

**Integrity of Financial Statement: Big and Independent Are Not Guarantee**Endra Pradika^aJan Hoesada^b

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Jel Classification

C1, G3.

Abstract

This research aims to determine the influence of the independent commissioners, audit committee, institutional ownership, firm size and leverage against the integrity of the financial reporting information. This research is quantitative research with the causal approach. This study uses secondary data and panel data regression analysis method. The research results prove that audit committee, institutional ownership and leverage have effect on the integrity of the financial reporting information. But it does not prove that the independent commissioner and firm size effect on the integrity of the financial reporting information.

Introduction

Unitary State of the Republic of Indonesia is one of the countries that are actively doing development. Currently, Indonesia is no longer a focus on infrastructure development in Java Island only, but Indonesia did equitable development especially in the area of Eastern Indonesia that has already lagged far. Within the framework of equitable development, Indonesia has been conducting the construction of ports, highways, fast train line, the construction of airports, the construction of the clean water network, irrigation and other development especially in the area of Eastern Indonesia.

Futhermore, the Government also has a related program is home to a million low-income communities. Based on the results of Pusat Studi Properti Indonesia (PSPI) said that there are some of the things that makes the property sector rose in 2016. First, the Government's relaxation policy for credit property sector through loan to value which is effective July 2015. Second, credit property grew 15 percent higher than the year 2015, including construction loans, real estate, credit and home ownership or apartment. Third, the low levels of inflation and interest rates are coming down. Accelerating the realization of infrastructure development helped the property sector revival over government programs to boost the economy of Indonesia be 5.3 percent up to 6 percent.

See the abundance of financial scandal ever revealed, beginning with the scandal of Enron and Arthur Andersen cases that raise the incomes of about \$600 million and hide debts of US \$1.2 billion. Then begin to unfold some of the financial scandal to the public one by one like Bernard Madoff, Lehman Brothers, Cendat, MF Global, WorldCom, Fannie Mae, HealthSouth, Tyco International, Qwest Communications and others.

In Indonesia, a financial scandal ever to seize attention namely scandal conducted by BUMN such as PT. Kimia Farma (Persero) Tbk and PT. Kereta Api Indonesia (Persero) who has been doing the manipulation of financial statements with inflate profits. Then, the scandal conducted by PT. Katarina Utama with the forgery of financial statements, in 2008 and 2009. Cheating scandal in the presentation of the financial statements back tumultuous world in mid-2015. This scandal is performed by one of the big corporate in Japan, that is Toshiba. The financial scandal in which Toshiba is alleged to have profit to inflate US \$1.2 billion over the last five years. It eventually made CEO of Toshiba i.e. Hisao Tanaka and two

other company Chairman, Norio Sasaki and Atsutoshi Nishida stepped down from the leadership of the company.

The beginning of the second quarter in 2017 emerging issue that there has been fraud accounting in British Telecom. The Giant Multinational Corporate in the United Kingdom experienced cheating on one of its business lines in Italy. It also has an impact for public accountant PricewaterhouseCoopers (PwC). On this scandal, PwC failed to detect any cheating that finally got detected by whistleblowers who followed up with forensic accounting by the Klynveld, Peat, Marwick, Goerdeler (KPMG) International. Cheating does is raise the earnings of the company through a phony contract extension and its invoice as fictitious transaction with vendors. The practice of cheating occurs as early as 2013, until in the end British Telecom announced correction of revenues amounted to be GBP 530 million in January 2017.

All financial fraud scandal ever happened has shown how very weak integrity of information presented in the financial statements by the management of the company. If understood carefully, financial scandals that occurred almost entirely done in organized very well, because the scandal can be done over the years. In addition, many Auditors who failed to detect any fraud committed by his client so that give effect that can injure the reputation and the good name of them.

Efforts are being made to prevent the cheating scandal in the presentation of the financial statements do not happen again, then it should be improved a system of corporate governance based on the good principles and better known as Good Corporate Governance. The application of this system is expected to be one way and the guidelines for the top management in implementing corporate governance in accordance with the norms, rules, culture and laws and regulations in force. The company implements Good Corporate Governance with a maximum have the possibility that little or nothing will do a practice of cheating in the presentation of the financial statements in disregard of the interests of various parties, especially external parties of the company.

