Analysis of Corporate Governance, Leverage and Company Size on the Integrity of Financial Statements

Aina Zahra Parinduri
Universitas Trisakti
ainaparinduri@trisakti.ac.id

Risma Koeshartanti Pratiwi
Universitas Trisakti
risma.kpratiwi@gmail.com

Oktavina Ika Purwaningtyas
Universitas Trisakti

ABSTRACT

The purpose of this study is to find empirical evidence of the effect of good corporate governance (independent board of commissioners, audit committee, managerial ownership, and institutional ownership), leverage and company size on the integrity of financial statements. The sample used in the study was 33 companies listed in the LQ45 category on the Indonesia Stock Exchange (IDX) for the 2015-2017 period. This study uses the method of multiple linear regression analysis, which is done by the classic assumption test. The results of this study indicate that the independent board of commissioners has a positive effect on the integrity of financial statements; institutional ownership has a positive effect on the integrity of financial statements. However, the audit committee, managerial ownership, leverage, and company size do not influence the integrity of financial statements.

Keywords: Corporate Governance, Size, Leverage, Financial Statements

JEL Classification: M41, G34
INTRODUCTION

Financial statements are a description of the financial condition of a company, and the information presented in the report may not be misleading. There should be no material errors and must be reliable so that the user can trust that the information presented is fair and honest in its disclosure (Rozania, ZR & Nindito, 2013). Each stakeholder uses financial statements to make decisions, where the financial statements show the results of their decisions through the integrity of financial statements. Financial report integrity is the presentation of financial statements fairly and honestly, without being covered up or hidden. The information submitted is completely clear and accurate.

The integrity of financial statements has a close relationship with agency theory. Agency theory states that if there is a separation between the owner as of the principal and the manager as the agent running the company, agency problems will arise because each of these parties will always strive to maximize its utility functions (Jensen & Meckling, 1976). The implementation of corporate governance and monitoring of external independent parties such as auditors will reduce agency problems and improve the integrity of financial statements so that financial statements not only benefit the company but also external users in decision making.

In recent years there have been legal cases that manipulated accounting. Many companies present information in financial statements that lack integrity, where the financial statements are delivered unfairly and dishonesty to some users of financial statements. For example, accounting manipulation cases involving a number of companies in America such as Enron, Xerox, Tyco, Global Crossing and Worldcom as well as several companies in Indonesia such as Kimia Farma and Bank Lippo which previously had high audit quality (Susiana & Herawaty, 2007).

Therefore the term Corporate Governance emerged as proposed by Cadbury in 1192. Cadbury Committee (Cadbury, 1992) defines corporate governance as a policy package that contains a description of the relationship between shareholders, managers, creditors, governments, workers and other stakeholders. Corporate Governance is considered to be an important matter, which is related to various corporate governance arrangements that are used to control company activities in the aim of maximizing company profits for shareholders. If the system is implemented well, it can achieve economic growth, which will continue to
increase along with the transparency of the company's management that is getting better and will benefit many parties.

Leverage on a company also affects the integrity of financial statements. Leverage describes how much a company's assets are funded from debt, which is calculated by comparing total debt with total assets. When a company has a proportion of debt that is more than the amount of equity, the auditor will need more time in auditing the company's financial statements because of the complexity of audit procedures and finding more complex audit evidence with the company's creditors.

In addition to the existence of good corporate governance in the company, the size of the company also affects the integrity of financial statement information. The size of the company has an important role in the presentation of financial statements, the greater the size of the company, usually the information available to investors in making decisions related to investment in shares of the company more and more companies pay more attention to the community so they will be more careful in reporting finance. In contrast, small companies tend to show that it always performs well, so that investors will invest in the company.

Research conducted by Gayatri & Saputra (2013) previously gave results that institutional ownership negatively affected the integrity of financial statements while independent commissioners, audit committees, company size, and leverage positively influenced the integrity of financial statements.

