

The Effect of Corporate Governance, Audit Quality, and Auditor Industry Specialization on the Integrity of Financial Statements

Roza Mulyadi^{1*}, Hadiatna Eka Jaya Ramdhani², Eny Suheny³

University of Sultan Ageng Tirtayasa^{1*}, Banten College of Economics^{2,3}

Corresponding Author: roza.mulyadi@untirta.ac.id^{1*}

Keywords : *The Integrity of Financial Statements, Corporate Governances, Audit Quality*

Abstract:

The study was conducted to determine the effects of corporate governance, audit quality, and auditor industry specialization on the integrity of financial statements (Empirical Study on Manufacturing Companies on the Indonesia Stock Exchange in 2017-2019). The research method used is the associative quantitative research method. The population used is manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. There are as many as 156 companies, with a sample of 43 companies for 3 years, so a sample of 129 is obtained. The analytical method used is multiple linear regression analysis with the help of the SPSS 25 program. The results of the analysis The partial test shows that the variables of independent commissioners, audit committees, institutional ownership, and audit quality have a significant effect on the financial statement integrity variable. Meanwhile, the managerial ownership variable and the auditor industry specialization variable have no significant effect on the integrity of the financial statements. Based on the results of the regression analysis, it is known that the variables of independent commissioners, audit committees, institutional ownership, managerial ownership, audit quality, and auditor industry specialization affect the financial statement integrity variable by 19.3%.

Introduction

Communication media that plays an important role in connecting interested parties to a company are financial statements. Financial reports serve as a source of information used to assess company performance (Istiantoro et al., 2017).

Not a few companies present information in financial statements without integrity as evidenced by recently or in recent years with the occurrence of many cases of manipulation of financial statements. The case of manipulation of financial statements occurred in 2018 in one of the major companies in Indonesia, namely PT Garuda Indonesia (Persero) Tbk, which in the financial statements for the 2018 financial year, PT Garuda Indonesia (Persero) Tbk posted a net profit of USD 809.85 thousand, this figure increased significantly compared to 2017 which suffered a loss of USD 216.5 million. PT Garuda Indonesia (Persero) Tbk included profits in the form of debt related to wifi installation that had not been paid by PT Mahata Aero Teknologi. After its financial statements were rejected by two of its commissioners, PT Garuda Indonesia (Persero) Tbk admitted that it would not re-audit the 2018 financial statements which were deemed inappropriate because they included profits from PT Mahata Aero Teknologi (www.economy.okezone.com).

The Financial Services Authority (OJK) which has conducted an examination related to the presentation of the PT Garuda Indonesia (Persero) Tbk Annual Financial Report (LKT) case, gave a written order to correct and restate the PT Garuda Indonesia (Persero) Tbk LKT as of 31 December 2018 as well as make a presentation. public expose for the improvement and restatement of LKT as of December 31, 2018 no later than 14 days after the issuance of the sanction letter, for violating Article 69 of Law Number 8 of 1995 concerning Capital Markets (UU PM), jis, BAPEPAM and LK Regulations Number VIII .G.7 concerning Presentation and Disclosure of Financial Statements of Issuers and Public Companies, Interpretation of Financial Accounting Standards (ISAK) 8 concerning Determining Whether an Agreement Contain Leases, and Statement of Financial Accounting Standards (PSAK) 30 concerning Leases (www.ojk.go.id).

PT Garuda Indonesia (Persero) Tbk has also violated OJK regulations Number 29/POJK.04/2016 regarding the annual report of issuers or public companies, and was sentenced to administrative sanctions in the form of a fine of Rp. 100 million, and to all members of the Board of Directors of PT Garuda Indonesia (Persero) Tbk each in the amount of Rp100 million for the violation of BAPEPAM Regulation Number VIII.G.11 concerning the Responsibilities of the Board of Directors for Financial Statements. In addition, administrative sanctions in the form of a fine of Rp. 100 million are also given jointly and severally to all members of the Board of Directors and Board of Commissioners of PT Garuda Indonesia (Persero) Tbk who signed the 2018 Annual Report of PT Garuda Indonesia (Persero) Tbk for violating OJK Regulation Number 29/POJK.04/2016 concerning Annual Reports of Issuers or Public Companies (www.kemenkeu.go.id).