In 2004, Badan Pengawas Pasar Modal (Bapepam) issued a rule number IX. I. 6, with the attachment of the Chairman of Bapepam, number: Kep-45/PM/2004 which has now been replaced by the Financial Services Authority (OJK) regulations number 33/POJK. 04/2014 issued on 8 December 2014 regarding the Board of Directors and Board of Commissioners

of Issuers or public companies . The existence of an independent Commissioner of the company are expected to prevent the management company to practise fraud in the management of the company, especially in the presentation of financial statements, so that the information presented in the financial statements do not give error for the wearer.

In the regulations number 33/POJK. 04/2014 issued by the Financial Services Authority (OJK) on 8 December 2014, where article 28 paragraph 4 makes it clear that in order to support the effectiveness of the implementation of the tasks and their responsibilities, the Board of Commissioners is obliged to form The Audit Committee and may establish other committees. The audit committee has the duty and responsibility for reviewing the financial information issued by the company's management as well as overseeing the company's obedience against legislation that relates to the company's operations. Then the audit Committee also required to have the highest integrity, capacity, knowledge and practice to understand the company's business and financial reports.

In implementing Good Corporate Governance, in addition to the existence of independent commissioners and the audit committee, need for oversight by the institutional investors. The company's stock is owned by institutions or other institutions is the one of the mechanisms of supervision in a company. The presence of institutional investors in a company expected to supervise and encourage corporate's management to better focus in working to improve the performance of the company, so as to prevent fraudulent behaviour or practices which are opportunism. With the supervision of institutional investors is expected also that the information presented in the financial statements has been free of material's error or information is not misleading for the wearer (Dade & Endra, 2017).

The size of the company is alleged to be one of the factors that may affect the integrity of the financial reporting information. The large-scale companies will be faced with the situation where the demands against the company will be even greater from stakeholders in presenting the information in the financial statements in accordance with the actual financial state compare with a small-sized company. But judging from some of the financial scandal ever happen, the companies involved scandal is a large-scale company. That is because the more large-scale company get more highlights from various parties and they

should not have to do the cheating to maintain their existence in the world of business (Paramita & Nur, 2014).

The use of debt are too high in the finance company assets allegedly can affect management in presenting information in a financial statement that has integrity or it doesn't. Companies that have high leverage is alleged to be wider in presenting the information in the financial statements as an effort to lure investors compared with companies that have a low degree of leverage. But companies that have a high leverage rate does not cover the possibility that the company will do the cheating as windows dressing up financial statements. That is because the company is getting pressure from investors who want to get a high return from their investment (Brigham & Houston, 2012)

Based on these phenomena, then researchers interested and motivated to do research in order to test the factors that may affect the integrity of the financial reporting information. Then, the formula issue in this research is how big the influence of independent commissioners, audit committee, institutional ownership, firm size and leverage against the integrity of financial reporting information on property and real estate companies in Indonesia. Researchers are using property and real estate's companies in Indonesia due to this sector be sector the most attention among investors the last few years when the Government began issuing policies to do equity development especially in the area of Eastern of Indonesia and the increased growth in the property sector and real estate.

Literature Review and Development Hypothesis

The agency theory primarily helps in understanding a firm's relations to its equity stakeholders. It comprises the sources of finance, like institutional and private shareholders. The principal–agency theory does not consider management issues and other external and internal stakeholders of a corporation, like media, governments and employees (Nix and Chen, 2013:13). Agency theory using three assumptions of human nature, namely, first, human beings generally self-absorbed (self interest). Second, human beings have finite intellect about the perception of the future (bounded rationality). Third, humans always avoid risk (risk averse) (Daniel and Dul Muid, 2012).

Conservatism is a prudent reaction to uncertainty to try ensure that uncertainties and risks inherent in business situations are adequately considered. Thus, if two estimates of

amounts to be received or paid in the future are about equally likely, conservatism does not necessarily dictate using the more pessimistic amount rather than the more likely one (SFAC No.2 Paragraf 95). These risks and uncertainties should be reflected in the financial statements in order to make predictions and value neutrality could be repaired. Reporting based on prudence will give benefits to all users of the financial statements (Mamduh and Abdul Halim, 2016:41).

