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The Effect of Good Corporate Governance Mechanisms and Company Size on the Integrity of Financial Statements

(Empirical Study of Manufacturing Companies in the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange in 2018-2021)

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Abstract: This study aims to examine and analyze the influence of corporate governance mechanisms and company size on the integrity of financial statements. The corporate governance mechanism in this study is proxied by the variables of independent commissioners, audit committees, institutional ownership, and managerial ownership. The population in this study are food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in the 2018-2021 period. The sampling technique used in this study was purposive sampling method so that 12 companies were obtained for four years, so the sample in this study was 48 samples. The data analysis technique uses the classical assumption test and multiple regression analysis with SPSS 25. The results of this research show that institutional ownership has an effect on the integrity of financial reports. Meanwhile, independent commissioners, audit committees, managerial ownership and company size have no effect on the integrity of financial statements.

Keywords: Integrity of Financial Statements, Good Corporate Governance, Independent Commissioner, Audit Committee, Institutional Ownership, Managerial Ownership, and Company Size

I. INTRODUCTION

The development of science and technology is marked by an increase in industrial companies which can have an impact on company activities. This increase must be balanced with an adequate company system. The company's financial statements must present various information regarding report performance, financial position, and changes in financial position. This is because financial statements are one of the considerations for investors to act and reflect the condition of the company's financial fundamentals.

In the integrity of the company's financial statements must provide relevant reports so that financial statement manipulation does not occur. It was found that there were cases of manipulation of the company's financial statements as experienced by two former directors of PT FKS Food Sejahtera Tbk (AISA) allegedly involved in the manipulation of financial statements that occurred because six affiliated distributor companies were recorded as third parties and overstatement of accounts receivable from the six the company amounted to Rp. 4 trillion. It was found that the case of PT FKS Food Sejahtera Tbk (AISA) showed an indication of a weakness in the integrity of the company's financial statements in the information that had been presented (Soenarso, 2021 in Fatin, 2022).

Good corporate governance (GCG) is also an internal factor that can increase the efficiency and effectiveness of the company. Implementation of corporate governance in companies can improve the quality of company performance in corporate financial reporting. The implementation of governance consists of several components, namely the audit committee, institutional ownership, management ownership, and independent commissioners. The good corporate governance mechanism aims to ensure that the company's activities can be carried out in accordance with the established regulations.

The factor that influences the integrity of reports is also caused by company size. Company size describes the effectiveness of the company on the integrity of financial statements. The larger the company size, the more information available to investors in making decisions so they will be more careful in presenting financial reports (Mais & Nuari, 2017 in Suzan 2022). With the size of the company will affect the preparation of financial statements so as to facilitate investors in making decisions.

The integrity of the company's financial statements must pay attention to internal factors so as to be able to increase the financial statements to be significant and the company to develop. The integrity of financial reports can be measured using the conservatism index. Measuring the integrity of financial statements can use conservatism based on the Givoly and Hayn (2000) method, namely by comparing profit after tax less operating cash flow plus depreciation divided by total assets. The concept of conservatism is the principle of being vigilant in responding to doubts from the future so that financial statements do not contain errors or manipulation of company financial report data (Lubis et al, 2019).

Several studies on the effect of good corporate governance mechanisms on the integrity of financial reports have been carried out before. From the inconsistency of the results of previous research, the authors would like to re-examine "The Influence of Good Corporate Governance Mechanisms and Company Size on the Integrity of Financial Reports in Manufacturing Companies in the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange in 2018-2021".

The formulation of the problem in this study is whether the audit committee, independent commissioners, managerial ownership, institutional ownership and company size affect the integrity of financial statements. Thus, the purpose of this study was to examine the influence of audit committees, independent commissioners, managerial ownership, institutional ownership and firm size on the integrity of financial statements.

II. LITERATURE REVIEW

Agency Theory

Agency theory (agency theory) is the source of the agency relationship which is included in the employment contract relationship between company managers and shareholders. The existence of a separation between company management and company ownership can lead to conflicts that have an impact on the company's financial statements. Optimal corporate governance can improve the integrity of financial reports (Akram et al, 2017 in Permana & Noviyanti, 2022).

Integrity of Financial Statements

The integrity of financial statements shows the true condition of the company and is netral. The integrity of financial reports contains the presentation of company financial report data that reflects structured company performance so as to provide valid information. The integrity of financial reports is a financial report that is presented fairly and without bias, namely in accordance with the actual conditions of the company without any manipulation of financial reports and aims as a form of corporate responsibility to stakeholders (Febrilyanti, 2020).

