of financial statements is a financial report that describes financial data correctly and honestly and does not side with any party. This study aims to determine the effect of corporate governance with indicators of institutional ownership and audit quality on the integrity of financial statements in the sub-sector of companies listed on the Indonesia Stock Exchange in 2018-2019. The method used for sample selection was purposive sampling and 18 samples were observed for two years so that 36 were observed. In analyzing research data, the analytical technique used is panel data regression analysis using Eviews 12 software. The results show that simultaneously corporate governance with indicators of institutional ownership and audit quality has no effect on the integrity of financial statements. Partially, corporate governance with indicators of institutional ownership has no effect on the integrity of financial statements and audit quality with indicators of auditor specialization has no effect on the integrity of financial statements. The results of this study are expected to play a role for companies to know financial data correctly.

Keywords: *Integrity of Financial Statement, Corporate Governance, Audit Quality.*

A. INTRODUCTION

Financial statements are a series of accounting processes as a tool for communication of a company's financial data to parties who have an interest in the company's financial statements. Financial statements also serve as a description of the company's performance. The increasing manipulation of financial statements in companies causes disappointment to investors and threatens the sustainability of the company's organizational business and will have an impact on the economic sustainability of a company and even the country. A good financial report displays a clear and transparent company condition. There are five sections of financial statements, namely trial balance, statement of financial position, changes in cash flows, income statement and notes to financial statements. A financial report can be said to have integrity is that the financial report meets all the qualitative characteristics. Qualitative characteristics play a role in decision making for investors and the public who have an interest in the company's financial statements.

There is a phenomenon related to financial reports that have no integrity, namely at the company PT Garuda Indonesia (GIAA) where in the company's 2018 financial statements there was an error in recording income. This incident started when Garuda Indonesia (Persero) posted a net profit of US\$809 thousand in 2018, this is not in accordance with the 2017 financial report which lost US\$216.58 million. As a result of this incident, the auditor was sanctioned in the form of a permit suspension for 12 months, the directors and commissioners were fined Rp. 100 million, and Garuda Indonesia was imposed a fine of Rp. 250 million (Hartomo, 2019).

(Nuryaman, 2009) in Monk & Minowu fvd (2001), corporate governance is an oversight in managing and managing companies aimed at promoting welfare and responsibility in the company, with the hope of playing a role in realizing shareholder value. In measuring corporate governance, it is measured by partial institutional ownership has no effect on the integrity of financial statements (Thayeb et al., 2020). Research conducted by Totong & Majidah (2020), shows that partial institutional ownership has a significant negative effect on the integrity of financial statements.

Audit quality acts as a measure to increase the credibility of financial statement information and can minimize incorrect information for users of financial statements. The definition of audit quality is defined by Tandiontong (2015) in DeAngelo (1981), it is found that a violation in the financial statements can be said to be qualified if the auditor reports the violation by removing the phrase "market-assessed" which is related to the view on audit quality. The research studied by Risqurrahman et al. (2020), shows the finding that partially audit quality has no effect on the integrity of financial statements. While the research conducted by Qonitin & Yudowati (2018), that the results of his research show partially audit quality has an influence on the integrity of financial statements. The existence of inconsistencies from previous research, the author aims to conduct a study with the title "The Influence of Corporate Governance and Audit Quality on Financial Statements (Study on Transportation Sub-Sector Companies for the 2019-2020 Period)".

Integrity of financial statements is a financial report that presents in it there is accounting information that is able to describe the reality of the company from the economic condition of the company which is stated openly and there is no confidentiality. The purpose of using financial reports for internal parties is that financial statements play a role in making decisions by the company and financial statements as a reference for companies in attracting the public and investors in investment activities in the company. This study uses corporate governance variables by using indicators of institutional ownership, because corporate governance is a control in managing and managing the company aimed at advancing the welfare and responsibility of the company, with the hope that it can play a role in realizing shareholder value. Research related to the integrity of financial statements using corporate governance measures, where in measuring corporate governance is measured by institutional ownership. Institutional ownership according to Thayeb et al. (2018) is the balance of share ownership by agencies, the institutions referred to in institutional ownership are institutions such as insurance companies, banks, investment companies, and ownership of other agencies. In addition, this study uses audit quality variables. Audit quality acts as a measure to increase the credibility of financial statement information and can minimize incorrect information for users of financial statements.

Transportation is the sub-sector with the largest number of business entities compared to other sub-sectors in the infrastructure development sector. The number of business entities in the transportation sub-sector indicates that business expectations in the transportation industry can be promising and relatively provide good opportunities. This study aims to determine the effect of corporate governance and audit quality on the integrity of financial statements. year 2018-2019. The results of this study are expected to play a role in the company so that they know the financial data correctly.

B. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Agency Theory

Agency theory is a theory related to agency relations, the owner (principal) who conveys orders to employees (agent). Agency theory plays a role in solving problems (1) agency problems that arise due to differences of opinion between the principal and agent as well as principal constraints in the agent's job validation activities, (2) problems in sharing this risk arise when the principal and agent have attitudes that are contrary to risk (Ikhsan & Suprasto, 2008). In controlling himself over the problems that occur, the principal increases the company's ability, which gives an excessive financial target to agents and agents who are motivated to fulfill their economic and psychological needs and fulfill demands from the principal to manipulate in order to meet the predetermined targets. by the principal, while to meet their economic needs, agents will get incentives if the target can be achieved (Kurniawati, 2019) fraudulent financial statements in a company.

2. Integrity of Financial Statements

Financial statements are a series of results from the accounting process that have benefits as a means of communicating financial information of an agency to groups who have an interest in the company's financial statements. There are five parts of the financial statements that show the completeness of the financial statements, namely the trial balance which contains the total assets, debts and equity of the company, the report on changes in capital which contains the increase or decrease in the company's capital in a period, the cash flow statement which contains the increase in cash or a decrease in cash of a company, an income statement containing the company's profit or loss within a certain period of time and notes to the financial statements in which there is a description of the company's situation (Christian et al., 2021)

Integrity is a concept concerned with conformity in actions, values, methods, measures, principles, expectations and various outcomes. (Damayanti & Suryani, 2019). PSAK No. 1 Year 2014 states that the financial statements are an organized presentation of the financial position and financial capabilities of an agency. It can be concluded that, the integrity of financial statements is the presentation of financial statements in a structured manner related to the consistency, values, methods, and principles that are presented honestly in a unified report, so that it can provide benefits to its users.

Statement of Financial Accounting Concept (SFAC) No. 2; in Emmy (2021) states that a financial report can be declared to have integrity if it already has two qualitative classifications, namely:

a. Relevance

Relevant accounting information is accounting information that can make variations in making decisions that can assist users in making predictions about past, present, and future events.

b. Reliability

Reliability is a measurement tool that relies on faithfulness which replaces what is there to be replaced, plus a guarantee for users, which comes through validation, that it has a representational quality.

Savitri (2016); in Juanda (2007) defines that conservatism is the principle or goal of accounting if its application will result in higher costs and debt figures. The principle of

conservatism is an image that recognizes expenses and liabilities as quickly as possible even though they do not necessarily know about the results, but only recognizes income and assets when they are sure they will be received. (Savitri, 2016).

3. Development Hypothesis

Corporate governance can affect the financial statements obtained, the manager or management tends to have obstacles in manipulating the report, because it will be supervised by the board of commissioners, so that in presenting the financial statements it will be in accordance with the actual situation and with integrity. This study examines the implementation of corporate governance using institutional ownership variables.

Institutional ownership according to Thayeb et al. (2018) is the balance of share ownership by agencies, the institutions referred to in this institutional ownership are institutions such as insurance companies, banks, investment companies, and other institutional ownership. Institutional ownership shows the total shares owned by agencies, such as government, banks, and other institutions both domestically and abroad (Savitri, 2016). Research conducted by (Boediono, 2005) revealed that institutional ownership has the ability to supervise the management with a monitoring process so as to minimize earnings management.

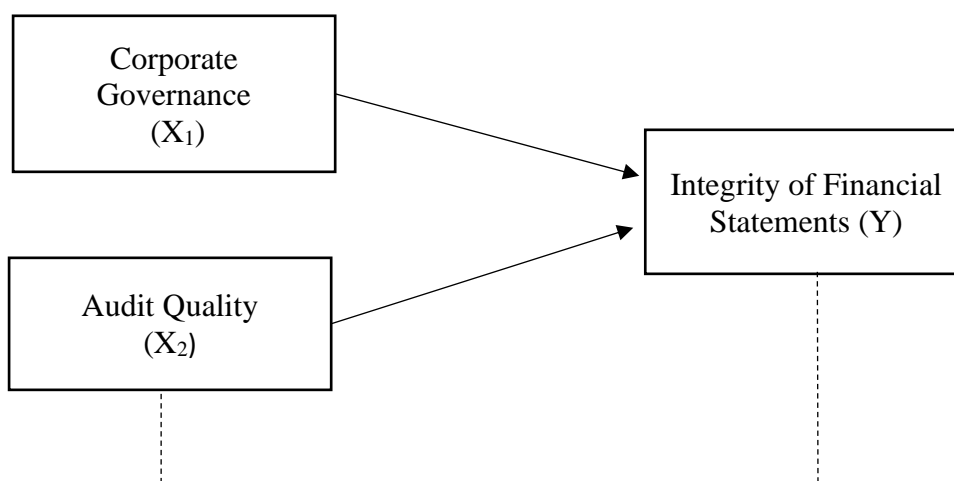
Research conducted by Monica & Wenny (2018) and Suciani & Supratinigrum (2018) shows that there is a positive influence of institutional ownership on the integrity of financial statements, where there are institutional investors who have large numbers of shares that can monitor the company by monitoring the company compared to investors. individually, so as to minimize the manipulation of financial statements which will increase the integrity of the company's financial statements. From this research, it can be concluded that institutional ownership has an effect on the integrity of financial statements, meaning that institutional ownership has a positive effect on the integrity of financial statements.