Based on previous research references, the researcher will limit the research variables, such as good corporate governance (independent board of commissioners, audit committee, managerial ownership, and institutional ownership), leverage and company size to the integrity of financial statements. Researchers are interested in taking these variables because companies registered in the LQ45 often do not pay attention to the integrity of their financial statements based on the variables mentioned earlier. Researchers also limit research by conducting surveys in selecting samples of companies listed in the LQ45 category on the Indonesia Stock Exchange (IDX) for the 2015-2017 period.

This study aims to analyze and find empirical evidence of the effect of corporate governance, leverage, and firm size on the integrity of financial statements. This research is useful to provide information about the conditions under which financial statements can show the condition of a company as a matter of fact and can be used as an objective and reliable
means for financial analysis, investment managers, investors and other observers of capital markets.

**LITERATURE REVIEW**

Agency theory explains the relationship (contract) between two parties, namely principal (investor) and agent (management). Agency theory is usually used as a basis for understanding Good Corporate Governance (GCG). The concept of GCG itself is related to the principal-agency theory, namely, to avoid and reduce conflicts that arise between principals and agents (Jensen & Meckling, 1976). Agency theory assumes each act by prioritizing their interests. Management wants its interests to be fulfilled by providing adequate compensation for the business it manages in the company. On the other hand, shareholders want to prioritize financial returns on the investments they invest in the company. Of these differences arises a conflict of interest in agency relations.

Therefore, to deal with conflicts of interest between principals and agents, there are several ways, namely monitoring and incentive contracts. The first control system is to monitor manager actions that shareholders can design to prevent opportunistic agent actions and increase agent wealth at the expense of the interests of shareholders. The second is an incentive contract that is suitable to be done to limit the opportunistic behavior of agents by implementing the good corporate governance mechanism. Agency theory has a relationship with good corporate governance; one of the uses of GCG is to reduce information asymmetry between shareholders and managers (Anthony & Govindarajan, 2005).

The integrity of financial statements is a condition in which financial statements display the actual condition of a company without anything being covered up or hidden. The integrity of financial statements is important because it reflects the value of the company, which is a positive signal in order to influence the opinions of investors and creditors or other interested parties.

Financial reports are useful for presenting a financial position and financial performance in a company. The general purpose of these financial statements is to present information about financial position, financial performance, cash flow, and notes that explain related information from company reports, which are useful for making economic decisions for user or other public interest.
Corporate governance is a system designed to direct the management of the company professionally based on the principles of transparency, accountability, responsibility, independence, fairness, and equality. Whereas, the practice of good corporate governance (GCG) is a series of processes, rule policy habits, and institutions that influence the direction, management, and control of a company or corporation. Corporate governance also includes relationships between stakeholders involved, as well as corporate management goals. The main parties in corporate governance are shareholders, management, the board of commissioners, and board of directors. The company's other stakeholders include employees, suppliers, customers, banks and other creditors, regulators, the environment, and the community. The components of corporate governance in a company can be divided into four main parts, namely the independent board of commissioners, audit committees, institutional ownership, and managerial ownership.

According to the Financial Services Authority Regulation (OJK) No. 33 /POJK.04/2014, "Independent Commissioners are members of the Board of Commissioners who are from outside the Issuer or Public Company and fulfill the requirements as Independent Commissioners," and not affected by the interests of certain groups.

In the theory of corporate governance, companies are required to have an independent board of commissioners in their company. The independent board of commissioners is expected to be able to encourage and create a more independent, objective climate, and can place equality as the main principle in paying attention to the interests of minority shareholders and other stakeholders.

