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Determinants of Financial Statements Integrity in Banking Companies on the Indonesia Stock Exchange

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ABSTRACT: *Financial statement integrity is a report presented correctly and honestly according to the company's circumstances and can be accounted for by stakeholders. Financial statements has to meet qualitative characteristics and use the principle of conservatism to avoid actions that harm users of financial statements. The study aimed to examine the affectt of independent commissioners, audit committees, audit quality, and auditors switching on the integrity of financial statements. The integrity of financial statements is measured by market to book value of equity. The population in this study is a banking company listed on the Indonesia Stock Exchange for the 2019-2021 period. Sampling is determined using purposive sampling and obtained samples of 108 companies that met the criteria. This study uses secondary data and hypothesis testing using multiple linear regression analysis. The results show that the audit committee and audit quality affect the integrity of financial statements, while independent commissioners and auditor switching do not affect the integrity of financial statements.*

Keywords: *Financial Statement Integrity; Independent Commissioner; Audit Committee; Audit Quality; Auditor Switching.*

I. INTRODUCTION

Financial statements are reports prepared by management that inform the company's operational activities for a certain period (Sucitra et al., 2020). The purpose of financial statements is to provide information about the financial position, performance, and changes in a company's financial position, to meet its users' needs and can make economic decisions. In this regard, preparing financial statements have to be in line with the fundamental qualitative characteristics: relevance, materiality, precise representation, and qualitative enhancer characteristics: comparable, verifiable, timely, and understandable (Indonesian Institute of Accountants-IAI, 2022).

A bank is a public trust institution where individuals or institutions are entrusted to deposite their money in the bank with a sense of security and comfort. For this reason, bank management must apply the principles of governance and prudence properly, correctly, and responsibly because they are required to have high morals and integrity. However, over time the morale and integrity of banking are often tested due to abuse of authority, and that reports become has low integrity (Silondae, 2015). In recent years, there are still cases in several companies in Indonesia that do not present financial statements in accordance with actual conditions that, cause reports to be un perform good integrity, including the case of PT. Bank Bukopin, which carried out the unreasonable increases in certain accounts. This can be happened because it passes independent supervision, internal auditors, external auditors, and banking supervision institutions (Rachman, 2018). Another case also occurred in PT. Jiwasraya Insurance which reported pseudo-profits that obtaine an unnatural opinion because the company should have suffered losses. This impacted the company's failure to fulfill customer policy claims (Ulya, 2020).

Based on the cases described, there is still a low level of supervision on the part of management, and it needs to carry out its duties thoroughly. This happens because the application of quality reliability and accounting principles in preparing financial statements still needs to be improved. Hidayah & Fauziah (2021) financial statements began to be doubted by interested parties due to various cases in large companies. Stakeholders increasingly demand that companies be able to provide financial statements with integrity by applying accounting standards, qualified auditors, and good governance. Research conducted by Febrina & Rabaina (2019) on the influence of the audit committee and audit quality on the integrity of financial statements show that the audit committee and audit quality have a significant affect the integrity of financial statements. Meanwhile, research conducted by Pertiwi et al., (2021) find that the audit committee has a significant negative affect the integrity of financial statements, and audit quality has no affect the integrity of financial statements. Based on the previous results of research that show the study relate to study and several cases that occurred, there was an interest in retesting the factors that affect the integrity of financial statements is still important and study in the banking companies still rare to execute because of their unique characteristics, and their comply with applicable regulations.

II. MATERIAL AND METHODS

2.1. Financial Statement Integrity

Financial statements are the results of the accounting process that can be used to communicate between management and parties outside the company related to economic data for a certain period. Financial reports must be presented correctly and honestly, following the company's circumstances, because they are accountable to stakeholders. Therefore, information with high integrity can influence the decisions of financial statement readers and help them make decisions. The integrity of financial statements can be assessed using the principle of conservatism because the information in the financial statements will be more reliable if the report is conservative and the financial statements are not overstated, that make no party will be harmed due to the information presented in the financial statements (Selviana & Wenny, 2021). According to IAI (2022), for the financial statements prepared by management to have high integrity, the financial statements presented must meet fundamental qualitative characteristics: relevance, materiality, and appropriate representation. The following characteristic is the enhancing characteristics of comparability, verifiability, timeliness, and comprehension. The usefulness of this characteristic is to enhance the effectiveness of the information to be relevant and provide an exact representation of what it is intended to represent. These characteristics also help determine which one describes a phenomenon that provides equally relevant information and that equally accurately represents the phenomenon.