Good Corporate Governance

The mechanism of good corporate governance is a form of relationship between various internal and external interests in the procedure for controlling the company. Good corporate governance companies can aim at controlling the company's financial statements.Corporate Governance is carried out to be able to provide added value to interested parties (Soedaryono & Riduifana, 2017 in Permana & Noviyanti, 2022).

Audit Committee

The audit committee is an organization formed by the board of directors who performs the responsibility of auditing business operations and ensuring the reliability of the company's financial statements (Istiantoro et al, 2017 in Fikri & Suryani, 2020). The audit committee is in charge of supervising the company's financial statements and ensuring that reports conform to standards.

Institutional Ownership

Institutional ownership is the ownership of company shares owned by several companies or institutions including insurance companies, investment companies, institutional ownership and banks (Dewi & Putra, 2016 in Johana & Djitaningsih, 2020). Increasing institutional ownership shares is considered capable of overseeing company activities in terms of company financial reports, especially in terms of management policies.

Managerial Ownership

Managerial ownership is the total share ownership held by managers and directors in the company (Atiningsih & Suparwati, 2018). Managerial ownership has an important role in controlling financial statements and making decisions in managing the company, including in establishing the integrity of financial reports.

Independent Commissioner

According to Damayanti & Triyanto (2020) states that an independent commissioner is a member of the company's board of commissioners who has no relationship with other company members whose job is to help evaluate the company's performance as a whole. Independent commissioners aim to supervise the directors to manage the company effectively.

Company Size

Company size is a value that shows the company's ability to make decisions (Wardhani & Samrotun, 2020). A company size that is getting bigger, the demands on report integrity also increase. Increasing the size of the company will have an impact on the financial reporting system so as to make the level of financial integration reports better.

III. INDENTATIONS AND EQUATIONS

Data analysis method

This research method uses the classical assumption test technique and multiple linear regression analysis. The classical assumption test consists of a normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. Meanwhile, the multiple linear regression test consists of the Simultaneous Test (F Test), Partial Test (T Test) and the Coefficient of Determination (R2). Data were analyzed using multiple linear regression and then processed using the Statistical Package for the Social Sciences (SPSS) version 25. The following is the analysis of multiple linear regression equations:

$ILK = \alpha + \beta1KA + \beta2KEM + \beta3KEI + \beta4KOIN + \beta5SIZE + e$

Information:

ILK : Financial Report Integrity
α : Constant
β1-β5 : Koefisien regresi masing – masing variabel independen
KA : Komite Audit
KEM : Kepemilikan Manajerial
KEI : Kepemilikan Institusional
KOIN : Komisaris Independen
SIZE : Ukuran Perusahaan
e : Error

IV. DATA ANALYSIS AND DISCUSSION

4.1 Descriptive Statistics

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
KA	41	3.00	4.00	3.0488	.21808
KEM	41	.00	56.00	9.2683	16.53485
KEI	41	36.00	333.00	76.5366	61.27075
COIN	41	20.00	50.00	35.8780	8.43562
SIZE	41	2665.00	3282.00	2919.5122	154.55681
ILK	41	-9.00	33.00	17.3415	9.59586
Valid N (listwise)	41				

Source: author data processing, 2023

Based on the table above, it can be seen that the integrity of financial statements can be measured by comparing profit after tax less operating cash flow plus depreciation with total assets. The integrity of the company's financial statements has an average of 0.17 and a standard deviation of 0.0959 with a minimum value of -0.09 and a maximum value of 0.33.

The audit committee variable is measured using the number of audit committees in the company each year. The audit committee has a minimum score of 3.00 and a maximum of 4.00. While the average is 3.0488 and the standard deviation is 0.21808.

he managerial ownership variable is measured using the ratio of the number of shares of the manager divided by the number of shares outstanding multiplied by 100%. Managerial ownership has a minimum value of 0.00, namely PT Bisi Internasional Tbk in 2018 and a maximum of 0.56, namely PT Garudafood Putra Putri Jaya Tbk in 2018. Meanwhile, the average is 0.92683 and the standard deviation is 0.16534.

