

**THE EFFECT OF AUDIT QUALITY, MANAGERIAL OWNERSHIP, AND AUDIT COMMITTEE ON THE INTEGRITY OF FINANCIAL STATEMENTS
(Empirical Study on Manufacturing Companies listed on the IDX 2015-2019)**

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Abstract

This study aims to examine the effect of audit quality, managerial ownership and audit committee on the integrity of financial statements. The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2015-2019 period. Sampling in this study using purposive sampling method, and obtained 235 samples from 47 manufacturing companies from 2015-2019. The data analysis technique used is the logistic regression analysis method. The results of this study indicate that audit quality has a negative effect on the integrity of financial statements. Meanwhile, the audit committee and managerial ownership have no effect on the integrity of the financial statements.

Keywords: *Audit Quality, Managerial Ownership, Audit Committee, Financial Report Integrity*

DOI: <http://dx.doi.org/10.29040/jap.v22i1.2613>

1. Introduction

Based on the 2011 PSAK, the qualitative characteristics that financial statements must have in order to be used in the decision-making process, companies must realize the integrity of financial statements. But in reality realizing the integrity of the financial statements is a difficult thing. It is proven that there are many cases of manipulation of financial statements. Many companies present information in financial reports with no integrity, where the information submitted is untrue and unfair to some users of financial statements (Nurjannah & Pratomo, 2014).

According to Adriansano and Nuryantono (2015), integrity is a moral principle that is honest and impartial. A person of high integrity views facts as they are. The integrity of financial reports is important because it reflects the

company's value, and is a positive signal so that it can influence the opinion of investors and creditors or other interested parties.

According to Hardiningsih (2010), integrity is honest and what it is. Financial statements that have integrity are financial statements that show the actual condition of a company, without anything being hidden or concealed. The integrity of financial statements is the quality of information that ensures that information is fairly free from errors and bias and honestly presents what it is intended to state.

The phenomenon of financial scandal cases in financial reports that occurs proves that there is still a lack of honesty in producing financial statements with integrity and presenting information in financial statements with actual conditions. Companies make inappropriate decisions so that fraud occurs in the preparation of financial statements. The company's

management tends to do scandals due to various factors to keep the company in good condition so it doesn't make shareholders worry (Aditya 2018).

The first factor affecting the integrity of financial statements is audit quality. The quality of the audit is a possible violation that is found and reported by the auditor in the client's accounting system. The discovery of misstatements by auditor depends on the technical auditor, while the reporting if misstatement by the auditor depends on the independence of the auditor. Reliable financial report resulting from high audit quality are used as a basic for decision making (Hardiningsih, 2010).

Another factor that affects the integrity of financial statements is managerial ownership. Sujono and Soebiantoro (2007) managerial ownership is the percentagr of shares owned by management. According to Linata and Sugiarto (2012) if the management participates in owning the company's shares, then the manager is expected to act also in the interests of the owner where the management will act more carefully because there is a sense of mutual ownership. So that it is expected to reduce manipulation in reporting financial information and will improve the integrity of the financial statements themselves.

The next factor that affects the integrity of the financial statements is the audit committee. According to Jama'an (2008), the audit committee is a committee formed by the board of directors in charge of carrying out independent oversight of financial statements and external audits. The audit committee has responsibilities in terms of supervising the audit of financial statements, ensuring compliance with financial standards and policies, checking the conformity of financial statements with standards and policies, as well as ensuring that the financial statements made are consistent with other information known to members of the audit committee. The large number of audit committes will create greater pressure for management to produce financial

reports with integrity. Based on the background described, the problem formulations in this study are: (1) Does audit quality have a positive effect on the integrity of financial statements; (2) Does managerial ownership have a positive effect on the integrity of financial statements; (3) Whether the audit committee has a positive effect on the integrity of financial statements In accordance with the research problem above, the objectives of this study are: (1) To determine empirical evidence of the effect of audit quality on the integrity of financial statements; (2) To determine empirical evidence of the effect of managerial ownership on the integrity of financial statements. (3) To determine empirical evidence of the effect of the audit committee on the integrity of financial statements.

A. Literature Review

1. Agency Theory

Agency theory or what is commonly called agency theory is a relationship between two parties, namely the owner (principal) and management (agent). Principal-agent relationship occurs when the actions of one person have an impact on others. Jensen and Meckling (1976) define Agency theory states that agency relationship is a relationship between one or more people as shareholders (principle) and then appoints another party as management (agent) so that they can make decisions as shareholders. There are two kinds of agency relationships, namely between managers and shareholders and between managers and lenders (bondholders). The separation between ownership and control of a company is one of the factors that triggers a conflict of interest, which is better known as an agency conflict. The number of agency conflicts that arise between various paties can make it difficult and hinder the company in achieving positive performance to generate value for the company and its shareholders. In addition, the imbalance in the mastery of information can trigger the emergence of a condition called information asymmetry.

