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THE INFLUENCE OF INSTITUTIONAL OWNERSHIP, INDEPENDENT COMMISSIONER, AUDIT COMMITTEE, FIRM SIZE AND LEVERAGE TO INTEGRITY OF FINANCIAL STATEMENT ON MANUFACTURERS LISTED IN INDONESIAN STOCK EXCHANGE

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Abstract

The study is aimed to analyze the influence of Institutional Ownership, Independent Commissioner, Audit Committee, Firm Size and Leverage to Integrity of Financial Statement on Manufacturers listed in Indonesia Stock Exchange 2013-2015. The sample of this study is 305 companies listed in Indonesian Stock Exchange in 2013-2015. Selection of sample uses purposive sampling method with logistic regression analysis. The result of analysis shows that Institutional Ownership and Firm Size positively significantly influence Integrity of Financial Statement, Independent Commissioner and Audit Committee negatively not significantly influence Integrity of Financial Statement, and Leverage positively not significantly influences Integrity of Financial Statement.

Keywords: Integrity of Financial Statements, Institutional Ownership, Independent Commissioner, Audit Committee, Firm Size and Leverage

Introduction

A company is supposed to serve financial statement as its responsibility to stakeholder. According to Financial Accounting Standard (2017), financial statement provides information needed for making decision. The information is relevant if it is able to convince the decision makers. Besides, it is reliable if it is trusted by decision makers.

According to Mayangsari (2003), Integrity of Financial statement is financial statement providing true and honest information.. It is also stated by International Financial Reporting Standard (IFRS) in International Accounting Standard number 01. that information quality is qualified and honest opinion.

A company is demanded to serve true and honest financial statement. In fact, many companies manipulated accounting information. It is proven from information manipulation scandal involving several big companies in US like Enron, Tyco, Global Crossing, and Worldcom. The similar case also happened in Indonesia like Lippo, Ltd and Kimia Farma, Ltd. (Gideon, 2005). In the case, it is predicted that there is involvement of management, independence commisioner, audit committee and internal auditor. It shows that good corporate governance has not been applied properly.

In order to improve the quality of financial report , corporate governance system needs to be supervised internally and externally (Virginia and Eleni, 2008). Internal supervision includes commisioner, direction, mangerial ownership and executive compensation. While external supervision icludes institutional ownership, monitoring debtholder, regulation, supervising effectiveness of company.

Some researcher have tested the influance of corporate governance *and* external auditor to integrity of financial statement. According to Jama'an (2008), institutiional ownership positively significantly influances integrity of financial statements. This finding is supported by Arif & Profita (2011), and Mayangsari (2003). While Susiana & Herawaty (2007) and Amalia (2012) stated that institutional ownership does not influence integrity of financial statement.

Independence commissioner positively significantly influences integrity of financial statement (Ahmad & Profita, 2011; Jama'an, 2008). While, Pancawati (2010), Susiana & Herawaty (2007) and Mayangsari (2003) stated that independence commisioner does not influence integrity of financial report.

The study of Jama'an (2008) mentioned that audit committee negatively influences integrity of financial statement. It is supported by Pancawati (2010) and Mayangsari (2003). While, Susiana & Herawaty (2007) mentioned that audit committee positively influences integrity of financial report.

Based on the inconsistance result of previous studies, it is needed to test the influence of institutional ownership, independent commisioner, audit committee, firm size and leverage to integrity of financial report in manufacturers listed in Indonesian Stock Exchange.

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Literature Review

This study applies agency theory. According to Anthony & Govindarajan (2000), agency theory assumes that both principal and agent take action for their own interest. The conflict of interest becomes obstacle for a company in improving organizational performance and shareholders value.

Management is demanded to serve information about condition of company through financial statement. Yet, the information served may illustrate the unreal condition. Consequently, difference between information served by management and understood by shareholder results in information asymmetry (Anthony dan Govindarajan, 2000).

Having more information compared to shareholders, management takes opportunity to do manipulation. Conflict of interest and information asymmetry cause higher agency cost. Agency theory states that conflict of interest and information asymmety can be minimized by using the right supervision mecanism (corporate governance). Corporate governance is expected to convince investors that they will surely receive return of their investment (Putra & Muid, 2012).

Hypothesis Development

The Influence of Institutional Ownership to Integrity of Financial Statement

Institutional ownership is total percentage of stock owned by other companies (Fajaryani, 2015). This kind of ownership has authority to control management through effective monitoring. Higher institutional ownership causes investor's higher ability in supervision. This condition is able to minimize opportinistic attitude and manipulation in financial report.