The institutional ownership variable is measured using the ratio of the number of institutional shares divided by the number of outstanding shares multiplied by 100%. Institutional ownership has a minimum value of 0.36, namely PT Ultra Jaya Milk Industry & Trading Company Tbk in 2018 and a maximum value of 3.33, namely PT Bisi Internasional Tbk in 2020. Meanwhile, the average is 0.7653 and the standard deviation is 0.6127.

The independent commissioner variable is measured by comparing the number of independent commissioners divided by the number of members of the board of commissioners multiplied by 100%. Independent commissioners have a minimum value of 0.20, namely PT Mayora Indah Tbk in 2018 and a maximum value of 0.50, namely PT Siantar Top Tbk in 2018. Meanwhile, the average is 0.3587 and the standard deviation is 0.08435.

The company size variable is measured by *natural logarithm* (Ln) of total assets. Company size has a minimum value of 26.65, namely PT Bisi Internasional Tbk in 2018 and a maximum value of 32.82, namely PT Indofood Sukses Makmur Tbk in 2021. While the average is 29.19 and the standard deviation is 1.545.

4.2 Classic assumption test

4.2.1 Normality Test

Normality testing was carried out with the one sample Kolmogorov Smirnov test by looking at the level of significance at asymp sig (2-tailed). The results of the normality test in this study showed that a sample of 41 companies had an asym sig (2-tailed) value greater than 0.05, which was 0.200. This means that it can be concluded that it is normally distributed.

4.2.2 Multicollinearity Test

Table 2. Multicollinearity Test Results

		Collinearity Statistics		
	Model	tolerance	VIF	Conclusion
1	(Constant)			
	KA	.846	1,182	There is no multicullinearity
	KEM	.875	1.142	There is no multicullinearity
	KEI	.900	1,111	There is no multicullinearity
	COIN	.798	1,252	There is no multicullinearity
	SIZE	.949	1,054	There is no multicullinearity

Source: Data Processing Results, 2023

From the results of the research test above by looking at the Tolerance Value of more than 0.010 and the Variance Inflation Factor (VIF) value below 10. It can be concluded that each variable does not occur multicollinearity.

4.2.3 Heteroscedasticity Test

The heteroscedasticity test was carried out using the Spearman test with Sig (2-tailed) greater than 0.05, so it can be concluded that there was no heteroscedasticity. From the results of this study the heteroscedasticity test by looking at the unstandardized residual part of Sig (2-tailed) is greater than 0.05, it can be concluded that each variable does not occur heteroscedasticity

4.2.4 Autocorrelation Test

Table 3. Autocorrelation Test Results

Summary Model

Model	R	R Square	Adjusted R Aquare	Std. Error of the Estimate	Durbin-Watson
1	.641[a]	.411	.327	7.87298	1.760

Source: Data Processing Result, 2023

Based on the Durbin-Watson value, it shows a value of 1.760. With the condition that if the DW value is between -2 and +2 or -2 DW < +2 which means there is no autocorrelation.

4.3 Multiple Linear Regression Test

Table 4. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	std. Error	Beta		
(Constant)	34.386	30.555		1.125	.268
KA	-9.639	6.205	-.219	-1.553	.129
KEM	.128	.080	.220	1.590	.121
KEI	-.70	.021	-.445	-3.256	.003
KOIN	-.27	.165	-.024	-.165	.870
SIZE	.006	.008	.096	.724	474

Source: Data Processing Results, 2023

In the table it can be explained the relationship between the research variables into the following equation:

ILK = 34.386 – 9.639 + 0.128 – 0.070 – 0.027 + 0.006 + e

4.3.1 Partial Significance Test (T Test)

Table 5. Partial Significance Test Results (T Test)

Model			t	Sig.	Conclusion
	KA		-1,553	.129	Rejected
	KEM		1,590	.121	Rejected
	KEI		-3,256	003	Accepted
	COIN		-.165	.870	Rejected
	SIZE		.724	.474	Rejected

Source: Data Processing Results, 2023

Based on the hypothesis testing above, the result is that the institutional ownership variable (KEI) has a significance of 0.003 <0.05, so H3 is accepted, which means that institutional ownership affects the integrity of financial statements. Meanwhile, the variables of audit committee, managerial ownership, independent commissioners, and company size have no effect on the integrity of financial statements. It is proven that the significance value is more than 0.05.