Another case that occurred before the case of PT Garuda Indonesia (Persero) Tbk, namely the case that occurred in 2015 at PT Toshiba. Toshiba's Chief Executive Officer (CEO) and

President, Hisao Tanaka has resigned from his position. The resignation of Toshiba Corp. Chief Executive Officer (CEO) Hisao Tanaka and senior officials for being involved in Japan's biggest accounting scandal in recent years. The investigation yielded results showing that Tanaka was proven to be aware of the manipulation of profit reports by his company over the last few years with a value of US\$ 1.2 billion (Suheny, 2019).

Another case that has occurred in Indonesia is the earnings management of PT Kimia Farma Tbk in 2001. The management of PT Kimia Farma marked up profits in the 2001 annual financial statements of Rp. 32.6 billion. Based on the BAPEPAM investigation, it was stated that the KAP auditing the financial statements of PT Kimia Farma had followed the applicable audit standards, but failed to detect the fraud (Suheny, 2019).

Looking at the cases above, it can be seen that there are still irregularities in financial statements that occur in large companies in Indonesia. Thus, it can make the company's image bad in the eyes of the public. Information in financial statements that are presented without integrity indicates that the preparation of financial statements was carried out improperly and not presented honestly or could be said to be inconsistent with reality. To be able to realize integrity in financial reports, companies need a system or set of rules that are structured and directed that can control and regulate the running of the company based on applicable laws and norms known as corporate governance (Syura, 2018).

It is still not enough with good corporate governance, to further ensure that the integrity of the financial statements has been achieved, it is necessary to have the role of an external auditor, where the auditor will check whether the company's financial statements are presented correctly, have met the characteristics in the financial statements and are following accounting standards generally accepted. For that, an auditor must have expertise or specialization. Auditor industry specialization is the expertise or ability possessed by the auditor industry who has attended training to improve the ability to provide audit services (Syura, 2018). With the ability and expertise possessed by the auditor and knowledge of the client's industry. The auditor will work more effectively and efficiently so that the audit results produced will be of higher quality and guaranteed because of the knowledge and expertise and experience possessed by the auditor. Thus, the integrity in the financial statements will be realized.

This study refers to the research conducted by Shura (2018) with the title "The Influence of Corporate Governance Mechanisms and Auditor Industry Specialization on the Integrity of Financial Statements (Empirical Study on State-Owned Enterprises listed on the Indonesia Stock Exchange in 2013-2015)" by adding new variables namely audit quality as an independent variable. Furthermore, the difference from previous research is that this research was conducted on manufacturing companies listed on the Indonesia Stock Exchange whereas previously it was conducted on state-owned companies listed on the Indonesia Stock Exchange.

From the description above, the authors are interested in researching with the title "The Influence of Corporate Governance, Audit Quality, and Auditor Industry Specialization on the

Integrity of Financial Statements (Empirical Study on Manufacturing Companies on the Indonesia Stock Exchange in 2017-2019)"

Research Method

This study uses a quantitative method with an associative approach. This study will examine the causal relationship or effect of each variable consisting of independent variables, namely Independent Commissioners, Audit Committees, Institutional Ownership, Managerial Ownership, audit quality, and auditor industry specialization. With the dependent variable, namely the Integrity of Financial Statements.

The population in this study were all manufacturing sector companies listed on the Indonesia Stock Exchange for the period 2017-2019. The sampling technique used in this study was based on the non-probability sampling method using purposive sampling. The sampling criteria in this study are manufacturing companies listed on the Indonesia Stock Exchange during the period 2017-2019, manufacturing companies that publish annual reports and can be accessed successively during the research period, namely 2017-2019 on the Indonesia Stock Exchange, manufacturing companies which present its financial statements in rupiah currency for the period 2017-2019, Has complete information needed in research related to calculation indicators that are used as variables. Based on the predetermined criteria, 43 companies meet the criteria for selecting a sample with an observation period of 3 years, so the total observations are 129.