The influence of intitutional ownership to integrity of financial statement can be described based on agency theory (Jensen & Meckling, 1976). Intensive supervision by investors makes manager careful in making decision in order to convince stockholders that financial report is true. Besides, it is able to minimize agency cost. As the result, high institutional ownership positively influences integrity of financial statement.

According to Wulandari & Budiartha (2014), Fajaryani (2015), and Dewi & Putra (2016), level of institutional ownership positively influences integrity of financial statement. Based on the explanation above, hypothesis 1 is arranged:

H_1 : Institutional ownership positively influences integrity of financial statement.

The influence of to Integrity of Independent Commissioner Financial Statement

Independent Commissioner is a commission in a company consisting of independent commissioners coming from other companies. Independent commissioner works as supervisor, mediator, and advisor in creating good corporate governance.

Based on agency theory (Jensen & Mackling, 1976), the existence of independent commissioner is able to improve monitoring function on organizational performance. In a company having independent commissioner, the financial statement served by management tends to be more integrated. It means that asyimmetric information is decreased between agent and principal and it is expected to minimize agency cost. As the result, the number of independent commisioner positively influences integrity of financial statement

Gayatri & Saputra (2013), and Dewi & Putra (2016) stated that the number of independent commissioner positively influences integrity of financial statement. Based on the explanation above, hypothesis 2 is arranged: :

H_2: Independent commissioner positively influences integrity of financial statement.

The Influence of Audit Committee to Integrity of Financial Statement

Audit Committee holds an important role in corporate governance. The role of audit committee is strongly needed in protecting stockholder for manipulation. This committee assists commissioner in improving the quality of financial report, decreasing opportunity of manipulation done by manager, and giving direction about thew problem related to financial policy.

Based on agency theory, the existence of audit committe keagenan is able to improve supervision on posible manipulation in financial report. As the result, audit committee positively influences integrity of financial statement.

According to Gayatri & Saputra (2013), audit committee positively influences integrity of financial statement. Based on the explanation above, hypothesis 3 is arranged:

H_3: Audit Committee positively influences integrity of financial statement.

The Influence of Firm Size to Integrity of Financial Statement

Oktadella (2011) stated that firm size shows that big company has higher integrity in financial report. The bigger the company, the more information is provided for investor.

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Based on agency theory, a big company spends more agency and supervision cost. To decrease agency and supervision cost, the company disclosures more and larger information. As the result, the bigger the firm size, the higher the integrity of financial statement.

According to Oktadella (2011), Gayatri & Saputra (2013), and Fajaryani (2015), firm size positively influences integrity of financial statement. Based on the explanation above, hypothesis 4 is arranged:
H_4: Firm Size positively influences integrity of financial statement

The Influence of Leverage to Integrity of Financial Statement

Leverage is the amount of capital gained from debt. Leverage drives risk of company related to its ability in paying the debt. Therefore, the company needs to retain its performance in order to keep integrity of financial statement. The influence of leverage to integrity financial statement can be described based on agency theory. A company having high leverage is more demanded to provide larger information compared to the one having lower leverage. It is important to do to build stronger trust of creditors.

Based on agency theory, the higher leverage drives management to provide larger information expected to decrease agency cost. As the result, the higher the leverage, the higher the integrity of financial statement.

According to Gayatri & Saputra (2013), leverage positively influences integrity of financial statement. Based on the explanation above, hypothesis 5 is arranged
H_5: Leverage positively influences integryty of financial statement.

Results and Discussions

Based on Hosmer and Lemeshow's Goodness of Fit Test, chi square value is 6.972 and significance value 0.540> 0.05. The model is used to predict observation value (Ghozali, 2011).

Chi square test is conducted to compare the first -2 log likelihood (block number 0) and the second -2 log likelihood (block number 1). If the result of block number 0 is greater than block number 1 , the regression model is good.

It is found that the result of block number 0 is 422.659, while the result of block number 1 is 380.716. It shows that there is decrease of value indicating relation between independent and dependent variable.

Overall regression coefficient test using omnibus test of coefficient model results in chi square value 41.943 and significance value 0,000 < 0,05. It shows significant influence all of the five predictor such as institutional ownership, independent commissioner, audit committee, firm size, and leverage simultaneously influencing integrity of financial statement.