According to PSAK No. 1 paragraph 9 is effective as of 1 January 2017, a financial statement is a structured representation of the financial position and financial performance of the entity entity. The integrity of the financial statements is the extent to which the information is presented in accordance with the actual circumstances so that the information is reliable quality in the decision-making process. The reliability of the information relies heavily on the ability of a reasonably describe the information to circumstances or events described in accordance with the actual conditions (Innocent, Ardi, Herry, 2017).

A copy of the regulations of the financial services authority (OJK) number 31/POJK. 04/2015 about Material Facts or information disclosure By Issuers or public companies, for which article 1 makes it clear that the information is material information or facts or important facts and relevant regarding events, occurrences, or facts that may affect the price effect on the stock exchanges and/or the decisions of financiers, potential investors, or any other interested parties of information or facts.

Several studies conclude that the integrity of a financial statement can be measured using accounting conservatism and earning management. Earlier researchers assume that the financial statements are presented using the method of accounting conservatism will produce profits that has good quality and can be accounted for. That is because the application of the method of accounting conservatism will be able to reduce the motivation and nature management opportunism for cheating in the presentation of financial statements that are only concerned with themselves. But if the management company do earning management practices, it will reflect the profit that is not actually and are likely to have the motivation or deliberate to mislead the users of the financial statements.

Corporate Governance Mechanism is a rule, procedure and clear link between the decision makers with the supervisor and directed to ensure that the governance system is running well within the company. Corporate Governance mechanisms can be classified into three

types, namely company-specific, country-specific, and market governance mechanism (Istianingsih & Aloysius, 2017).

Effect of Independent Commissioner on Integrity of Financial Reporting Information

The independent commissioner is part of the members of the Board of Commissioners who come from outside the company and is not affiliated with the company whether in finance, management, ownership and family relations with the Board of directors or the Board of Commissioners another function is to monitor and assess the performance of the company's comprehensive and independent. Independent commissioners in the corporate's structure is expected to be a counterbalance in the decision-making process in an effort to provide protection for the rights of the minority *stockholder* and *stakeholders* from outside the company. The independent Commissioner has a duty to ensure that the company has information, control systems and audit system that works well. As well as ensuring that companies comply with the law and the legislation in force. So that the financial statements presented high integrity and reliable in the decision-making process.

H1 : Independent commissioner has influence on integrity of financial reporting information.

Effect of Audit Committe on Integrity of Financial Reporting Information

The audit committee is a committee established by the Board of Commissioners and/or Directors in order to support the effectiveness of the task and the responsibility to do oversight independently of over financial reporting with strict confidence. The audit Committee was established by the Board of Commissioners are independent with the goal of being able to help them conduct surveillance against the management of the company. The presence of the audit committee in corporate's structure is expected to be one of the ways to prevent the management company's behavior who have the motivation to do the *windows dressing* against the financial statements. In order to do that the supervisory function performed can run at maximum, then the audit committee should

have a strong independence. So, audit committee can't be influenced by management of the company and information of financial statements remains high integrity.

H2 : Audit Committee has influence on integrity of financial reporting information.

Effect of Institutional Ownership on Integrity of Financial Reporting Information

Institutional ownership is voting rights owned by government agencies or other institutions from outside companies both domestically and abroad. Institutional investors is the one of the mechanisms of good corporate governance to conduct surveillance against the management of the company. The presence of institutional investors assumed would be able to reduce the agency cost, thereby encouraging company's management to better focus to improve the performance of the company and prevent management to do practice cheating. As such, the information presented in the financial statements are free from material error and were in accordance with the actual conditions. So the financial report have information with high integrity.

H3 : Institutional ownership has influence on integrity of financial reporting information.