The close relationship between agency theory with good corporate governance, so in this study, good corporate governance used is managerial ownership and audit committee. With the hope that corporate governance, can reduce agency costs for increasing the quality of financial statement.

2. Financial Report Integrity

The integrity pact is the commitment of management or leaders in implementation good corporate governance (GCG) in the company. The integrity pact contains a commitment or statement of promise to carry out all duties, obligations and responsibilities to accordance with applicable regulations. In this case, management has a duty and responsibility to always act honestly (honestly), can be trusted, avoid conflicts of interest, anti-corruption, collusion and nepotism (corruption, collusion and nepotism) and anti-bribery. This integrity pact was introduced by Transparency International around the mid-1990s (Effendi, 2016).

According to Pudyaningrum (2008), the calculation of the integrity of financial statements is proxied by conservatism, namely:

$$\text{CONACCit} = \text{Nlit} - \text{CFOit}$$

Information:

CONACCit = Conservatism index of company i in year t.

Nlit = Net income before extraordinary items plus depreciation and amortization.

CFOit = Cash flow from operating activities

3. Audit Quality

Audit quality as a possible discovery and reporting of violations in the client's accounting system by an auditor. The probability that the auditor will find a misstatement depends on the technical ability of the auditor while the act of reporting a misstatement depends on the independence of the auditor. As a basis for decision making, high audit quality will produce relevant financial statements and can believed (Hardiningsih, 2010).

4. Managerial Ownership

Managerial ownership is shares owned by company managers and directors. Shareholders who have positions in company management both as creditors and as the board of commissioners are referred to as managerial ownership (Irfana, 2012). Measuring instruments used in measuring managerial ownership are:

Managerial Ownership (MOWN) is measured by the ratio of Managerial Ownership. Managerial ownership is ownership of shares by company management as measured by the percentage of the number of shares owned by management (Haruman, 2008).

Managerial Ownership

$$= \frac{\text{Number of management shares}}{\text{Number of shares outstanding}} \times 100\%$$

5. Audit Committee

The audit committee is a tasked with carrying out independent oversight of financial reports and external audits conducted by a committee formed by the board of directors. In terms of financial reporting, the role and responsibility of the audit committee is to oversee the audit of financial statements and ensure that applicable financial standards and policies are met, review the financial statements whether they are in accordance with these standards and policies and whether they are consistent with other information known by committee members. audits, as well as assessing the quality of service.

According to Hardiningsih (2010), the audit committee is measured by using the number of audit committee members in the company. The audit committee is measured in units of people.

B. Hypotheses Development

1. The Effect of Audit Quality on the Integrity of Financial Statements

The quality of public accountants is a picture of the small amount of the public accountant office. A Public Accounting Firm that is said to be large is a public accounting firm affiliated with the Big 4, has branches and clients of large companies and has a professional staff of more than 25 people. While, a Public Accounting Firm that is said to be small is a public accounting firm that is not affiliated with the Big 4, does not have a branch office and the clients are small companies and the number of professionals is less than 25 people. Large KAPs are more independent than smaller KAPs.

The reason is that when a large KAP loses one client it does not really affect its income. However, if a small KAP loses one client, it means a lot because there are few clients (Shockley, 1981) in Hardiningsih (2010). Based on the description above, the first hypothesis proposed in this study is:

H1: Audit quality has a positive effect on the integrity of financial statements.

2. The Effect of Managerial Ownership on the Integrity of Financial Statements

According to Brigham (2005) managerial ownership can be a mechanism in overcoming agency conflicts from managers by aligning the interests of managers and shareholders. According to Astria (2011) managerial ownership serves to limit the deviant behavior of company management. Managerial ownership is a mechanisms that can be applied in improving the integrity of financial statements. Based on the description above, the second hypothesis in this study is:

H2: Managerial ownership has a positive effect on the integrity of financial statements.

3. The Effect of the Audit Committee on the Integrity of Financial Statements

According to the National Committee for Good Corporate Governance (KNGCG) (2002) in Jama'an (2008: 14), the audit committee is the establishment of a committee by the board of directors in charge of supervising the process of meal report and an external audit. The a audit committee is tasked with monitoring the financial reporting process by management in increase the credibility of the financial statements to assist the board of commissioners. Based on the description above, the third hypothesis purposed in this study is:

H3: The audit committee has a positive effect on the integrity of the financial statements.