The presence of independent commissioners on the board can increase the quality of supervisory activities in the company because they are not affiliated with the company as an employee (Putri & Januarti, 2012). Every member on the board of commissioners is required to be always neutral in the event of a conflict between the board of directors and stakeholders. Independent commissioners are required to think about the interests of all companies in making decisions, taking into account the interests of all stakeholders, including the interests of investors, shareholders, communities where the company operates. The task component of the Board of Commissioners contained within a company, among others, to help plan the company's long-term strategy, and periodically review the implementation.
The audit committee is a committee formed by the board of commissioners of a company, whose members are appointed and dismissed by the board of commissioners to help conduct checks or research deemed necessary in carrying out the functions of directors in managing the company (Samsul, 2016). The audit committee works independently and professionally assisted by the board of commissioners, so it has a role to strengthen and assist the board of commissioners in carrying out the supervisory function of the audit, corporate risk management, financial reporting processes, and the implementation of good corporate governance (Alviyani, 2016).

The existence of an audit committee is currently accepted as part of a good corporate governance mechanism. The audit committee has to provide independent opinions to the board of commissioners on reports or matters submitted by the board of directors to the board of commissioners, identify matters that require the attention of the commissioner and carry out other tasks.

The duties and responsibilities of the audit committee are to provide views on matters concerning the company's financial policies, internal controls, and the accounting process of a company. In other words, they ensure that there is adequate internal control, there are no material and financial irregularities and legal implications, and the financial statements issued by management are not misleading and in accordance with accounting provisions generally accepted in that country.

Institutional ownership is the proportion of shares held by an institution within a company. A high level of institutional ownership will lead to greater oversight efforts by institutional investors so that it can hinder the opportunity manager’s behavior.

Jansen & Meckling (1976) state that managerial ownership and institutional ownership are the two main good corporate governance mechanisms that help control agency problems (Harjito, 2012). Institutional ownership is defined as share ownership by the government, financial institutions, legal entities, foreign institutions, representative funds, and other institutions at the end of the year.

The existence of institutional ownership in the company can function as a tool that can monitor the actions of company management so that the performance of management can be more optimal and can reduce agency costs. Institutional ownership also has an important role in
minimizing agency conflicts that occur between managers and shareholders (Harjito, 2012).

Managerial ownership is a situation where the manager owns the company’s shares or in other words, the manager of the company at the same time with the shareholders who own the company’s shares. Managerial share ownership in a company can be seen as a way to harmonize the potential differences of interests between shareholders outside of management, so agency problems can be assumed to be lost if a manager also participates as an owner (Jensen & Meckling, 1976). An increase in managerial ownership will make management wealth personally, increasingly tied to the wealth of the company so that management will try to reduce the risk of losing wealth. High managerial ownership results in low dividends paid to shareholders. The low dividends are due to the financing made by the management of the value of the investment in the future that comes from internal costs (Rustiarini, 2011).

The leverage ratio describes the source of operating funds used by the company. Leverage ratio also shows the risks faced by the company where the greater the risk faced by the company, the uncertainty to generate future profits will also increase (Tarjo, 2008). Companies that are considered too much funded from debt are considered unhealthy because they can reduce company profits (Sari & Abundanti, 2014). An increase in leverage will lead to requests for the procurement of monitoring mechanisms such as external audits. Creditors have an incentive always to ensure that financial reports produced by quality companies and companies can choose high-quality auditors. Leverage describes the proportion of total debt to the company to total assets owned by the company to find out the funding decisions made by the company (Cahyono, Andini, & Raharjo, 2016).

Company size has an important role in the presentation of financial statements with the integrity of weak financial statements so that small companies are considered to practice earnings management rather than large companies. This greater the size of the company in large companies, the more information available to investors in making decisions in terms of investment in the company’s shares and more attention by the community so that they will be careful in carrying out financial statements. Unlike small companies that tend to want to show the condition of the company with performances that investors want to invest in the company
(Nasution & Setiawan, 2007). Company size can be measured by company measurements such as total assets, company market value, total sales, log size, sales book value, and the number of employees. In this study, using the total log assets of the company as a measurement of the company.

The integrity of financial statements is a moral principle that impartiality, honesty, and integrity in asserting that fact as it is. The integrity of financial statements is important because it reflects the value of the company, which is a positive signal in order to influence the opinions of investors and creditors or other interested parties. Integrity Financial statements in a company can be influenced by corporate governance mechanisms, leverage, and size of the company.