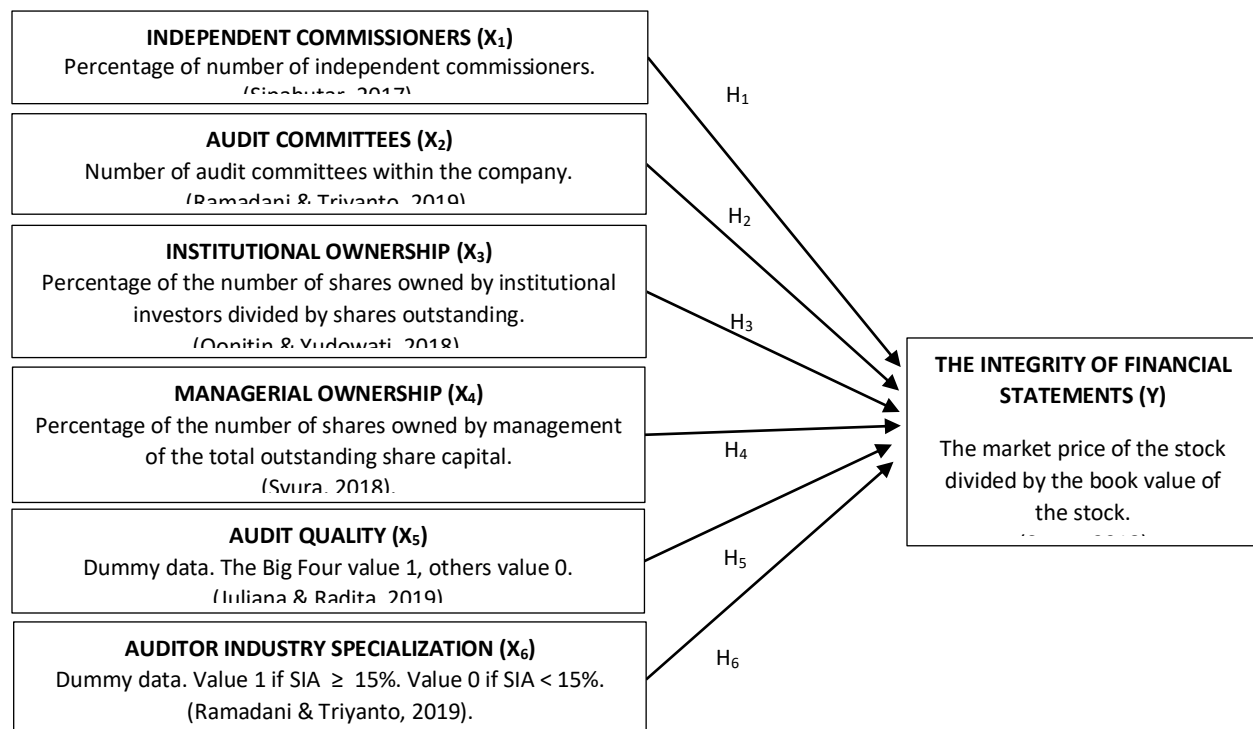


Figure 1. Conceptual Framework

Result and Discussion

Because the data has problems in the classical assumption test, improvements are made by removing outliers. The number of outlier data and the amount of data that can be processed are shown in table 1 below:

Table 1. Results of Advanced Research Sampling

Description	Total
Count of samples	43
The total observations (3 x 43)	129
Outliers are counted	(13)
The amount of data that can be processed	116

Source: secondary data processing, 2021.

Statistical Analysis Description

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KI	116	,2500	,5000	,377802	,0735319
KA	116	2	3	2,97	,183
KIN	116	,0195	,9601	,643116	,2095169
KM	116	,0001	,3801	,077600	,1092550
KUA	116	0	1	,24	,430
SIA	116	0	1	,28	,453
ILK	116	,1477	7,2883	1,754328	1,5301045
Valid N (listwise)	116				

Source: SPSS 25, 2021

The results of the descriptive statistical analysis for each variable are as follows:

1. The independent commissioner variable (KI) shows a minimum value of 0.25 and a maximum value of 0.05. and has an average value or mean of 0.377802 and a standard deviation of 0.0735319.
2. The audit committee variable in this study shows a minimum value of 2 and a maximum value of 3. It has an average value or mean of 2.97 and has a standard deviation of 0.183.
3. The institutional ownership variable in this study shows a minimum value of 0.0195 and a maximum value of 0.9601. It has an average value or mean of 0.643116 and a standard deviation of 0.2095169.
4. The managerial ownership variable in this study shows a minimum value of 0.0001 and a maximum value of 0.3801. and has an average value or mean of 0.077600 and a standard deviation of 0.1092550.