2. Research Method

A. Data Collection Methods

This study uses the annual financial statements of manufacturing companies listed on the IDX for the 2015-2019 period using secondary data. The data needed in this study are audit quality data, managerial ownership, audit committee. This research uses the documentation method to collect data. Meanwhile, the literature study is obtained from previous research and is supported by other literature. The company's financial statement data is obtained from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id.

B. Operational Definition and Variable Measurement

1) Financial Report Integrity

Integrity of financial statements is the presentation of financial statement that are in accordance with reality. If financial statements information can be presented correctly and honestly, then the financial statements can be said to be integrity (Mayangsari, 2003).

2) Audit Quality

According to Rizal and Liyundira (2016), in carrying out its duties based on the relevant standards of auditing and code of ethics of public accountants, an auditor will find and report violations that occur in the client's accounting system.

3) Managerial ownership

According to Savero (2017) Managerial Ownership is a share proportion owned by management who actively participate in making company decisions, such as directors and commissioners. Managerial Ownership (MOWN) is measured by the ratio of Managerial Ownership. Managerial Ownership is ownership of shares by company management as measured by the percentage of the number of shares owned by management (Haruman, 2008).

4) Audit Committee

According to Nurjannah and Pratomo (2014), the audit committee is a committee appointed as a liaison between the board of directors and external auditors by the company, internal auditors and independent members, the task of providing auditor oversight to the auditor ensures that management takes appropriate corrective actions against laws and regulations.

C. Data Analysis Methods

1) Descriptive statistics

Descriptive statistics tests were carried out to find out and obtain descriptions relate to the data used in the study from the average value (mean), standard deviation value, maximum value, and minimum value. (Ghozali, 2011).

2) Overall Model Fit Test

The overall fit model can be indicated by the Log Likelihood, namely by comparing the initial -2 Likelihood value with the final Log Likelihood value. The

decrease that occurs in the -2 Log Likelihood value can show a better regression model.

3) Regression Model Feasibility Test

The feasibility of the logistic regression model was carried out to test the null hypothesis that the empirical data matched or matched (there is no difference between the model and the data so that the model can be said to be fit) the model using the Hosmer and Lemeshow's Goodness of Fit Test (Ghozali, 2011).

4) Coefficient of Determination Testing (Nagelkerke's R Square)

Nagelkerke's R Square is a modification of the Cox and Snell coefficients to ensure that the value varies from 0 to 1. The Nagelkerke's R Square value shows how much variability of the dependent variable can be explained by the variability of the independent variable, while the rest are other variables not included in research (Ghozali, 2011).

5) Parameter Estimation and Interpretation

By using the regression coefficient, it can be seen that there are parameter estimates. The relationship between one variable and another can be shown by the regression coefficient. Comparing the probability value (sig) is done to test the hypothesis. If it is seen that the significant number is smaller than 0.05%, it means that the independent variable has a significant effect on the dependent variable and vice versa, this means that H_0 is rejected and H_a is accepted.

6) Logistic Regression Test

The Logistic regression test was carried out because the dependent variable was dichotomy. The analysis technique in processing this data did not require normality tests and classical assumption tests on the independent variables

(Ghozali, 2011). The logistic regression model used is as follows:

$$ILK = \beta + \beta_1 KA + \beta_2 KM + \beta_3 KOA + \epsilon$$

3. Result and Discussion

1. Population and Sample

The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014-2019. This study uses secondary data in the form of manufacturing companies listed on the Indonesia Stock Exchange, complete with financial reports and audited reports for the 2014-2019 period, and the company has a period ending in the financial year as of December 31. Data collection was carried out through www.idx.co.id. In this study, researchers used purposive sampling method with the aim of obtaining a representative sample in accordance with predetermined criteria.

Tabel 1
Sampling Description

N o	Research Sample Criteria	Number of Companies
1	Manufacturing company listed on the Indonesia Stock Exchange, sample 2015-2019	125
2	Companies that do not provide data needed in research	78
3	Companies used as samples	47
4	The total sample data used during the 5 year study period (47 company x 5 years)	235

2. Data Analysis Results

1) Descriptive Statistical Analysis

As previously explained, the amount of data that was initially processed was 95 sample data from 19 companies. The results of the

descriptive statistical analysis are shown in the following table:

Table 2
Descriptive Statistical Analysis Test Results

	N	Min	Max	Mean	Std. Dev
KM	235	0	3,5	0,2286	0,35767
KOA	235	2	5	3,0128	0,32661
Valid N (listwise)	235				

Source: Data reviewed, 2019

Table 2 shows that the average stock owned by management is 0.2286 with a standard deviation of 0.35767, the minimum value is 0 and the maximum value is 3.5. Table 2 shows the average value of the audit committee sampled in this study of 3.0128 with a standard deviation of 0.32661, a minimum value of 2, a maximum value of 5.