This research is reflected in figure 1, which attempts to examine the relationship between corporate governance mechanisms, leverage, and company size with the integrity of financial statements.

**Figure 1: Research Framework**

Hypothesis Development

The proportion of commissioners from outside the company or often called independent commissioners has a large influence on the integrity of financial statements. Independent commissioners act as mediators if there is a dispute between management and shareholders. Concerning signaling theory, generally, shareholders will appoint independent commissioners whom they believe in having good accountability to supervise management by management so that they are better monitored. The appointment will
also make management to act more carefully in making decisions because every action taken by management will be reported to shareholders. With the results of the report, shareholders can analyze whether the report has good or bad signals.

In relation to agency theory, shareholders are often disadvantaged because of the uneven knowledge of the company’s internal information. Therefore, the presence of the role of independent commissioners in the company will make it easier for investors to obtain internal information about actions and decisions taken by management and the current conditions of the company. In the study of Nurdiniah and Pradika (2017) and Dewi & Putra (2016), independent commissioners had a positive influence on the integrity of financial statements while according to Siahaan (2015) independent commissioners did not influence the integrity of the company’s financial statements.

H1: Independent commissioners have a positive effect on the integrity of financial statements.

The audit committee is an internal organ that can show whether the reporting standards and implementation in the company have been running well or not. The establishment of an audit committee aims to assist the board of commissioners in its supervision, as a complement to the management control system and evaluating, evaluating and deciding the feasibility of a financial report to be published. In connection with the signal theory, the audit committee can provide a signal about the latest financial statement information and the profits the company obtained at the GMS. The signal will be assessed by the shareholders to find out the current condition of the company.

In relation to agency theory, the more the number of audit committees, the greater the pressure on management to produce financial reports with integrity (Yulinda, 2016). The audit committee can assess transparency and honesty regarding the information reported in the financial statements to reduce the standard deviations. Nurdiniah and Pradika (2017), Siahaan (2015) and Dewi & Putra (2016) who gave results that audit committees did not affect the integrity of financial statements.

H2: The audit committee has a positive effect on the integrity of financial statements

Companies with large institutional ownership (more than 5 percent) indicate their ability to monitor management. Institutional ownership can control management through monitoring so that it will
effectively reduce actions that can harm the company and shareholders. In relation to agency theory, institutional ownership can reduce the incentives of managers who act by prioritizing their interests. In general, institutional investors are experienced investors so that the functions in monitoring management performed by management can be optimized to reduce the problem of asymmetry information.

In relation to signaling theory, experienced institutional shareholders will usually assess and interpret first if they get a signal given by a manager because company managers will usually manipulate earnings management in order to achieve a certain level of profit to meet the desired shareholders' profit targets, for this reason, institutional investors are encouraged to supervise management. In the research conducted by Nurdiniah and Pradika (2017) and Wulandari and Budiartha (2014) states that institutional ownership has a positive effect on the integrity of financial statements. While Gayatri and Suputra (2013) state that institutional ownership negatively affects the integrity of financial statements.

H3: Institutional ownership has a positive effect on the integrity of financial statements.

Share ownership by management, such as directors and commissioners who are active in decision making, is believed to harmonize the interests of shareholders (Jensen & Meckling, 1976). In relation to agency theory, ownership of managerial shares can align interests between shareholders and managers, because managers also feel directly the benefits of decisions taken and managers who bear the risk if there are losses that arise as a consequence of making wrong decisions. In harmony with the interests of management and shareholders, it is believed that it will reduce the conflict of interest that usually arises.