2.2. Agency Theory

Agency theory explains that there is a separation between the owner as principal or shareholder and management as an agent, who runs the company according to the orders of the company owner. Then comes the problem of agency between the owner and management because each party always tries to maximize its utility function (Jensen & Meckling, 1976). To minimize the company actions, the principal will require parties to carry out independent supervision to help manage performance to provide financial information that does not deviate from its users and the existence of a public accountant as a party who checks the fairness of the presentation of financial statements to be following accounting standards. Then the existence of these parties can help reduce agency problems that occur and help maintain the integrity of the company's financial statements (Sucitra et al., 2020).

2.3. Stewardship Theory

Stewardship explains that managers when faced with an action that is considered personally unfavourable but prioritizes goals and results for the benefit of the organization, can be adhered to it based on a sense of responsibility (Muth & Donaldson, 1998). This theory also explains that managers must equate their goals with the principal to create good cooperation to meet the interests of the public and shareholders and achieve common goals without sacrificing their individual interests (Ayem & Yuliana, 2019).

2.4. Signal Theory

This theory expresses the giving of a signal, where the sending party will submit relevant information to be used by the party receiving the information. The way the entity does hence that the signals conveyed to report users can be in the form of complete information about what management has done to realize the owner's wishes. This theory also encourages a company to be able to provide information for external parties, where management will give signals to external parties about the company's prospects. Management or managers give signals to reduce the presence of information asymmetries (Liliany & Arisman, 2021).

2.5. Independent Commissioner

Independent commissioner is members of the board of commissioners who do not have management relationships or members from outside the company and their function is to assess the performance of a company as a whole (Fitria & Triyanto, 2020). Independent commissioners can overcome agency problems by conducting supervision to present financial statements with integrity because of the system that monitors and protects the company's external rights. The higher the independent commissioner, the more integrity the financial statements produced (Oktaviani et al., 2021). Research conducted by Sulistyawati et al., (2022) show that independent commissioner has a significant affect the integrity of financial statements.

H_1: Independent commissioner affects the integrity of financial statements.

2.6. Audit Committee

Audit committees are independent individuals who are not involved with the day-to-day tasks of management and who manage the company and have the experience to perform supervisory functions effectively. Independent individuals tend to be more fair and impartial when handling a problem so that the resulting financial statements are not misleading and are by generally accepted accounting practices (Sulistyawati et al., 2022). Research conducted by Badewin (2019) show that the audit committee has a significant affect the integrity of financial statements.

H_2: The audit committee affects the integrity of financial statements.

2.7. Audit Quality

Audit quality is a description of audit results by the rules of auditing standards and the responsibilities of an auditor. Suppose the audit performs its responsibilities correctly by applicable general standards. In that case, it can reduce fraud in examining a financial statement to increase the report's credibility and produce complete financial statements (Hidayah & Fauziah, 2021). Audit quality is related to agency theory because there is an imbalance in the mastery of information between agents and principals, resulting in information asymmetry. Therefore, an independent third party is needed, namely a public accountant or auditor (Oktaviani et al., 2021). Audit quality can also be interpreted as whether the auditor has conducted an inspection. Audits conducted by auditors can be considered quality if they meet auditing standards. These standards include professional quality, independent auditors, judgment in conducting audits and preparing audit reports (Badewin, 2019). According to Febrina & Rabaina (2019), audit quality can be measured using the public accounting firms that have international reputation and affiliated with the local accounting firms, such as: Price Waterhouse Coopers (PWC), Deloitte Touche Tohmatsu (DIT), Ernst and Young (EY), and Klynveld Peat Marwick Geordeler (KPMG). Research conducted by Febrina & Rabaina (2019) show that audit quality has a significant positive affect the integrity of financial statements.

H_3: Audit quality affects the integrity of financial statements.

