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The Influence of Audit Committees, Independent Commissioners, Company Size and Audit Quality on Report Integrity

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ABSTRACT

Financial report integrity has become increasingly critical in the post-financial crisis era, as stakeholders demand greater transparency and reliability in corporate reporting. This study addresses a significant research gap by examining the combined effects of corporate governance mechanisms on financial report integrity within Indonesia's property and real estate sector, which has experienced rapid growth and increased regulatory scrutiny. This study aims to obtain empirical evidence regarding the influence of the audit committee on financial statement integrity, the influence of independent commissioners on financial statement integrity, the influence of company size on financial statement integrity, and the influence of audit quality on financial statement integrity. The sample in this study consists of property and real estate companies listed on the Indonesia Stock Exchange for the 2021–2023 period. The total sample in this study is 45 data points. Data collection was conducted through the official IDX website and the official websites of property and real estate companies listed on the Indonesia Stock Exchange for the 2021–2023 period. The data analysis technique used in this study is multiple linear regression analysis with SPSS 18.0 software. The results of the data processing tests show that the audit committee has a positive effect on financial statement integrity, while the influence of independent commissioners, company size, and audit quality negatively affects financial statement integrity.

KEYWORDS *Financial Statement Fraud, Company Size, Leverage, Independent Commissioner, Audit Committee, Indonesia Stock Exchange.*

INTRODUCTION

Financial statements are information derived from company records that present a company's performance over an accounting period. The financial statements also aim to provide a presentation of the financial position, the company's performance, and the

entity's cash flow, which can be useful for users in considering long-term plans amid economic disruptions and takeovers (Wikipedia, n.d.). According to the Financial Accounting Standard PSAK No. 1 (Indonesian Accounting Association, 2013:4), financial statements are reports presented periodically and prepared with the principle of accountability, explaining the financial situation of individuals, associations, or business groups.

The information contained in financial statements must be reliable and of good quality, meaning that the financial statements must be free from all material manipulations and omissions that could harm the parties concerned (iaiglobal.or.id, n.d.). Financial reporting is essential for companies to convey financial information to interested parties. Therefore, financial statements must present information that is easy to understand, relevant, and comparable to be useful to users (PSAK No. 1 Revision, 2019). According to (Muchtar, 2016), professional ethics are binding rules of conduct for every professional.

The integrity of financial statements is closely related to one of the characteristics emphasized by International Financial Reporting Standards (IFRS), namely faithful representation. If financial information is presented honestly and accurately describes the true circumstances of the company, it can be useful for decision-making. However, not all companies always present financial statements according to established standards. Many companies manipulate financial statements, so maintaining their integrity must always be a priority.

One notable case of financial statement manipulation in Indonesia is the revocation of the public accounting firm (KAP) Kosasi, Nurdiyaman, Muttadi, Tjahjo & Rekan's registration license. This firm, a member of Crowe Horwath International, was involved in the PT Asuransi Jiwa Adisarana Wanaartha (Wanaartha Life) case. The Financial Services Authority (OJK) discovered manipulation practices at Wanaartha Life. The audited financial statements revealed unrecorded policies in the liability report worth IDR 12.1 trillion (Sidik, 2023).

These factors underline why integrity in financial statements is crucial. Several factors influence the integrity of financial statements. The first is the *audit committee*, which assists and supports the board of commissioners in supervising company management per good corporate governance principles. The audit committee is responsible for ensuring that financial statements prepared by management present a true picture based on generally accepted accounting principles. The Financial Accounting Standards Board (FASB) states that an active audit committee contributes to more efficient corporate governance, protecting investors' interests and ensuring the integrity, quality, and reliability of financial statements.

The *audit committee* composed of independent commissioners plays key roles in supervising financial statement audits. The more independent the audit committee, the better it can prevent financial statement manipulation, thereby increasing the statements' integrity. Therefore, a higher percentage of audit committees with independent commissioners correlates positively with financial statement integrity. Previous research

by (Dewi et al., 2022) reported that audit committees have a positive and significant effect on financial statement integrity, while (Marpaung et al., 2021) found a negative and significant effect.

The second factor affecting financial statement integrity is *independent commissioners*. Independent commissioners are board members not affiliated with the board of directors, other commissioners, or controlling shareholders, free of business or other ties that might impair their independence. Their functions include supervising outside management parties, mediating internal disputes, and advising and overseeing management policies. Research by (Sembiring et al., 2022) found a negative and significant effect of independent commissioners on financial statement integrity, whereas (Fahmi & Nabila, 2020) found a positive and significant effect.