H₁: Institutional ownership has a positive effect on the integrity of financial statements

Audit quality as an indicator of the market value of an auditor in finding financial statements that contain material misstatements (Tandiontong, 2015; in De Angelo, 1981). Thus, it can be interpreted that audit quality reflects whether or not the examination carried out by an auditor is good. Fajaryani's research (2015) says that the auditor acts as the party who conveys adequate assurance about the integrity of the accounting numbers obtained in the financial statements. This is usually the expectation of the management during the audit process by the external auditor that a fraud will be discovered by the external auditor. In addition, auditors can be competent and have adequate knowledge of auditing, accounting and the type of client industry.

Research conducted by Tussiana & Lastanti (2016) and Risqurrahman et al. (2020) also states that audit quality has an influence on audit quality. Based on this research, it can be concluded that auditor specialization acts as an audit quality measurement tool that can minimize the risk of misstatement of financial statements so that the financial statements obtained can have integrity. This means that audit quality has a positive influence on the integrity of financial statements.

H₂: Audit quality has a positive effect on the integrity of financial statements.

**Information:**

- > : Partial Influence
 - - - - -> : Simultaneous Effect

Figure 1 Result

Source: Processed by the Author (2021)

C. METHOD

In this research, the research conducted is descriptive research. Descriptive research is research designed to collect data and explain the characteristics of people, what happened, and citations (Sekaran & Bougie, 2017). Researchers in this study are observing the effect of corporate governance and audit quality on the integrity of financial statements. In this study, the sample used is the transportation sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2019 period that meet the following criteria:

1. Transportation sub-sector companies listed on the Indonesia Stock Exchange for the period 2018-2019.
2. Transportation sub-sector companies listed on the Indonesia Stock Exchange that consistently report annual reports during the 2018-2019 period.

Table 2 Sample Selection Criteria

No	Criteria	Total
1	Transportation sub-sector companies listed on the Indonesia Stock Exchange for the period 2018-2019	46
2	Transportation sub-sector companies listed on the Indonesia Stock Exchange that do not consistently report annual reports during the 2018-2019 period	12
3	Companies that issue audited financial statements as of December 31, 2018-2019 that do not use the rupiah currency	16
Total Sample		18
Number of samples for 2 years		36

Source: Data that has been processed by the author (2021)

The total sample used in this study was 36 consisting of 18 companies with a research period of four years.

The dependent variable is an output variable from a study or commonly known as the criterion and consequent variable. According to Sugiyono (2017), the dependent variable is a variable that is influenced by the independent variable or independent variable. Integrity of financial statements is the dependent variable in this study, integrity of financial statements is a presentation of financial statements based on established principles and presented honestly in accordance with company conditions. The measurement of the integrity of the financial statements in this study uses the measurement of conservatism.

$$\text{CON_ACC} = \text{NI}_{it} - \text{CFO}_{it}$$

The independent variable proposed by Sugiyono (2017) is a variable that influences or causes changes so that it can lead to the dependent variable. The independent variable is commonly referred to as the independent variable, stimulus, predictor, antecedent. Corporate Governance with indicators of institutional ownership and audit quality are independent variables in this study.

Institutional ownership according to Thayeb et al. (2018) is the balance of share ownership by agencies, the institutions referred to in this institutional ownership are institutions such as insurance companies, banks, investment companies, and other institutional ownership. According to Arista et al. (2018) institutional ownership can be calculated using the formula for the number of shares owned by an institution from the number of shares outstanding.

$$\text{Institutional Ownership} = \frac{\text{Number of shares owned by institutional}}{\text{Number of outstanding shares}} \times 100$$

Audit quality is an assignment carried out by auditors, and offices that provide resources and do not have the ability to ensure that certain audit procedures have been carried out or not (Tandiontong, 2015). In this study to measure audit quality using auditor specialization. Auditor specialization can be reflected in how long the auditor performs audit activities in an industry. Totong & Majidah Research (2020); in Setiawan & Fitriany (2011) with the following formula.

$$\text{Auditor Specialization} = \frac{\text{Number of KAP Clients in the industry}}{\text{Total number of issuers in the industry}}$$

An audit can be said to specialize if it audits 15 percent of the number of companies in the industry. The specialization auditor score is calculated using a dummy variable, where 1 will be assigned if the auditor is said to be a specialized auditor and 0 for non-specialized auditors.