5. The audit quality variable in this study shows a minimum value of 0 and a maximum value of 1. It has an average value or mean of 0.24 and a standard deviation of 0.430.
6. The audit auditor industry specialization variable in this study shows a minimum value of 0 and a maximum value of 1. It has an average value or mean of 0.28 and a standard deviation of 0.453.
7. The financial statement integrity variable in this study shows a minimum value of 0.1477 and a maximum value of 7.2883. and has an average value or mean of 1.754328 and a standard deviation of 1.5301045.

Normality test

Table 3. Normality test

		Unstandardized Residual
N		116
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	1,33781588
Most Extreme Differences	Absolute	,111
	Positive	,111
	Negative	-,073
Test Statistic		,111
Asymp. Sig. (2-tailed)		,109 ^{c,d}

Source: SPSS 25, 2021

Based on the table above, the results of the normality test show a significance value of 0.109, where the value is greater than 0.05. From the test results, it can be said that the residuals are normally distributed.

Multicollinearity Test

Table 4. Multicollinearity Test

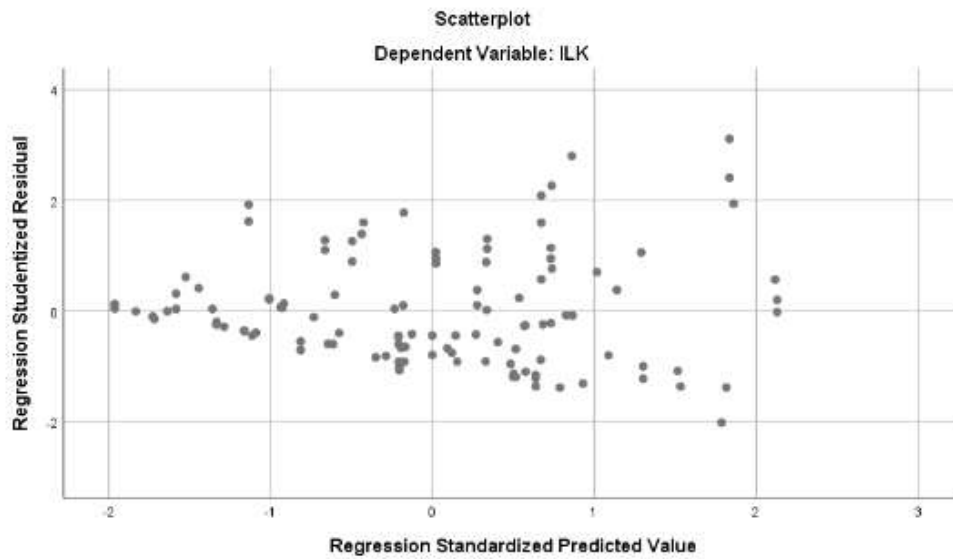
			Collinearity Statistics
Model		Tolerance	VIF
1	KI	,870	1,149
	KA	,942	1,062
	KIN	,639	1,565
	KM	,616	1,624
	KUA	,918	1,089
	SIA	,923	1,083

a. Dependent Variable: ILK

Source: SPSS 25, 2021

The test results show a tolerance value of more than 0.10 (10%) with a VIF value of less than 10 for each independent variable. Therefore, it can be concluded that there is no multilinearity between the variables in the regression model in this study.

Heteroscedasticity Test



Source: SPSS 25, 2021

Figure 2.Heteroscedasticity Test

Based on the picture above, the points are spread randomly and are both above and below the number 0 on the Y axis. So, it can be concluded that there is no heteroscedasticity in this study.