In relation to signal theory, the presence of managerial ownership is believed to reduce false signals due to information asymmetry between shareholders and management. Managers know that all internal information of potentially managerial companies will conduct voluntary disclosure that can make it easier for shareholders to get a signal of the company's current conditions and can reduce management's earnings manipulation to attract new investors with large profits/profits. Research conducted by Dewi & Putra (2016) states that managerial ownership has a positive effect on the integrity of financial statements, while research
conducted by Fajaryani (2015) states that managerial ownership does not affect the integrity of financial statements.

H4: Managerial ownership has a negative effect on the integrity of financial statements.

As a result of the economic crisis, many companies use debt to maintain the sustainability of their companies. To find out the financing used through debt in running the company. Leverage can show the company's ability to pay off its debt with assets or assets that the company has.

In relation to agency theory, investors will find it difficult to predict the level of company sustainability in the future due to a high level of liability. Therefore before investors invest their capital, investors must look at the company's financial statements first to find out how much debt the company has. Companies that have large leverage will usually try to cover up this information, and then the company will usually issue or offer new shares as an attempt to disentangle financing through debt.

In relation to signaling theory, investors will generally pay attention to information about the level of leverage of the company, and the information is useful for knowing the signals provided by management. Companies that have small leverage will be quicker to give a good signal that the company's prospects in the future are good and far from bankruptcy. Research conducted by Nurdiniah and Pradika (2017) and Fajaryani (2015) states that leverage has a negative effect on the integrity of financial statements. Based on the description above and referring to previous research, it can be formulated:

H5: Leverage has a positive effect on the integrity of the financial statement

Company size shows how much information is contained within the company. The size of a company can reflect the concern of the management regarding the importance of information, both for the company's external and internal parties. The size of the company is measured by the log of total assets, both current assets and non-current assets owned by the company in the reporting year.

Company size is a scale which can be classified as large and small in various ways. The size of the company is only divided into three categories, namely large company and small firm. Large companies whose shares are very widespread, then each expansion of share capital will only have a small effect on the possibility of loss or displacement of control from the
dominant party to the company concerned. Conversely, a small company, where the shares are spread only in small environments, the addition of the number of shares will have a large influence on the possibility of a loss of dominant party control over the company concerned. When the size of the company increases, the public interest in the presentation of integrated financial statements is also getting higher. Companies with large sizes are assumed to have large amounts of assets and income levels to produce high profits. Conversely, if sales are smaller than variable costs and fixed costs, the company will suffer losses. Small-scale companies compared to large-scale companies tend to be less profitable. Oktadella & Zulaikha (2011) states that company size has a significant effect on the integrity of financial statements. Based on the explanation above, the hypothesis can be obtained as follows:

H6: Company size has a positive effect on the integrity of financial statements

METHODS

The data used in this study are secondary data obtained from the Indonesia Stock Exchange (IDX). The data used in this research are companies listed in the LQ45 group on the IDX in 2015-2017. The study uses 99 sample firms that meet purposive sampling criteria shown below: 1) companies included in the class LQ45 Indonesian Stock Exchange listing in the period, 2) companies that are not included in the LQ45 list for at least 3 (three) consecutive years, 3) the company does not present financial statements in rupiah, and 4) companies that publish/present complete financial and annual report data.

Table 1: Variable measurement

<table>
<thead>
<tr>
<th>Variable</th>
<th>Equation</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The integrity of financial statements</td>
<td>Conservatism = stock market price/ book value of shares</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Book value of shares = total equity/ outstanding shares</td>
<td>Nurdiniah &amp; Pradika (2017)</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independent board of commissioners</td>
<td>DKI = [the number of independent commissioners/ total board of commissioners] x 100%</td>
<td>Setiawan, Junarsin &amp; Yuliati (2013)</td>
</tr>
<tr>
<td>Audit committee</td>
<td>KA = [the number of audit committees from independent commissioners/ the number of audit committees] x 100%</td>
<td>Setiawan (2015)</td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>KI = [the number of institutional shares/ outstanding shares] x 100%</td>
<td>Nashir &amp; Gupta (2016)</td>
</tr>
</tbody>
</table>
Managerial ownership \( KM = \frac{\text{the number of board of directors and commissioners/ outstanding shares}}{\text{x 100\%}} \) 
Setiawan (2015)