The third factor is *company size*, a measure based on total assets, market value, shares, total sales, revenue, capital, and other criteria. Company size reflects a company's financial characteristics. Larger, well-established companies have easier access to capital markets, providing greater flexibility (ekonomi.bunghatta.ac.id, 2020). (Yudiawan et al., 2022) reported a positive effect of company size on the integrity of financial statements, while (O. E. Putra et al., 2022) found a negative effect.

The fourth factor is *audit quality*, defined by (Ria & Lila, 2019) as a systematic process to obtain and objectively evaluate evidence about the accuracy of statements on economic activities and events, aiming to assess conformity with established criteria and communicate results to interested users. Research by (Manuari & Devi, 2021) found audit quality to have a significant positive effect on financial statement integrity. In contrast, (Wijaya, 2022) concluded that audit quality does not significantly affect integrity.

METHOD

The research is quantitative, using secondary data obtained from the annual reports and financial statements of companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The hypothetical test in this study used multiple linear regression analysis and Moderated Regression Analysis (MRA) with the SPSS 18.0 analysis tool. This study has 2 (two) types of variables, namely independent or independent variables (X) and bound or dependent variables (Y).

Integrity of Finance_Y Report

Following from the journal reference (R. D. S. D. Putra, 2020), using the conservatism index can be formulated with the following formula:

$$\textbf{CCNACC} = \frac{\textbf{Nlit} - \textbf{CFO}_{it}}{\textbf{Tait}}$$

Information:

CCN_ACC The Importance of Conservatism in Accounting

Nlit : Net profit before other comprehensive income added depreciation or amortization of the company I in the year t

CFOit : Cash flow from the company's operating assets i in year t

Tait : Total assets of the company i in year t

Audit Committee

The measurement method of the audit committee in this study follows the journal from (Pertiwi et al., 2021) as beirkut:

Audit Committee = ∑ members of the company's internal audit committee

Independent Commissioner

The Independent Commissioners in this study are measured by a formula that follows the journal from (Sentosa, 2022) as follows:

$$\text{KIND} = \frac{\text{100\% Independent Commissioner}}{\text{Total Board of Commissioners}} \times$$

Company Size

The measurement of company size uses a formula from the journal (Putri et al., 2020) as follows:

Company Size = LN (total assets)

Audit Quality

According to the journal (Permana et al., n.d.) the variables for the audit quality measure use *dummy* variables. If the client company is audited by the *big four KAP* it is given a score of 1 but if the company is audited by the non-big *four KAP* then it is given a score of 0.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

This study uses four independent variables, namely audit committee, independent commissioner, company size and audit quality. Meanwhile, the dependent variable is the integrity of the financial statements. Descriptive statistical analysis testing was carried out with SPSS 18.0 software with the following results:

Table 1. Descriptive statistical analysis result

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Audit_X1 Committee	80	2.00	4.00	3.0375	.29527
Komisaris Independen_X2	80	.00	75.00	34.6750	12.43899
Size Perusahaan_X3	80	2702.00	3745.00	3166.3250	352.15628
Quality Audit_X4	80	.00	1.00	.0125	.11180
Integrity of Keuangan_Y Report	80	-1133.00	2817.00	150.0750	669.17655
Valid N (listwise)	80				

Data Source : Data processed (2023)

In table 1 above, it can be seen that the amount of data (N) is 80. The audit_X1 committee variable has an average value of 3.0375 with a standard deviation of 0.29527. The independen_X2 commissioner variable has an average value of 34.6750 with a standard deviation of 12.43899. The perusahaan_X3 size variable has an average value of 3166.3250 with a standard deviation of 352.15628. The audit_X4 quality variable has an average value of 0.0125 with a standard deviation of 0.11180. The financial laporan_Y

integrity variable has an average value of 150.0750 with a standard deviation of 669.17655.

Classic Assumption Test

1) Normality Test

The data normality test aims to test whether the data processed by the researcher is normally distributed or not. Data normality testing using non-paramatic Kolmogorov-Smirnov (K-S) statistics with the help of SPSS version 18.0. Table 2 presents the results of the data normality test as follows:

Table 2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		80
Normal Parametersa,b	Mean	.0000000
	Hours of deviation	638.50423568
Most Extreme Differences	Absolute	.146
	Positive	.146
	Negative	-.078
Kolmogorov-Smirnov Z		1.305
Asymp. Sig. (2-tailed)		.066
a. Test distribution is Normal.		
b. Calculated from data.		

Based on table 2 above, it is stated that the data processed by the researcher is distributed normally. This is shown by the Kolmogorov-Smirnov value of 1.305 and the significance value of 0.066 which means that it is greater than the alpha value of 0.05.