Autocorrelation Test

The results of the autocorrelation test using the Durbin Watson test (DW Test) are shown in the following table:

Table 5. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,485 ^a	,236	,193	1,3741433	1,990

a. Predictors: (Constant), SIA, KIN, KUA, KA, KI, KM
 b. Dependent Variable: ILK

Source: SPSS 25, 2021

The DW value obtained from the regression model is 1.990 with the number of independent variables (K) = 6 and the number of samples (N) = 116, so based on the Durbin Watson table, $dL = 1.5901$ and $dU = 1.8070$. Then the DW value of 1.990 is greater than the upper limit (dU), which is 1.8070, and less than $4-dU$ ($4-1.8070=2.193$). In accordance with the decision making of the autocorrelation test, the value of dU (1.8070) $< d$ (1.990) $< 4-dU$ (2.193), so it can be concluded that there is no autocorrelation in this data.

Multiple Linear Regressions

Table 6. Multiple Linear Regressions

Model	Unstandardized Coefficients		Standardized Coefficients		Sig
	B	Std. Error	Beta	t	
1 (Constant)	-6,215	2,208		-2,815	,006
KI	6,407	1,868	,308	3,430	,001
KA	1,540	,721	,184	2,137	,035
KIN	1,912	,765	,262	2,499	,014
KM	,568	1,495	,041	,380	,705
KUA	-,760	,311	-,213	-2,442	,016
SIA	-,383	,294	-,113	-1,302	,196

a. Dependent Variable: ILK

Source: SPSS 25, 2021

It can be concluded that the variable of financial statement integrity is influenced by the variables of independent commissioners, audit committees, institutional ownership, and audit quality with the regression equation based on the table above, which is as follows:

$$ILK = -6,215 + 6,407 KI + 1,540 KA + 1,912 KIN + 0,568 KM - 0,760 KUA - 0,383 SIA + e$$

The regression equation above can be interpreted as follows:

1. The constant value of -6.215 states that if the independent variable is considered constant, then the integrity of the financial statements is -6.215.
2. The regression coefficient value of the independent commissioner variable is 6.407. This shows that if the other independent variables have a fixed value, then every 1% increase in independent commissioners will increase the integrity of the financial statements by 6,407 or 640%.
3. The regression coefficient value of the audit committee variable is 1.540. This shows that if the other independent variables have a fixed value, then every increase of 1 person on the audit committee will increase the integrity of the financial statements by 1,540 or by 154%.
4. The value of the institutional ownership variable regression coefficient is 1.912. This shows that if the other independent variables have a fixed value, then every 1% increase

in institutional ownership will increase the integrity of the financial statements by 1.912 or 191%.

5. The regression coefficient value of the audit quality variable is -0.760. This shows that if the other independent variables have a fixed value, then every 1 point increase in audit quality will decrease the integrity of the financial statements by 0.760 or by 76%..

Coefficient of Determination (R^2)

Table 7. Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,485 ^a	,236	,193	1,3741433	1,990

a. Predictors: (Constant), SIA, KIN, KUA, KA, KI, KM

b. Dependent Variable: ILK

Source: SPSS 25, 2021

The results of the coefficient of determination test show the Adjusted R Square value of 0.193 which means that the financial statement integrity variable (Y) is influenced by independent variables consisting of independent commissioners (X_1), audit committees (X_2), institutional ownership (X_3), managerial ownership (X_4), audit quality (X_5), and auditor industry specialization (X_6) of 19.3%. While the remaining 80.7% is influenced by other factors outside the research model.

Individual Parameter Test (t Test)

Table 8. Individual Parameter Test (t Test)

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig
1	(Constant)	-6,215	2,208		-2,815	,006
	KI	6,407	1,868	,308	3,430	,001
	KA	1,540	,721	,184	2,137	,035
	KIN	1,912	,765	,262	2,499	,014
	KM	,568	1,495	,041	,380	,705
	KUA	-,760	,311	-,213	-2,442	,016
	SIA	-,383	,294	-,113	-1,302	,196

a. Dependent Variable: ILK

Source: SPSS 25, 2021

Of the six independent variables included in the regression model, it can be seen that only the managerial ownership and auditor industry specialization variables have a significance value > 0.05 . This shows that H_4 and H_6 are rejected. So it can be concluded that the managerial ownership variable and auditor industry specialization have no significant effect on the financial statement integrity variable.

