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The Effect of Company Size, Financial Distress, Leverage and Audit Tenure on the Integrity of Financial Reports (Empirical Study of Manufacturing Companies Listed On the Indonesia Stock Exchange for the 2018-2020 Period)

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ABSTRACT: *This study aims to determine the effect of company size, financial distress, leverage and audit tenure on the integrity of financial statement information in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period. In the sampling technique, this study used a purposive sampling method, namely a sampling technique based on predetermined criteria so that the total observations contained in this study were 93 samples. The analysis model used in this study is Descriptive Analysis and Multiple Linear Regression Analysis. The results of this study indicate that company size and audit tenure have an effect on the information integrity of financial statements in manufacturing companies listed on the Indonesia Stock Exchange and financial distress and leverage have no effect on the information integrity of financial statements.*

Keywords: *Company Size , Financial Distress, Leverage, Audit Tenure, Integrity Report Finance*

I. INTRODUCTION

Information is a collection of information or sources that will be useful for the user in making decisions. The need for accurate business information is a major requirement for business people, one of the most frequently used business information is financial reports. The company is responsible for reporting its financial progress in each period in the form of financial reports. Financial statements are a structure presenting the financial position and financial performance of an entity. Financial report information must be presented accurately without material misstatements and follow the Financial Accounting Standards. The financial statements presented by the company will be used by various parties, both internal and external, as a basis for decision making.

The purpose of financial reports is as an accountability tool. Every company presents financial reports as a form of accountability to interested parties as a form of management responsibility. In this case providing information regarding the financial position, performance and changes in the company's financial condition in a certain period will be useful for a large number of users in making economic decisions. Reported information should be presented correctly, honestly and disclose the actual facts. This information will be used by investors, the public, creditors, customers and the government as a reference for making decisions. Financial reports must be presented with high integrity so as not to mislead users of financial statements.

In submitting financial reports, they must have high integrity and credibility in accordance with PSAK No. 01 2014. Financial reports are declared to have integrity if the presentation describes the company's economic condition in accordance with the facts that occur, avoided by management's actions deliberately manipulating financial data. Disclosure of information in financial reports must be presented with integrity as a form of corporate accountability to users of financial statements. The condition of the financial statements produced by the company in the future will be used as a source of information as a basis for consideration in decision making.

Weak integrity of an entity's financial statements can be caused by various factors, both external and internal. The unavailability of accurate information will reduce the integrity of financial reports before the public. In improving the integrity of financial reports and minimizing fraud, research is conducted to analyze what factors can affect the integrity of financial reports. In this study using the variables company size, *financial distress, leverage* and audit tenure.

II. MATERIALS AND METHODS

1.1. Agency Theory

Agency theory is a theory that explains the relationship between two parties, namely *agents* and *principals.* Agency theory is defined as an agency relationship in which one or more individuals (principals) employ or hire another person (agent) to perform some services for the benefit of the principal. This can be done by giving or delegating some authority related to decision making with agents.

1.2. Financial Report Integrity

The integrity of financial statements is a condition where the financial information produced by the company is a disclosure of the company's economic condition that actually occurs without anything being covered up by management. The financial statements are presented with information as is, honest and true. Financial reports have an important role because they provide information regarding the financial position, performance, and changes in financial position, performance, and changes in the financial position of a company that are useful for users in making economic decisions and show management's accountability for the use of the resources they have used (Supitriyani et al. , 2020).

1.3 Company Size

Company size is the size of the scale that will be used to classify company size in various ways including total assets, total sales, market value of shares and so on. The larger the size of the company, the more information available to investors in making decisions so they will be more careful in presenting their financial statements.

Research conducted by Fatimah, et al (2020), Nurbaiti, et al (2021) and Halim (2021) states that company size affects the integrity of financial statements.

H_1 : Company Size affect the Integrity of Financial Statements

1.4 Financial Distress

Financial distress is a condition in which a company experiences financial difficulties in paying its obligations, a condition where income is unable to cover expenses. The troubled financial condition of a company is an indication of declining company performance, usually followed by bankruptcy..

Research conducted by Halim (2021) and Ario, et al (2020) states that financial distress affects the integrity of financial reports.

H_2 : Financial Distress affects the Integrity of Financial Statements

1.5 Leverage

Leverage is a ratio that shows the amount of debt owned by a company to finance its operating activities. Companies that have greater debt than capital are said to be companies with high levels of leverage. If the company experiences bad conditions, the use of leverage can cause risks and burdens for the company, because the company has to pay interest from using the leverage. The existence of high debt levels will be monitored not only by investors but also by creditors.