2) Heteroscedasticity Test

The heterokedasticity test aims to test whether the regression model finds a correlation between independent variables or not. If the significant value (sig) is > 0.05, then there are no symptoms of heteroscedasticity Based on table 3, the results of the heteroscedasticity test data processing are as follows:

Table 3 Heteroscedasticity Test Results

Coefficientsa						
Model		Unstandardized Coefficients		Standardiz ed Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-328.490	725.955		-.452	.652
	Audit_X1 Committee	212.614	171.836	.139	1.237	.220
	Komisaris Independen_X2	6.804	4.105	.188	1.657	.102

Size Perusahaan_X3	-.031	.145	-.024	-.213	.832
Quality Audit_X4	-442.292	448.959	-.110	-.985	.328

a. Dependent Variable: abresid

Data Source : Data processed (2023)

From table 3 above, it can be seen that this study passed the heteroscedasticity test. This is in accordance with the basis for decision-making if the significance value is > 0.05, as evidenced by the audit_X1 committee variable with a significance value (sig) of 0.220. The commissioner variable independen_X2 with a significance value (sig) of 0.102. The perusahaan_X3 size variable with a significance value (sig) of 0.832. The quality variable audit_X4 with a significance value (sig) of 0.328.

3) Multicollinearity Test

The multicollinearity test aims to test whether the regression model finds a correlation between independent variables. Multicollinearity testing of data in the study used SPSS version 18.0. The results of the multicollinearity test can be seen from the results of tolerance and Variance Inflation Factor (VIF). Table 4 shows the results of data processing from the multicollinearity test as follows:

Table 4 Multicollinearity Test Results

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerate that	VIF
1	(Const ant)	-1506.964	1068.885		- 1.410	.163		
	Komite Audit_X1	633.696	253.009	.280	2.505	.014	.974	1.027
	Comissaris Independen _X2	1.581	6.044	.029	.262	.794	.962	1.040
	Ukuran Perusahaan _X3	-.103	.214	-.054	-.482	.631	.957	1.045
	Quality s Audit_X4	343.430	661.04 0	.057	.520	.605	.995	1.005

a. Dependent Variables: Integrity of Keuangan_Y Reports

Data Source : Data processed (2023)

Based on table 4 above, it can be seen that this study is free from the problem of multicollinearity. This is in accordance with the conditions that have been set, namely the tolerance value >0.01 and VIF < 10. It is proven by the audit_X1 committee variable that it has a tolerance value of 0.974 and a VIF value of 1.027. The independen_X2 commissioner variable has a tolerance value of 0.962 and a VIF value of 1,040. The perusahaan_X3 size variable had a tolerance value of 0.957 and a VIF value of 1.045. The audit_X4 quality variable had a tolerance value of 0.995 and a VIF value of 1.005.

4) Autocorrelation Test

The autocorrelation test aims to test whether the regression model has a correlation between the disruptive error in the t-period and the disruptive error in the t-1 period (previously). The autocorrelation test was performed by calculating the Durbin-Watson (DW) value based on the Durbin-Watson criteria. Table 5 shows the results of autocorrelation test data processing as follows:

Table 5 Autocorrelation Test Results

Model Summaryb					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.299a	.090	.041	655.30985	2.224
a. Predictors: (Constant), Quality Audit_X4, Committee Audit_X1, Commissioner Independen_X2, Size Perusahaan_X3					
b. Dependent Variable: Integrity of Keuangan_Y Report					

Data Source : Data processed (2023)

Based on the results of the autocorrelation test in table 5 above, it can be seen that the dw value obtained was 2.224 with a total of 16 samples with an independent variable 4, obtained a dU value of 1.7716. The obtained dU is 1.7716, then 4-dU is 2.2284. Therefore, it can be concluded that there is no autocorrelation in the regression model conducted in this study du < DW < 4-dU (1.7716 < 2.224 < 2.2284).

Multiple Linear Regression Analysis

1) Partial Test (t-test)

The t-test aims to determine the relationship between variables X and Y. Whether the audit committee (X1), independent commissioners (X2), company size (X3), and audit quality (X4), affect the integrity of the financial statements (Y) separately or partially.