2.8. Auditor Switching

Auditor switching is a change of public accountants carried out by the company. Several benefits occur due to the change of auditors. Namely, there are restrictions on the engagement period of the auditor's work with companies that are audited compulsorily or voluntarily. This aims to maintain the independence of auditors in the audit implementation process (Totong, 2020). Regulations related to the change of auditors are compulsorily regulated in the Minister of Finance Republic of Indonesia Regulation Number 17/PMK.01/2008, which requires a company to limit the assignment period of public accounting firms to six years and public accountants to three years (Selviana & Wenny, 2021). Research conducted by Kartika & Nurhayati (2018) show the results that auditor turnover has a significant positive affect the integrity of financial statements.

H_4: Switching auditors affects the integrity of financial statements.

III. RESEARCH METHODS

This research is a type of quantitative research. The population used in this study are banking companies listed on the Indonesia Stock Exchange in the 2019-2021 period. The data used in this study is secondary data, which uses annual reports and financial reports of companies published on the Indonesia Stock Exchange (IDX) during 2019-2021. Data is collected by accessing the official website of the Indonesia Stock Exchange (www.idx.co.id) and each company's official website. The data analysis method used to test the hypothesis is multiple linear regression analysis. Sampling in this study used purposive sampling techniques. Based on the results of sample selection, the number of samples obtained are 108 companies. This study uses measurements of independent variables and dependent variables as follows:

Table 1. Variable Operational Measurement

Variable	Indicator	Source
Financial Statement Integrity (ILK)	$\frac{\text{Stock Market Price}}{\text{Share Book Value}}$	Safitri & Bahri, 2021
Independent Commissioner (KOM)	$\frac{\text{Number of Independent Commissioners}}{\text{Number of Board of Commissioners}}$	Oktaviani et al., 2021
Audit Committee (KOA)	Number of Audit Committees within the Company	Pertiwi et al., 2021
Audit Quality (KUA)	1= Indonesia public accounting firm affiliated with EY, DIT, KPMG, and PWC 0 = Indonesia public accounting firm which is not affiliated with EY, DIT, KPMG, and PWC	Febrina & Rabaina, 2019
Auditor Switching (AS)	1=The company changes auditors 0= The company does not change auditors	Kartika & Nurhayati, 2018

Source: Data prosess, 2023

IV. RESULT AND DISCUSSION

Table 2. Descriptive Statistical Analysis Results

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Financial Statement Integrity	108	0.25	1.00	0.5603	0.10753
Independent Commissioner	108	2.00	8.00	3.9907	1.24926
Audit Committee	108	0.00	1.00	0.4630	0.50095
Audit Quality	108	0.00	1.00	0.4815	0.50199
Auditor Switching	108	0.21	37.88	2.6900	4.71855

Source: Data prosess, 2023

Based on the results of descriptive statistical analysis in table 2, the independent commissioner variable has a minimum value of 0.25 and a maximum value of 1.00 with a mean value of 0.5603 and a standard deviation value of 0.10753. This shows that the number of independent commissioner in the company is 56.03% of the total board of commissioners. The audit committee variable has a minimum value of 2.00 and a maximum value of 8.00, with a mean value of 3.9907 and a standard deviation value of 1.24926. Based on the mean value, it shows the number of audit committees in the company totaling three people.

The audit quality variable has a minimum value of 0.00 and a maximum value of 1.00, with a mean value of 0.4630 and a standard deviation value of 0.50095. This shows that the sample companies audited by Indonesia public accounting firm affiliated with public accounting firm EY, DIT, KPMG, and PWC amounted to 46.30%. The switching auditor variable has a minimum value of 0.00 and a maximum value of 1.00, with a mean value of 0.4815 and a standard deviation value of 0.50199. This shows that the sample company made a change of auditors by 48.15%. The financial statement integrity variable has a minimum value of 0.21 and a maximum value of 37.88 with a mean value of 2.6900 standard deviation value of 4.71855. This shows an average financial statement integrity of 2.69%.

Table 3. Recapitulation of the Classical Assumption Test

Variable	**N**	**Multikolinieritas**		**Heteroskedastisitas**
		Tolerance	**VIF**	**Sig. (2-tailed)**
Independent Commissioner	108	0.985	1.015	0.410
Audit Committee	108	0.887	1.128	0.527
Audit Quality	108	0.912	1.097	0.057
Auditor Switching	108	0.981	1.019	0.416
Autokorelasi (Durbin-Watson)		1.795		

Source: Data prosess, 2023

Based on the results of the classical assumption test in table 3, the normality test is normally distributed. Then the multicollinearity test show that all independent variables have a tolerance value of > 0.10 and VIF < 10. The regression model does not occur multicollinearity. The results of the heteroscedasticity test using the Spearman-Rho method shows that the independent variable had a significance value of > 0.05. This study did not occur heteroscedasticity. The results of the autocorrelation test using the Durbin-Watson (DW) method shows a Durbin-Watson value of 1.795 which has four independent variables with a total sample number of 108, where the DU table < DW < 4-DU table or 1.7637 < 1.795 < 2.2363 then it can be concluded that there is no autocorrelation.