Research conducted by Fatimah, et al (2020) and Ario, et al (2020) states that leverage affects the integrity of financial reports.

H_3 : Leverage affects the Integrity of Financial Statements

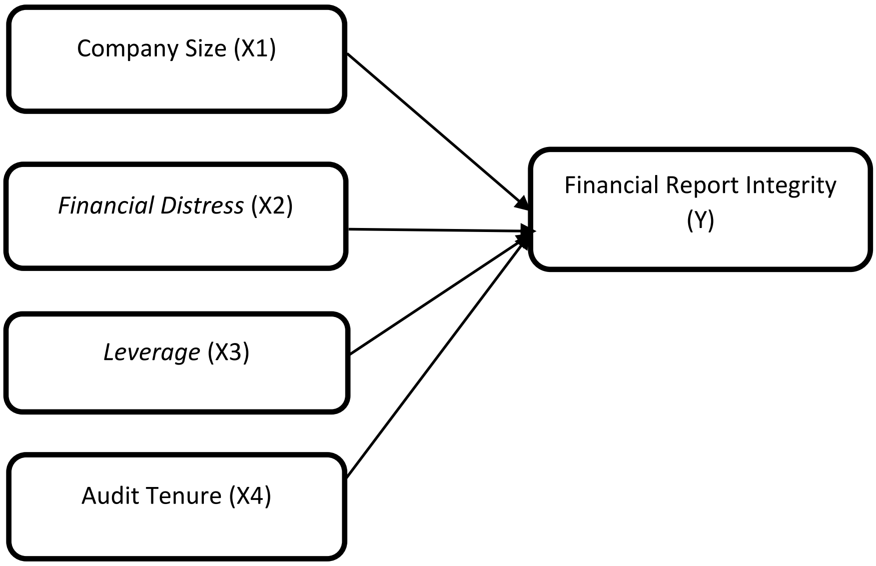
1.6 Audit Tenure

Audit tenure is the length of time a KAP or an auditor audits a company (client) in a contract. The relationship between the auditor and the company can interfere with the independence and accuracy of the auditor in carrying out auditing duties. Companies that have been audited by KAP for several periods will affect the objectivity of financial statements. In the auditor's relationship with the client there is a tendency that over time the auditor gradually adjusts to various management wishes.

Research conducted by Fatimah, et al (2020) states that audit tenure have an effect on the integrity of financial statements.

H_4: Audit Tenure affects the Integrity of Financial Statements

1.7 Framework thinking



1 RESEARCH METHODS

Based on the data used in this study, this type of research is quantitative research by testing the hypothesis. This research was conducted to determine the effect of company size, *financial distress, leverage* and audit tenure on the integrity of financial statements. The population in this study were manufacturing companies from 2018 to 2020 which were listed on the IDX. Sampling using *purposive sampling method* , namely determining the sample from the population based on certain criteria. So that in this study obtained a sample of 93 samples.

The analytical method used to test the hypothesis in this study is multiple linear regression, because to find out whether there is a significant effect of one dependent variable and more than one independent variable.

In this research hypothesis using multiple linear regression analysis which includes the hypothesis of the influence of firm size, *financial distress, leverage* and audit tenure (X1, X2, X3, X4) the regression equation model is as follows:

$$\mathbf{ILK = a + \beta 1\ UP + \beta 2\ FD + \beta 3\ LV + \beta 4\ AT + e}$$

Information :

ILK = Integrity of Financial statements
UP = Firm Size
FD = Financial Distress
LV = Leverage
AT = Audit Tenure

β 0,β 1,β2,β3,β4 = Constant
e = error

Operational Variables

Dependent Variable	Indicator	Reference
Financial Report Integrity	= $\frac{Stock\ market\ price}{Book\ Value\ of\ Shares}$	Fatimah, et al (2020)
Independent Variable		
Company Size (UP)	$UP = LN\ Total\ As$	Fatimah, et al (2020)
Financial Distress (FD)	$DER = \frac{Total\ Debt}{Equity}$	Abdullah (2019)
Leverage (LV)	$LVit = \frac{Total\ liabilities}{Total\ Assets}$	Fatimah, et al (2020)
Audit Tenure (AT)	$0 < 3\ years > 1$	Fatimah, et al (2020)
	Type equation here.	