Effect of Firm Size on Integrity of Financial Reporting Information

The size of the company is the value which describes the large or small a company by way of looking at the total assets, total sales and market value that has been presented in the financial statements at the end of the fiscal year. Large and small companies' size alleged to be one of the factors that are important in the presentation of the financial statements which has high integrity. The multiplicity of demands from stakeholders who will be accepted by large-scale companies to present financial statements that has high integrity and is expected to be able to reduce the management to practise cheating in giving misleading informations. But the magnitude of the demands from shareholders to get a high return will make the management of the company is attempting to do window dressing of financial reporting, so that shareholders still infuse their capital in the company. So the large companies will be faced with the demands of an increasingly greater

and it can be feared will reduce the integrity of the information presented in the financial statements.

H4 : Firm Size has influence on integrity of financial reporting information.

Effect of Leverage on Integrity of Financial Reporting Information

Leverage is a ratio used to measure and find out how much the level of company assets obtained from debt or capital. The level of *leverage* that high on a company will show that the company has a very high financial risks as well. That is because the company looks to have difficulty in finance that can be measured how big the debt or capital used by companies in financing operational activities of the company. Companies with high leverage will encourage management to disclose and present information that is broader and more transparent with companies that have a low level of leverage. But the greater the risk that would be faced by investors, then it will increase demands from investors to get a *return* that is greater over the funds that have been invested. Such form is a very feared would encourage corporate management to perform *windows dressing* that will degrade the integrity of the information presented.

H5 : leverage has influence on integrity of financial reporting information.

Research Methodolgy

This research is quantitative research with the causal approach. This research aims to determine the influence of the independent Commissioners, audit committee, institutional ownership, firm size and leverage against the integrity of the financial reporting. The integrity of the financial reporting is measured by accounting conservatism model Beraver and Ryan is market to book ratio. Market to book ratio would reflect market value relative to the book value. The ratio of value greater than 1, indicating the application of conservative accounting because the company records the value of the company is lower than its market value. A conservative financial report shows that increasing the integrity of

the information from the financial statements. The independent commissioner is measured by comparing the number of independent commissioners with the total number of the Board of Commissioners. The audit committee is measured by the number of the audit committee of the company. Institutional ownership is measured by comparing the number of shares owned by an institution with the number of shares outstanding. The firm size is measured by the logarithm natura of the total assets. Then leverage is measured by comparing the total liabilities by total equity. The population in this research is the property and real estate companies listed on the Indonesia stock exchange period 2014-2016. This research uses a sampling of saturated and sample selected as many as 40 companies. Methods of analysis used is regression of the data panel with the help of Eviews 10. Then the regression equation used is as follows :

$$ILK = \alpha + \beta_1 INDP + \beta_2 KOAU + \beta_3 INST + \beta_4 SIZE + \beta_5 LVRG + \epsilon \quad (1)$$

Remarks :

ILK : Integrity of Financial Reporting Information

α : Constanta

$\beta_1 - \beta_5$: Coefficient of Regression

INDP : Independent Commissioners

KOAU : Audit Committee

INST : Institutional Ownership

SIZE : Firm Size

LVRG : Leverage

ϵ : Standar Error

Result and Discussion

Descriptive statistics test result of this research can be seen in Table 1.

	ILK	INDP	KOAU	INST	SIZE	LVRG
Mean	1.851083	0.391667	3.033333	0.644583	29.22775	0.964083
Median	1.380000	0.330000	3.000000	0.660000	29.35000	0.795000
Maximum	7.240000	0.830000	4.000000	0.950000	31.75000	5.110000
Minimum	0.150000	0.200000	2.000000	0.200000	25.89000	0.070000
Std. Dev.	1.659642	0.095972	0.287946	0.188171	1.283923	0.831064
Skewness	1.582124	1.371050	1.063509	-0.361004	-0.370552	2.460590
Kurtosis	4.903190	6.100565	11.75073	2.273789	2.697595	11.36658

Jarque-Bera	68.17297	85.66310	405.4974	5.243398	3.203418	471.0883
Probability	0.000000	0.000000	0.000000	0.072679	0.201552	0.000000
Sum	222.1300	47.00000	364.0000	77.35000	3507.330	115.6900
Sum Sq. Dev.	327.7752	1.096067	9.866667	4.213579	196.1665	82.18950
Observations	120	120	120	120	120	120

Source : Eviews 10.