Table 3
Frequency of Financial Statement Integrity Test Results

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	TIDAK BERINTEGRITAS	68	28,9	28,9	28,9
	BERINTEGRITAS	167	71,1	71,1	100,0
	Total	235	100.0	100.0	

Source: Data reviewed, 2019

The value of the integrity of financial statements in this study uses a dummy variable with a range of 1 (it can be interpreted that the company has

produced financial reports with integrity) and a value of 0 (meaning that the company cannot produce financial reports with integrity), in table 4. shows the number of research samples 235, of The samples categorized as 1 were 167 or 71.1% and those categorized as 0 were 68 or 28.9%.

Table 4
Frequency of Audit Quality Test Results

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non Bigfour	172	73,2	73,2	73,2
	Bigfour	63	26,8	26,8	100,0
	Total	235	100.0	100.0	

Source: Data reviewed, 2019

Audit quality is divided into 2, namely auditors from big four KAP and auditors who are not from big four KAP. This variable is measured using a dummy, where auditors from big four KAPs are coded 1, while auditors who are not from big four KAPs are coded 0. Table 4.5 above shows the number of research samples as much as 235. categorized 1 as much as 63 or 26.8%, and the rest categorized 0 as much as 172 or 73.2%.

2) Logistic Regression Test

Logistic regression analysis is a test carried out to determine whether the probability of the occurrence of the dependent variable can be predicted with the independent variable. Logistic regression is used because the dependent variable, namely the integrity of financial statements is quantitative data that uses dummy variables, and the independent variable (independent) is a mixture of continuous and categorical variables (Ghozali, 2015).

a) Feasibility Test of the Regression Model

Table 5
Results of the Goodness of Fit Test Hosmer and Lemeshow Test

Step	Chi-Square	Df	Sig
1	5,330	8	0,092

Source: Data reviewed, 2019

Table 5. shows the statistical value of the Hosmer and Lemeshow Goodness of Fit Test of 5.330 with a significance probability of 0.092, whose value is above 0.05. Thus, it can be concluded that the model is acceptable, that is, the model is able to predict the variables in this study, so that the model can be used for subsequent analysis.

b) Assessing the Overall Model (Overall Model)

Table 6
Overall Model Fit Iteration History Test Results

Iteration	-2 Log likelihood	Coefficients
		Constant
Step 0 1	282,895	0,843
2	282.742	0,896
3	282,742	0,896

Source: Data reviewed, 2019

Table 7
Overall Test Results Model Fit 2
Iteration History

Iteration	Step	-2 Log likelihood	Coefficients			
			Constant	KUA	KM	KOA
Step 1	1	267,844	2,501	-0,964	0,105	-0,473
	2	267,057	3,047	-1,096	0,144	-0,609
	3	267,055	3,079	-1,102	0,148	-0,618
	4	267,055	3,079	-1,102	0,148	-0,618

Source: Data reviewed, 2019

Table 6 and table 7 show the overall value of the fit model, the initial -2LL value (Block 0) is 282.895 and the final -2LL value (Block 1) is 267.055. This value has decreased, meaning that it shows a good regression model or in other words the hypothesized model fits the data.

c) Value of Nagelkerke R Square

Table 8
Nagelkerke R Square Test Results

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	267,055 ^a	0,065	0,092

Source: Data reviewed, 2019

Table 8 shows the Nagelkerke R Square value of 0.092, which means that the variability of the independent variables is 9.2%, while the remaining 90.8% of the dependent variable is influenced by the other variables not researched.

3) Parameter Estimation and Their Interpretation

Table 9
Regression Coefficient Test Results

		B	S.E	Wald	df	Sig.
Step 1 ^a	KUA	-1,102	0,316	12,177	1	0,000
	KM	0,148	0,453	0,106	1	0,745
	KOA	-0,618	0,469	1,736	1	0,188
	Constant	3,079	1,419	4,707	1	0,030

Source: Data reviewed, 2019

From testing the logistic regression equation, the following logistic regression model is obtained:

$$ILK = 3,079 - 1,102KUA + 0,148KM - 0,618KOA + \varepsilon$$

4. Conclusion

This research aims to examine the effect of audit quality, managerial ownership, and audit committee on the integrity of financial statements at mining companies listed on the Indonesia Stock Exchange (IDX) in 2015-2019. Based on the results of the analysis carried out in this study, it can be concluded that: audit quality has a negative effect on the integrity of financial statements. Change of Management ownership and audit committee have no effect on the integrity of financial statements.

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