Meanwhile, the variables of independent commissioners, audit committees, institutional ownership, and audit quality have a significance value < 0.05 . This shows that H_1 , H_2 , H_3 , and H_5 are accepted. It can be concluded that the variables of independent commissioners, audit committees, institutional ownership, and audit quality have a significant effect on the variable of financial statement integrity.

Conclusion

This study aims to empirically prove the influence of Corporate Governance, Audit Quality, and Auditor Industry Specialization on the Integrity of Financial Statements (Empirical Study on Manufacturing Companies on the Indonesia Stock Exchange in 2017-2019), so it can be concluded as follows: The independent commissioner variable has a significant effect to the integrity of financial statements. The audit committee variable has a significant effect on the integrity of the financial statements. Institutional ownership variables have a significant effect on the integrity of financial statements. The managerial ownership variable has no significant effect on the integrity of the financial statements. The audit quality variable has a significant effect on the integrity of the financial statements. The auditor industry specialization variable has no significant effect on the integrity of financial statements.

Based on the description of the discussion and the conclusions obtained, the following are suggestions that researchers can convey for further research, it is hoped that further researchers can present higher quality results with several inputs, including: Adding independent variables that are thought to affect the integrity of the company's financial statements, for example leverage, corporate social responsibility (CSR), profitability, and so on; Using a longer and more recent period of time in order to better understand the actual condition of the company; Expanding the scope of research by using research objects in other sectors, not only limited to manufacturing sector companies.

References

- Anggraeni, I. P., Zulpahmi, & Sumardi. (2020). Pengaruh Komite Audit, Komisaris Independen, Leverage, dan Kualitas Audit terhadap Integritas Laporan Keuangan pada Bank Umum Syariah. *Jurnal Ilmu Manajemen Dan Akuntansi Terapan (JIMAT)*, 11(01), 128–138.
- Atiningsih, S., dan Suparwati, Y. K. (2018). Pengaruh *Corporate Governance* dan *Leverage* terhadap Integritas Laporan Keuangan (Studi pada Perusahaan Pertambangan yang Terdaftar di BEI Periode 2012 -2016). *Jurnal Ilmu Manajemen Dan Akuntansi Terapan (Jimat)*, 9(2), 110–124.
- Ghozali, I. (2018). *Aplikasi Analisis Multivariate Dengan Program Ibm Spss 25. Edisi Ke-9*. Semarang: Badan Penerbit Universitas Diponegoro.
- Harun, A., Askandar, N. S., dan Junaidi. (2020). Analisis Pengaruh *Corporate Social Responsibility (CSR)*, Profitabilitas, Kinerja Perusahaan, dan Kualitas Audit terhadap Integritas Laporan

Keuangan (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2016-2018). *E-Jra*, 9(5), 98–113.

<https://www.ojk.go.id/ld/berita-dan-kegiatan/siaran-pers/pages/siaran-pers--otoritas-jasa-keuangan-berikan-sanksi-kasus-pt-garuda-indonesia-persero-tbk.aspx>. (Diakses Pada 28 Februari 2021).

<https://www.kemenkeu.go.id/publikasi/berita/ini-putusan-kasus-laporan-keuangan-tahunan-pt-garuda-indonesia-2018/> (Diakses Pada Maret 2020) (Diakses Pada 28 Februari 2021).

<https://economy.okezone.com/read/2015/07/22/213/1183787/ceo-toshiba-mengundurkan-diri-terkait-skandal-usd1-2-miliar> (Diakses Pada 28 Februari 2021).

Irawati, L., dan Fakhrudin, I. (2016). Pengaruh dan Kualitas Audit, *Corporate Governance* terhadap Integritas Laporan Keuangan. *Kompartemen*. 15(1), 90-106.