Integrity of financial reporting information variable on property and real estate companies as research sample have range of values from 0,15 up to 7,24. The company that has the lowest integrity of financial reporting information is PT. Suryamas Dutamakmur Tbk, in 2016. While, the company has the highest value integrity of financial reporting information is PT. Pembangunan Perumahan (Persero) Tbk, in 2014.

Independent commissioner variable on property and real estate companies as research sample have range value from 0,20 up to 0,83. The company that has the lowest percentage of indepent commissioner is PT. Kawasan Industri Jababeka Tbk, in 2015 and 2016. Then, the company has the highest percentage of independent commissioner is PT. Lippo Karawaci Tbk, in 2016.

Audit committee variable on property and real estate companies as research sample have range value from 2 up to 4. The companies that have the lowest number of audit committe members or do not meet the minimum limit are PT. Adhi Karya (Persero) Tbk, in 2016, and then PT. Roda Vivatek Tbk, in 2014 and 2015. While, the company that have the most members of audit committee are PT. Pikko Land Development Tbk, in 2016, PT. Metropolitan Land Tbk and PT. Waskita Karya (Persero) Tbk, in 2014 up to 2016.

Institutional ownership on property and real estate companies as research sample have range value from 0,20 up to 0,95. The company that has the lowest percentage of institutional ownership is PT. Kawasan Industri Jababeka Tbk, in 2014. While, the company

that has the highest percentage of institutional ownership is PT. Suryamas Dutamakmur Tbk, in 2014 up to 2016.

Firm size variable on property and real estate companies as research sample have range value 25,89 up to 31,75. The company that has the lowest firm size's value is PT. Bekasi Asri Pemula Tbk, in 2014 up to 2015. While, the company that has the highest firm size's value is PT. Waskita Karya (Persero) Tbk, in 2016.

Leverage variable on property and real estate companies as research sample have range value from 0,07 up to 5,11. The company that has the lowest percentage of leverage is PT. Greenwood Sejahtera Tbk, in 2016. While, the company that has the highest percentage of leverage is PT. Pembangunan Perumahan (Persero) Tbk, in 2014.

This research uses a panel data regression. After a panel data model estimation and selection of panel data model using chow test, hausman test and LM test, then the model selected and proper regression used is the fixed effect model.

Coeffient of determation test and statistic F test can be seen in table 2.

Table 2. Coffient of Determination Test and Statistif F Test

Cross-section fixed (dummy variables)			
R-squared	0.943072	Mean dependent var	1.851083
Adjusted R-squared	0.909674	S.D. dependent var	1.659642
S.E. of regression	0.498793	Akaike info criterion	1.726745
Sum squared resid	18.65958	Schwarz criterion	2.772054
Log likelihood	-58.60470	Hannan-Quinn criter.	2.151250
F-statistic	28.23759	Durbin-Watson stat	2.629626
Prob(F-statistic)	0.000000		

Source : Eviews 10.

Coefficient of determation test result can be seen from Adjusted R-Squared amounted to 0,909674. The results of this research show that the variation of the variables of the independent commissioners, audit committee, institutional ownership, firm size and leverage able to explain of 90.97% variation variable the integrity of financial reporting information. And Then, indicate 9.03% pointed out that the existence of other variables that could explain the variations on integrity of financial reporting information is not

included in the panel data regression model in this research. The F-test statistics result can be seen from the Prob (F-statistics) amounted to 0.000000. The results of this research show that this regression model was fit.. Statistik t-test results can be seen in table 3.

Table 3. t-Statistic Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.076993	3.829052	-0.542430	0.5886
INDP	2.753387	1.501292	1.834012	0.0693
KOAU	1.655969	0.479286	3.455071	0.0008
INST	1.663443	0.828389	2.008045	0.0470
SIZE	-0.138829	0.126624	-1.096392	0.2752
LVRG	0.842253	0.183244	4.596353	0.0000

Source : Eviews 10.