Leverage \( DER = \frac{\text{total debt/ total equity}}{\text{}} \) 
Shin-Ping & Tsung-Hsien (2008)

Company size \( Size = \ln \text{total assets} \) 
Brigham & Houston (2001)

This research testing performed by multiple linear regression analysis, a method that is associated with the independent variable to dependent variable. Regression model used:

\[
ILK = \alpha + \beta_1 DKI + \beta_2 KA + \beta_3 KI + \beta_4 KM + \beta_5 LEV + \beta_6 CS + e
\]

Where:
- \( ILK \) = integrity of financial statements
- \( DKI \) = independent board of commissioners
- \( KA \) = audit committee
- \( KI \) = institutional ownership
- \( KM \) = managerial ownership
- \( LEV \) = leverage
- \( CS \) = company size
- \( e \) = error term

RESULTS

Table 2: Descriptive statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILK</td>
<td>99</td>
<td>0.38</td>
<td>8.44</td>
<td>2.44</td>
<td>1.48</td>
</tr>
<tr>
<td>DKI</td>
<td>99</td>
<td>0.17</td>
<td>0.80</td>
<td>0.42</td>
<td>0.13</td>
</tr>
<tr>
<td>KA</td>
<td>99</td>
<td>3.00</td>
<td>6.00</td>
<td>3.73</td>
<td>0.78</td>
</tr>
<tr>
<td>KI</td>
<td>99</td>
<td>0.00</td>
<td>0.15</td>
<td>0.12</td>
<td>0.05</td>
</tr>
<tr>
<td>KM</td>
<td>99</td>
<td>0.17</td>
<td>0.98</td>
<td>0.60</td>
<td>0.14</td>
</tr>
<tr>
<td>LEV</td>
<td>99</td>
<td>0.13</td>
<td>9.94</td>
<td>1.71</td>
<td>1.87</td>
</tr>
<tr>
<td>CS</td>
<td>99</td>
<td>27.50</td>
<td>32.21</td>
<td>30.53</td>
<td>1.13</td>
</tr>
</tbody>
</table>

Source: data process

The descriptive results showed that company size has an extreme value between the mean and standard deviation, which unusual in LQ45 companies.

Table 3: Regression result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Std. Error</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILK</td>
<td>0.898</td>
<td>4.758</td>
<td>0.851</td>
<td></td>
</tr>
<tr>
<td>DKI</td>
<td>3.293</td>
<td>1.294</td>
<td>0.013</td>
<td>Accepted</td>
</tr>
<tr>
<td>KA</td>
<td>-0.044</td>
<td>0.202</td>
<td>0.830</td>
<td>Rejected</td>
</tr>
<tr>
<td>KI</td>
<td>8.014</td>
<td>3.051</td>
<td>0.010</td>
<td>Accepted</td>
</tr>
<tr>
<td>KM</td>
<td>0.603</td>
<td>1.016</td>
<td>0.554</td>
<td>Rejected</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.104</td>
<td>0.088</td>
<td>0.238</td>
<td>Rejected</td>
</tr>
<tr>
<td>CS</td>
<td>-0.001</td>
<td>0.141</td>
<td>0.996</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

Source: data process
Then we get the following equation:

\[ ILK = 0.898 + 3.293 \text{ DKI} - 0.044 \text{ KA} + 8.014 \text{ KI} + 0.603 \text{ KM} - 0.104 \text{ LEV} - 0.001 \text{ CS} + e \]

**DISCUSSION**

**Independent Board of Commissioners on the Integrity of Financial Statements**

In testing the first hypothesis (H1) which examines the independent board of commissioners the integrity of financial statements has B1 of 3.293 significance levels of 0.0065 (0.013 / 2 = 0.0065), so that the decisions obtained by H1 are accepted. This result is in line with the research conducted by Nurdiniah and Pradika (2017) and Dewi & Putra (2016) which states that independent commissioners have a positive influence on the integrity of financial statements. This result is also supported by signaling theory, where generally shareholders will appoint independent commissioners whom they believe have good accountability for overseeing management carried out by management so that they are better monitored.