Istiantoro, I., Paminto, A., dan Ramadhani, H. (2017). Pengaruh Struktur *Corporate Governance* terhadap Integritas Laporan Keuangan Perusahaan pada Perusahaan LQ45 yang Terdaftar di BEI. *AKUNTABEL*. 14(2), 157–179.

Juliana, dan Radita, M. (2019). Pengaruh *Corporate Governance*, Ukuran Perusahaan, dan Kualitas Audit terhadap Integritas Laporan Keuangan. *Jurnal Wahana Akuntansi*, 14(2), 184-199.

Lerizki, P. A. (2017). Pengaruh Kepemilikan Institusional, Komisaris Independen, Komite Audit, Kualitas Audit, dan Ukuran Perusahaan terhadap Integritas Laporan Keuangan. *Skripsi*. Surabaya : Sekolah Tinggi Ilmu Ekonomi Perbanas.

Otoritas Jasa Keuangan. (2014). Peraturan Otoritas Jasa Keuangan Nomor 33/ POJK. 04/2014. *Ojk.Go.Id*, 1–21.

Parlentino, Januar., dan Surbakti..(2017). Pengaruh *Corporate Governance*, Kualitas KAP, *Firm Size* dan *Leverage* terhadap Integritas Laporan Keuangan pada Perusahaan Property and Real Estate yang Terdaftar di BEI Periode 2013-2015. *Jurnal Mediasi*, 6(1), 78-90.

Priharta, A. (2017). Pengaruh *Corporate Governance* terhadap Integritas Laporan Keuangan. *Journal Of Applied Business And Economics*. 3(4). 234-250.

Qonitin, R.A., dan Siska Priyandani Yudowati. (2018). Pengaruh Mekanisme *Corporate Governance* dan Kualitas Audit terhadap Integritas Laporan Keuangan pada Perusahaan Pertambangan di Bursa Efek Indonesia. *Assets*. 8(1). 167-182.

Rachman, F. W. (2016). *Pengaruh Mekanisme Corporate Governance, Spesialisasi Industri Auditor, dan Audit Brand Name terhadap Integritas Laporan Keuangan*. *Skripsi*. Jakarta: Universitas Islam Negeri Syarif Hidayatullah.

Ramadani, F., dan Triyanto, D. N. (2020). Pengaruh Spesialisasi Industri Auditor dan Mekanisme *Corporate Governance* terhadap Integritas Laporan. *ULTIMA Accounting*. 11(2), 244–260.

- Savero, D. O. (2017). Pengaruh Komisaris Independen, Komite Audit, Kepemilikan Instutisional dan Kepemilikan Manajerial terhadap Integritas Laporan Keuangan (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2012-2014). *JOM Fekon*, 4(1), 75–89.
- Sipahutar, E.V. (2017). Pengaruh Komisaris Independen, Komite Audit, Independensi, dan Spesialisasi Industri *Auditor* terhadap Integritas Laporan Keuangan. *JOM Fekon*. 4(1). 3226-3240.
- Suheny, E. (2019). *Pengaruh Corporate Governance, Ukuran Perusahaan, Leverage dan Kualitas Audit terhadap Manajemen Laba*. *Jurnal Ekonomi Vokasi*, 2(1), 26–43.
- Syura,. (2018). Pengaruh Mekanisme *Corporate Governence* dan Spesialisasi Industri *Auditor* terhadap Integritas Laporan. *JOM FEB*, 1(1), 1-15.
- Verya, E. (2017). Analisis Pengaruh Ukuran Perusahaan, *Leverage dan Good Corporate Governance* terhadap Integritas Laporan Keuangan (Studi Empiris Pada Perusahaan Manufaktur Yang Listing di Bursa Efek Indonesia Periode Tahun 2012-2014). *JOM Fekon*, 4(1). 982–996.
- [Www.idx.co.id](http://www.idx.co.id). (Diakses Pada 05 April 2021).
- Yulinda, N. (2016). Pengaruh Komisaris Independen, Komite Audit, *Leverage*, Pergantian *Auditor*, dan Spesialisasi Industri *Auditor* terhadap Integritas Laporan Keuangan. *JOM Fekon*, 3(1), 419-433.