Based on table 3, then the equation of panel data regression that can be arranged into a mathematical equation as follows :

$$ILK = -2,08 + 2,75INDP + 1,66KOAU, 1,66INST - 0,14SIZE + 0,84LVRG \quad (2)$$

The presence of the Board of Commissioners that at least 30% of the total overall Board of Commissioners allegedly have not been able to so some balance in the decision-making process in an attempt to provide protection of the rights of the stakeholders especially the minority's shareholders. A low percentage of the independent Commissioners feared would be less able to provide oversight of a very independent of actions taken by management of the company. In addition, the independent commissioners also serves as audit committee and remuneration committee. So independent commissioners do not focus to perform their tasks and functions to the maximum. The presence of the independent commissioners are still lacking in balance with the number of the board of commissioners who are not yet able to boost confidence to the users of the financial statements that the information presented in the financial statements have been high integrity and can be accounted for.

The existence of audit committee of the company's structure are expected to reduce fraud committed by the management of the company, are included in the presentation of the financial statements has been successful. The audit committee has the duty and responsibility to assist Board of Commissioners in the conduct of oversight in the financial

reporting process by the management of the company has been able to increase the credibility of financial statements. The existence of the audit committee in the process of internal audit and external as well as formal communication done well will be able to improve the accuracy of financial statements and increase the belief of the user against the integrity of informations presented in the financial statements.

The existence of the institutional investors in the ownership of the shares of the company being able to supervise and encourage the management of the company to be more focused in an attempt to improve the performance of the company. The existence of surveillance conducted by institutional investors will prevent the behavior management of the company to perform the act or practice of cheating in the presentation of data and financial's informations would mislead the users financial statements in taking decisions and policy making. So the high percentage of stock ownership by institutions will raise confidence to the users of the financial statements that the informations presented in the financial statements has been free of materials error and have high integrity that can be accounted for.

The large scale or small scale of the company is not one important factor that will affect the management of the company can do the cheating in the presentation of data and financial's informations of the financial statements. It can be seen from the financial scandal ever happen where the scandal is done by large companies who may be in financial difficulties situation. So basically the practice of manipulation of data and informations of the financial statements does not only involve small-scale companies but can also be done by large companies that are experiencing financial difficulties but would like to still look good in the eyes of the public or the community. So the size of the company is not a guarantee that the large scale company will be free from data manipulation practices of the financial reporting and otherwise that the small scale company will more often practise information manipulating of financial statements.

The company's assets are financed by debt is too high will affect the management of the company to present data and informations of financial statements. Companies with a high leverage rate percentage is assumed to be more expansive in presenting data and information more transparent in their financial reporting as one of the efforts to lure investors to infuse their investment in the company. This suggests that companies that

have a high degree of leverage will provide informations and data that have high integrity and quality, so that stakeholders can take decisions and make the policy appropriately.

Conclusions

Based on the results of this research, it can be made a conclusion that this research was able to prove that the audit committee, institutional ownership and leverage have effect on the integrity of the financial reporting information on the property and real estate companies in Indonesian. While the results of this research has not been able to prove that independent commissioners and the firm size affect on the integrity of financial reporting information on property and real estate companies in Indonesia. These results indicate that the presence of independent Commissioners and the size of a large company not to be assurance that the financial statements presented high integrity. So we have to do a deeper analysis to ensure that the company has been presenting financial reports that have integrity

Should the company increase the number of independent Commissioners at least 50 percent of the total the Commissioner. Company management must always remain attentive to the rights of stakeholders and upholding integrity as well as maintain and strive to present the company's financial reporting data with the actual circumstances so as not to misleading decision-makers. Management of the company's expected is not easily influenced by the large number of the demands from various parties such as investors, creditors or the Government. So the company's management will not be compelled to do the fraud in presenting financial reporting data.

The financial services authority as a regulator in the capital market should be able to make the policies and regulations that are able to minimize, reduce even prevent the occurrence of fraud scandals in the presentation of financial reporting data. The users of financial reporting data should be more meticulous and careful in doing analysis of data from the financial reports as well as the need to collect data. It is aimed so that decision making and policy making be right. The users of the financial statements in particular investors and creditors should collect and find information-information about the company's financial condition and performance of the company is not only sourced from the data presented in the report annual course, but can locate the information it needs from a variety of sources.

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