4.3.2 Simultaneous Significance Test (F Test)

Table 6. Simultaneous Significance Test Results (F Test)

Model		Sum of Squares	df	Mean Square	F	Sig
1	Regression	1513.786	5	302.757	4.884	.002[b]
	Residual	2169.433	35	51.984		
	Total	3683.220	40			

Source: Data Processing Results, 2023

Based on the table above, it shows the results of the simultaneous influence test with a significance value of 0.02, which means that the value is below 0.05 or 0.02 < 0.05, so it can be said that the audit committee variables, managerial ownership, institutional ownership, independent commissioners and company size jointly or simultaneously affects the integrity of financial statements. This indicates that the regression model used in this study is feasible or fit to be used as a regression model for testing the hypothesis.

4.3.3 Determination Coefficient Test (R2)

Table 7. Test Results for the Coefficient of Determination

Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.641a	.411	.327	7.87298	1,760

Source: Data Processing Results, 2023

Based on the table above, it is known that the adjusted R square is 0.327 or 32.7%. This means that 32.7% of the variable integrity of financial statements can be explained by the variable audit committee, managerial ownership, institutional ownership, independent commissioners and company size. While the remaining 67.3% is explained by other variables not discussed in this study.

4.4 Discussion of Analysis Results

The Influence of the Audit Committee on the Integrity of Financial Statements

The hypothesis test shows that the results of the audit committee are rejected, meaning that the audit committee has a negative effect on the integrity of financial statements. Proven value significance of 0.129 greater than 0.05.

The Effect of Managerial Ownership on the Integrity of Financial Statements

The hypothesis test shows that it has a significance of 0.121 greater than 0.05. It is proven that managerial ownership is rejected, meaning that managerial ownership has no effect on the integrity of financial statements.

The Effect of Institutional Ownership on the Integrity of Financial Statements

The hypothesis test shows that the results of institutional ownership are accepted, meaning that institutional ownership has a positive effect on the integrity of financial statements. Proven in significance valueof 0.003 less than 0.05, then institutional ownership is accepted.

The Influence of Independent Commissioners on the Integrity of Financial Statements

The hypothesis test shows that the results of independent commissioners are rejected, meaning that independent commissioners have no effect on the integrity of financial statements. Proved thathas a significance value of 0.870

greater than 0.05, the independent commissioner is rejected, which means that the independent commissioner has no effect on the integrity of the financial statements.

The Effect of Company Size on the Integrity of Financial Statements

The research hypothesis test shows that the results of company size are rejected, meaning that company size has no effect on the integrity of financial statements. It is proven that the significance value of 0.474 is greater than 0.05.

V. CONCLUSION

Conclusion:

Based on this research to obtain the results of the hypothesis which can be concluded as follows:

a. The results of the hypothesis test show that the audit committee is rejected, meaning that the audit committee has no effect on the integrity of financial statements. The existence of an audit committee is one of the committees that plays an important role in corporate governance.
b. The results of the hypothesis test show that managerial ownership is rejected, meaning that managerial ownership has no effect on the integrity of financial statements.
c. The results of the hypothesis test show that H3 is accepted, meaning that institutional ownership affects the integrity of reports. Institutional ownership in this study is the percentage of institutional shares to the total outstanding shares of the company.
d. The results of the hypothesis test show that H4 is rejected, meaning that the independent commissioner has no effect on the integrity of the financial statements. Independent commissioners within the company have the function of supervising and being a protector for parties outside the company's management so that they become mediators in disputes.
e. The results of the research hypothesis test show that the results of H5 are rejected, meaning that company size has no effect on the integrity of financial statements. Companies that have a large scale will have more complete information that investors can use in making decisions.

Limitations:

This study has limitations that can be taken into consideration for subsequent research in order to obtain even better results. These limitations include:

a. This research was conducted using only four years of financial reports, namely 2018-2021, so it does not reflect the overall condition of the company.
b. Sampling is limited to food and beverage companies, so it cannot reflect the capital market of the company as a whole.
c. Researchers used five variables, namely corporate governance variables consisting of audit committees, managerial ownership, institutional ownership, independent commissioners and company size, so this study has not explained other factors that can affect the integrity of financial statements.

Suggestion:

Research on the factors that influence the integrity of financial reports is then expected to be able to provide better and quality results, taking into account the following suggestions:

1. For Companies
   Companies should continue to strive to present financial reports with high report integrity so that it can make it easier for researchers to use financial reports.

2. For Users of Financial Statements
   Users of financial reports should collect all information related to the condition of the company, not limited to financial reports.

3. For Further Research
   Further research should be done by adding a larger sample that is able to represent various types of corporate sectors.

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