Based on Cox and Snell's test, R Square value is 0.128; and Nagelkerke's test, R Square value is 0.171. It shows that integrity of financial statement as dependent variable is able to be explained by institutional ownership, independent commissioner, audit committee, firm size, and leverage 17.1% and the rest 82.9 % is explained by other independent variables in another model.

Based on hypothesis test done using logistic regression model, Institutional ownership value is $\beta_1= 0.337$ and significance value 0.002 < 0.05. It means that institutional ownership positively significantly influences integrity of financial statement. Therefore H_1 is accepted. Institutional ownership is able to improve monitoring to managerial attitude in anticipating possible manipulation. With intensive supervision, manager becomes more careful in making decision in order to convince stockholders about integrity of financial statement. As the conclusion, high institutional ownership improves integrity of financial statement. This finding is supported by Wulandari & Budiartha (2014), Fajaryani (2015), and Dewi & Putra (2016) saying that institutional ownership positively significantly influences integrity of financial statement.

Independent commissioner value is $\beta_2 = -1.743$ and significance value 0.159 > 0.05. It means that independent commissioner negatively not sigficantly influences integrity of financial statement. Therefore, H_2 is rejected. This hypothesis is rejected since the proportion of independent commissioner only works as formality as founder and majority stockholder hold the control key of company. As the result, independent commissioner is not absolutely independent and its monitoring function is not effective. Automatically independent commissioner is not able to decrease manipulation on financial statement. This finding is supported by Oktadella (2011), Perwirasari (2012), Wulandari & Budiartha (2014), and Pratama et.al (2016) saying that independent commissioner does not influence integrity of financial statement.

Audit committee value is β_3=-0.078 and significance value 0.820 > 0.05. It means that audit committee does not influence integrity of financial statement. Therefore, H_3 is rejected. The influence of audit committe to integrity of financial statement is explained based on agency theory. The existence of audit committe is able to improve supervision on management in order to avoid manipulation. That is how audit committe minimizes asyimmetric information. In other word, this committe is able to improve integrity of financial statement. Yet, based on the finding of this study, the existence of audit committee is not able to maximize its function in supervision and auditing. Audit committee is not an effective mediator in informing the result

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of auditing. This stage enables manipulation to happen in providing financial report. This finding is supported by Oktadella (2011), Perwirasari (2012) , Wulandari & Budiarta (2014), Dewi & Putra (2016), Pratama et.al (2016) saying that audit committee does not influence integrity of financial statement.

Firm Size value is β_4= 0.474 and significance value 0.000 < 0.05. It means that Firm Size positively significantly influences integrity of financial statement. Therefore, H_4 is accepted**.** It means that big company tends to have greater amount of loan than the smaller one. Big company is more interesting for investor. It causes the management becomes more conservative in serving financial statement. This finding supported by Oktadella (2011), Gayatri & Sapurta (2013), and Fajaryani (2015) saying that firm size positively significantly influences integrity of financial statement.

Leverage value is β_5= 0.038 and significance value 0.387 > 0.05. It means that leverage does not influence integrity of financial statement. Therefore, H_5 is rejected. The influence of leverage to integrity of financial statement is able to be explaned based on agency theory. A company having high leverage is demanded to serve financial statement with more detail compared to the one having low leverage. This hypothesis is rejected. It shows that high leverage results in low integrity of financial statement. High leverage stimulates manager to choose accounting method in order to draw future profit to the recent report. This finding supported by Oktadella (2011), Fajaryani (2015), and Pratama et.al (2016) saying that leverage does not influence integrity of financial statement.

Conclusion

This study analyzes the influence of institutional ownership, independent commissioner, audit committee, firm size, and leverage to integrity of financial statement. It is done on manufacturing companies listed in Indonesian Stock Exchange in 2013 – 2015. It is concluded that institutional ownership positively significantly influences integrity of financial statement, independent commissioner and audit committee negatively not signicantly influence integrity of financial statement; and leverage positively not significantly influences integrity of financial statement.

Implication

Theoretical implication obtained from this study is companies listed in Indonesian Stock Exchange tend to follow conservatism increasing agency cost for conflict of interest and information asymmetry. Besides, it is proven that the decision maker, investor, and supervisor do not follow good corporate governance mecanism. The structure, system, and process used are not according to fairness, transparency, accountability, dan responsibility.

Managerial implication obtained from this study is the existence of institutional ownership and big firm size are able to increase integrity of financial statement.

Implication for Creditor, Investor and supplier is they are able to measure integrity level of finanacial report in order to make decision.

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