This study uses panel data regression analysis as an analytical technique in this study. Panel data regression analysis is an analysis that combines cross section data and time series data. This method aims to get a better estimation result by the occurrence of an increase in the number or number of observations which is implied by an increase in the degree of freedom (Nuryanto & Pambuko, 2018). So, the equations of the panel data analysis method used in this study are: $Y = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + e$

Where:

- Y = Integrity of financial statements
- α = constant
- $\beta_1 - \beta_2$ = Regression coefficient of each independent variable

X_{1it} = Institutional Ownership

X_{2it} = Audit Quality

D. RESULT AND DISCUSSION

The following table is a descriptive statistical test for the dependent variable and the dependent variable from this study.

Table 2 Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
X1	36	14.63	98.41	61.0283	27.36316
X2	36	0	1	.53	.506
Y	36	-388,918,000,000	949,361,964,914	13,636,649,763.22	224,490,779,346.936
Valid N (listwise)	36				

Source: Data processed with Eviews 12 (2021)

Of the three models tested in the panel data regression analysis, the common effects model used in this study was selected. The following are the results of the common effects model:

Table 3 Common Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.34E+10	9.85E+10	-0.542627	0.5910
INST	5.98E+08	1.42E+09	0.420147	0.6771
KA	5.80E+10	7.69E+10	0.754082	0.4561
R-squared	0.024932	Mean dependent var		1.36E+10
Adjusted R-squared	-0.034163	S.D. dependent var		2.24E+11
S.E. of regression	2.28E+11	Akaike info criterion		55.22533
Sum squared resid	1.72E+24	Schwarz criterion		55.35729
Log likelihood	-991.0559	Hannan-Quinn criter.		55.27138
F-statistic	0.421891	Durbin-Watson stat		1.709362
Prob(F-statistic)	0.659293			

Source: Data processed with Eviews 12 (2021)

$$\text{CON_ACC} = -5.34e+10 + 5.98E+08 \text{ INST} + 5.80E+10 \text{ KA}$$

Simultaneous test is a test to determine the results of the independent variables have a joint effect on the dependent variable. Based on the table data above, it can be seen that the value of Prob (F-statistic) is 0.659293 which is smaller than 0.05, meaning that institutional ownership and audit quality variables do not significantly affect the integrity of financial statements.

Partial test is a test to determine whether each independent variable has an effect on the dependent variable. To find out each of these variables has an effect on the dependent variable, it can be seen from the t statistical test contained in table three. Based on table three, it can be concluded as follows:

- The value of the prob (t-statistic) of institutional ownership is 0.4561. That the value is $0.4561 > 0.05$, with a coefficient of $5.98E+08$, so it can be concluded that H_{02} is accepted, so institutional ownership partially does not affect the integrity of financial statements.
- The value of the prob (t-statistic) audit quality is 0.6771. That the value is $0.6771 > 0.05$, with a coefficient of $5.80E + 10$, so it can be concluded that H_{03} is accepted, then the audit quality partially has no effect on the integrity of the financial statements.

Institutional ownership has a coefficient value of 5.98E+08, based on this coefficient it shows that there is a positive influence, the more institutional ownership, the higher the integrity of the financial statements produced by the company. Based on the tests that have been carried out, getting a prob value (t-statistic) of $0.4561 > 0.05$, it can be concluded that H_0_2 is accepted, then institutional ownership has no effect on the integrity of financial statements. Large institutional ownership of shares does not guarantee that the institution will supervise the presentation of financial statements.

Audit quality has a coefficient value of 5.80E + 10, based on this coefficient it shows that there is a positive influence, the more clients being audited, it can be said that the higher the quality of the audits produced, the higher the integrity of the financial statements produced by the company. Based on the tests that have been carried out, getting a prob value (t-statistic) of $0.6771 > 0.05$, it can be concluded that H_0_3 is accepted, then audit quality has no effect on the integrity of the financial statements. The number of clients audited by the KAP does not guarantee that the KAP will carry out more supervision in the presentation of financial statements.

E. CONCLUSIONS

Based on the results of the panel data regression test, it shows that institutional ownership and audit quality simultaneously have no effect on the integrity of financial statements. Partially also shows that institutional ownership and audit quality have no effect on the integrity of financial statements in the transportation subsector listed on the Indonesia Stock Exchange for the 2018-2019 period.

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