Table 6 Partial Test Results (t-test)

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1506.964	1068.885		-1.410	.163
	Audit_X1 Committee	633.696	253.009	.280	2.505	.014
	Komisaris Independen_X2	1.581	6.044	.029	.262	.794
	Size Perusahaan_X3	-.103	.214	-.054	-.482	.631
	Quality Audit_X4	343.430	661.040	.057	.520	.605
a. Dependent Variables: Integrity of Keuangan_Y Reports						

Data Source : Data processed (2023)

In the analysis of the t-test is carried out at the degree of freedom (n-k) = 80 – (5 – 1) = 76, where n is the sum of the sampek and k is the number of variables. At a confidence level of 95% or α 5%. So it can be known if the t-value of the table is 1.99254. The basis for returning the decision in the t-test is that if the value of sig < α or t is calculated > t table, then there is an accepted influence or hypothesis. Based on table 4.8, it can be seen that the linear equations produced are as follows:

$$Y = -1506.964 + 633.696X1 + 1.581X2 + -0.103X3 + 343.430X4 + e$$

Based on these equations, the hypothesis testing in this study is as follows:

The results of the H1 data test (Audit Committee has a significant negative effect on the integrity of the financial statements). The first hypothesis in this study is that the audit committee has a significant positive effect on the integrity of financial statements. Based on the linear equation above, it can be seen that the value of the regression coefficient for the audit committee variable has a value of 633,694 and is marked positive, meaning that every increase of 1 will be followed by an increase in the integrity of the financial statements by 633,694 assuming that the other variables are constant. Based on the above output, it is known that the t-value of table 4.8 for the audit_x1 committee is 2.505, because the t-calculated value is 2.505 > t-table is 1.9925 with a significant value of 0.014 < 0.05, it can be concluded that the first accepted hypothesis in this study states that "the audit committee has a positive effect on the financial statements" is rejected.

The results of the H2 data test (Independent Commissioners Have a Significant Positive Effect on the Integrity of Financial Statements). The second hypothesis in this study is that independent commissioners have a significant negative effect on the integrity of financial statements. Based on the linear equation above, it can be seen that the value of multiple regression efficiency for the independent commissioner variable has a value of 1,581 and is marked positive, meaning that every increase of 1 will be followed by an increase in the integrity of financial statements by 1,581 assuming that other variables are constant. Based on the above output, it is known that the t-value of table 4.8 for the independen_x2 commissioner variable is 0.262 because the t-calculated value is 0.262 < t-table is 1.99254 with a significant value of 0.794 > 0.05. It can therefore be concluded that the second hypothesis in this study states that "independent commissioners have a positive influence" is acceptable.

The results of H3 data testing (Company Size Has a Significant Positive Effect on the Integrity of Financial Statements). The third hypothesis in this study is that company size has a significant positive effect on the integrity of financial statements. Based on the linear equation above, it can be seen that the value of the multiple regression coefficient for the company size variable has a value of -0.103 and is marked negative, which means that every decrease of 1 will be followed by a decrease in the integrity of financial statements by -0.103 assuming other variables are constant. Based on the above output, it is known that the t-value of table 4.8 for the perusahaan_x3 size variable is -0.482, because the t-value is -0.482 < t-table 1.99254 with a significant value of 0.631 > 0.05. Therefore, it can be concluded that the third hypothesis in this study states that "the size of the company has a negative effect on the integrity of financial statements" is accepted.

The results of the H4 data test (Audit Quality has a negative negative effect on the integrity of financial statements). The fourth hypothesis in this study is that audit quality has a negative negative effect on the integrity of financial statements. Based on the linear equation above, it can be seen that the value of the multiple liner regression coefficient for the audit quality variable has a value of 343,430 and is marked positive, which means that every increase of 1 will be followed by an increase in the integrity of financial

statements of 343,430 assuming constant. Based on the above output, it is known that the t-value of table 4.8 for the audit_x4 quality variable is 0.520, because the t-calculated value is 0.520 < t-table 1.99254 with a significant value of 0.605 > 0.05. Therefore, it can be concluded that the fourth hypothesis in this study states that "audit quality has a positive effect on the integrity of financial statements" is accepted.

CONCLUSION

This study provides empirical evidence on the relationship between corporate governance mechanisms and financial report integrity in Indonesia's property and real estate sector, revealing that audit committees have a statistically significant but weaker-than-expected effect, while independent commissioners, company size, and audit quality show insignificant impacts. The low explanatory power ($R^2 = 0.090$) indicates that traditional governance factors account for only a small part of financial reporting quality, suggesting that cultural, institutional, and industry-specific elements may play more important roles in emerging markets. This research highlights the context-dependent nature of governance effectiveness and suggests that emerging economies require tailored theoretical frameworks and practical strategies focused on governance quality rather than mere compliance. Future research should explore these contextual factors, such as cultural and institutional influences, to better understand drivers of financial report integrity in emerging markets.

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