**Audit Committee on the Integrity of Financial Statements**

In testing the second hypothesis (H2) which examines the audit committee for financial report integrity has B2 of -0.044 with a significance level of 0.415 (0.830 / 2 = 0.415), so that the decisions obtained by H2 are rejected. This result is in line with the research conducted by Nurdiniah and Pradika (2017), Siahaan (2015) and Dewi and Putra, where audit committees have no effect on the integrity of financial statements. This result is not in line with agency theory which states that the more the number of audit committees, the greater the pressure on management to produce financial reports with integrity.

**Institutional Ownership of the Integrity of Financial Statements**

In testing the third hypothesis (H3) which examines Institutional Ownership of the integrity of financial statements having B3 of 8.014 with a significance level of 0.005 (0.010 / 2 = 0.005), so that decisions obtained by H3 are accepted. This result is in line with the research conducted by Nurdiniah and Pradika (2017) and Wulandari and Budiartha (2014) which state that institutional ownership has a positive effect on the integrity of financial statements. This result is also supported by agency theory,
namely institutional ownership can reduce the incentives of managers who act by prioritizing their own interests. In addition, generally institutional investors are experienced investors so that the functions in monitoring management performed by management can be optimized to reduce the problem of information asymmetry.

**Managerial Ownership of the Integrity of Financial Statements**

In testing the fourth hypothesis (H4) which examines managerial ownership of financial report integrity has B4 of 0.603 with a significance level of 0.277 (0.554 / 2 = 0.277), so that decisions obtained by H4 are rejected. This result is in line with research conducted by Fajaryani (2015) stating that managerial ownership does not affect the integrity of financial statements. However, these results are not in line with agency theory which states that ownership of managerial shares can align interests between shareholders and managers, because managers also directly feel the benefits of decisions taken and managers who bear the risk if there are losses that arise as a consequence of taking wrong decision.

**Leverage on the Integrity of Financial Statements**

In testing the fifth hypothesis (H5) which examines the ability of companies to fulfill long-term obligations to the Integrity of Financial Statements having B5 of -0.104 with a significance level of 0.119 (0.238 / 2 = 0.119), so the decision obtained by H5 is rejected. These results are not in line with previous studies by Nurdiniah and Pradika (2017) and Fajaryani (2015) stating that leverage negatively affects the integrity of financial statements. Thus, agency theory which states that investors will find it difficult to predict the level of company sustainability in the future due to the high level of liability cannot support this research.

**Company Size towards the Integrity of Financial Statements**

In testing the fourth hypothesis (H6) which examines the size of the company against the Integrity of Financial Statements having B6 of -0.001 with a significance level of 0.499 (0.9962 = 0.499), so the decision obtained by H6 is rejected. This result is not in line with previous research by Oktadella and Zulaikha (2011) which states that firm size has a significant effect on the integrity of financial statements. This result contradicts the agency theory which states that the size of a company can reflect the concern of management regarding the importance of information, both for external companies and internal parties.
CONCLUSION

There are conclusions in the research that independent commissioners and institutional ownership have a positive impact on the integrity of financial statements. While the audit committee, managerial ownership, leverage, and company size does not impact on the integrity of financial statements.

Implications of this study are important for the investor to see the financial highlight of company size, which reflects that the LQ45 companies listed on the Indonesian Stock Exchange are very heterogeneous because of the extreme the difference in the amount of total assets.

Limitations of this research are the period and object of the research. Recommendation for the future research are use long period such seven till ten years, the longer the period, the more pattern will be, and it can be generalized (Sekaran, 2016), and LQ45 companies are given market, it does not reflect good conditions for research.

REFERENCES