2 RESULTS AND DISCUSSION

Model		Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
		B	std. Error	Betas		
1	(Constant)	-16,612	3,680		-4,514	0.000
	Company Size	0.748	0.137	0.527	5,733	0.000
	Financial Distress	-0.377	0.325	-0.014	-1.161	0.249
	Leverage	0.031	0.227	-0.012	0.135	0.893
	Audit Tenure	-3,376	0.654	-0.473	-5.163	0.000

Based on the table above, the regression equation can be arranged as follows:
DER = -16.612 + 0.748UP + -0.377FD + 0.031LV + -3.376AT +ε
Based on the regression equation, it can be interpreted as follows:
A constant value of -16.612 means that if the variables of company size, *financial distress, leverage* and audit tenure do not change or are considered constant (value 0), then the integrity of the financial statements is -16.612. Based on the data used in this study, this type of research is quantitative research by testing the hypothesis. This research was conducted to determine the effect of company size, *financial distress, leverage* and audit tenure on the integrity of financial statements. The population in this study were manufacturing companies in the consumer goods industry sub-sector from 2018 to 2020 which were listed on the IDX. Sampling using *purposive sampling method* , namely determining the sample from the population based on certain criteria. So that in this study obtained a sample of 93 samples.

1) The coefficient value of the variable company size (UP) is 0.748. This shows that if the size of the company increases by 1 point, then the integrity of the financial statements will increase by 0.748. Conversely, if the size of the company decreases by 1 point, it will reduce the integrity of the financial statements by 0.748.
2) The coefficient value of *the financial distress* (FD) variable is -0.377. This shows that if *financial distress* increases by 1 point, then the integrity of the financial statements will increase by -0.377. Conversely, if *financial distress* decreases by 1 point, it will reduce the integrity of the financial statements by -0.377.
3) The coefficient value of the *leverage variable* (LV) is 0.031. This shows that if *the leverage* increases by 1 point, then the integrity of the financial statements will increase by 0.031. Conversely, if *the leverage* drops by 1 point, it will reduce the integrity of the financial statements by 0.031.
4) The coefficient value of the variable audit tenure (AT) is -3.376. This shows that if audit tenure increase by 1 point, then the integrity of the financial statements will increase by -3.376. Conversely, if the tenure audit decreases by 1 point, it will reduce the integrity of the financial statements by -3.376.

Model Feasibility Test (F Test)

Model		Sum of Squares	Df	MeanSquare	F	Sig.
1	Regression	172,158	4	43,039	11,747	0.000b ⁻
	residual	322,429	88	3,664		
	Total	494,586	92			

Based on the test results after the data transformation, it shows that the calculated F is 11.747 with a significance level of 0.000 which is less than 0.05, so it can be concluded that the modeling of this study with the variables company size, financial distress, leverage *and* audit tenure together have an effect on financial report integrity. These results indicate that the research model is feasible to continue in further analysis.

Determination Coefficient Test(R^2)

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	0.590a ⁻	0.348	0.318	1.91415

Based on the table above the value is 0.318. This means that 31.8% of the variation in the variable integrity of financial statements is explained by company size, *financial distress, leverage* and audit tenure, the rest (68.2%) is explained by other variables outside the model studied.

Statistical Test (t test)

Variable	Q	Sig.	Information
Company Size	5,733	0.000	hypothesis Accepted
Financial Distress	-1.161	0.249	hypothesis Rejected
leverage	0.315	0.893	hypothesis Rejected
Audit tenure	-5.163	0.000	hypothesis Accepted

Based on the T test that has been carried out, the following results are obtained:
1. H_1 accepted, company size affects the integrity of financial statements. this result is evidenced by a significance value of less than 0.05, which is equal to 0.000.
2. H_2 rejected, *financial distress* has no effect on the integrity of financial statements. this result is evidenced by a significance value greater than 0.05, which is equal to 0.249.
3. H_3rejected, *leverage* has no effect on the integrity of financial statements. This result is evidenced by a significance value greater than 0.05, which is equal to 0.893.
4. H_4accepted, audit tenure affect the integrity of financial statements. This result is evidenced by a significance value of less than 0.05, which is equal to 0.000.

3 CONCLUSION

Based on the results of data analysis, hypothesis testing and discussion described in the previous chapter, the following conclusions can be drawn:

1. Company size affects the integrity of financial statements, so that H_1this study is accepted.
2. *Financial Distress* has no effect on the integrity of financial reports, so H_2this research is rejected.
3. *Leverage* has no effect on the integrity of financial statements so that H_3this research is rejected.
4. Audit Tenure affects the integrity of financial statements, so that H_4it is accepted in this study.

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