Table 4. Multiple Linear Regression Analysis Results

Variable	**Coefficient**	**t**	***Sig.***	**Description**
(Constant)	4.921	1.724	0.088	
Independent Commissioner (KOM)	-0.366	-0.089	0.929	H_1 rejected
Audit Committee (KOA)	-0.976	-2.623	0.010*	H_2 accepted
Audit Quality (KUA)	2.625	2.869	0.005*	H_3 accepted
Auditor Switching (AS)	1.359	1.544	0.126	H_4 rejected
Adjusted R^2	0.079			
Sig. F			0.014	

Source: Data prosess, 2023

* Significance at 0.05

The multiple linear regression equation can be formulated as follows:

$Y = 4.921 – 0.366\ KOM – 0.976KOA + 2.625KUA + 1.359AS + e$

Based on the test results in table 4, it is known that the Sig. F is 0.014 < 0.05. It can be conclude that the regression model is qualified and describe a fit regression model. Then the Adjusted R Square value is 0.079

or 7.9%, meaning that the ability of independent commissioner, audit committee, audit quality, and switching auditor variables in explaining financial statement integrity variables is 7.9%.

The results showed that the independent commissioner has a significance value of 0.929 > 0.05. It can be concluded that H_1 is rejected, the independent commissioner does not affect the integrity of the financial statements. The results of this study do not support Sulistyawati et al., (2022), who stated that independent commissioners have a significant effect on the integrity of financial statements. However, it supports the research of Nurbaiti et al., (2021), which states that increasing the number of independent commissioners may not necessarily increase the effectiveness of the company's staffing.

The audit committee show a significance value of 0.010 < 0.05. It can be concluded that H_2 is accepted, the audit committee affects the integrity of the financial statements. The results of this study support Febrina & Rabaina (2019) research which states that the audit committee affects the integrity of financial statements. This proves that the role of the audit committee is the more effective its existence is in monitoring and supervising audits of financial statements, but the greater the number of audit committees, the more integrity the financial statements will be because supervision of the preparation of financial statements is getting tighter.

Audit quality shows a significance value of 0.005 < 0.05. It can be concluded that H_3 is accepted, the audit quality affects the integrity of financial statements. The results support Badewin (2019) research which states that audit quality affects the integrity of financial statements. This proves that auditors who audit companies are Indonesian public accounting firm affiliated with EY, DIT, KPMG, and PWC and are considered more qualified in producing audit reports. That the level of integrity of financial statements is high because auditors have been equipped with procedures and a series of training and have a better audit program.

The auditor switching shows a significance value of 0.126 > 0.05. It can be concluded that H_4 is rejected, the auditor switching has no effect on the integrity of the financial statements. The results of this study do not support Kartika & Nurhayati (2018), which state that auditor switching has a positive effect on the integrity of financial statements. However, it supports Selviana & Wenny (2021) research which states that auditor switching has no effect on the integrity of financial statements. This proves the presence or absence of auditor switching carried out by the company, the possibility of the integrity of the financial statements produced by the company remains the same because the change of auditors made by the company is not solely due to the opinion of the auditor who states the company's financial statements are not in a good condition, but the company carries out the change of auditors because it is in accordance with the local government regulation which requires the company changes auditors after three consecutive financial years.

V. CONCLUSION

The results show that the audit committee and audit quality affect the integrity of financial statements, while independent commissioners and auditors switching do not affect the integrity of financial statements in banking companies listed on the Indonesia Stock Exchange in 2019-2021. The limitation of this study is in measuring the independent commissioner variable only based on the number of independent commissioners, not based on the expertise of the independent commissioner, which causes it not to be able to see the effect on the integrity of financial statements. Then because of compliance with the rules that require auditor switching for three years, it is recommended to increase the research period to review the effect on the integrity of financial statements.

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