

The Influence of Managerial Ownership, Independent Commissioner, Auditor Industry Specialization, and Profitability on Integrity of Financial Statements

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Abstract

A financial statement is a piece of information that contains a company's position and financial performance that can be used as material for decision-making for its users; the information in the financial statements must be presented relevantly and reliable; in other words, it needs to be integrity. However, cases of fraud in financial statements still occur frequently, indicating the poor integrity of financial statements in a company. This definition indicates that the company has not presented relevant and reliable financial statements. This study aims to determine the effect of managerial ownership, independent commissioner, auditor industry specialization, and profitability on the integrity of financial statements of insurance sector companies listed on the Indonesia Stock Exchange in 2017 – 2020. The sample for this study is selected by using the purposive sampling method. For the four-year observation, 48 data samples are used. After the outlier, the data samples changed to 41. The research method for this study is panel data regression analysis. The result showed that managerial ownership, independent commissioner, auditor industry specialization, and profitability affect the integrity of financial statements. Partially, managerial ownership has a positive effect, profitability has a negative effect, while independent commissioner and auditor industry specialization do not affect the integrity of financial statements.

Keywords

Auditor industry specialization, independent commissioner, integrity of financial statements, managerial ownership, and profitability.

1. Introduction

According to PSAK No. 1 (2021), financial statements are the structured presentation of an entity's financial position and financial performance. From this statement, it can be seen that the financial statements contain important information about the financial conditions of a company for creditors, investors, and anyone interested in it. Information in financial statements that can be used for decision-making should meet two characteristics: relevant and reliable (Dewi and Putra 2016). An excellent financial statement is a financial statement that is not fabricated or, in other words, under actual conditions, if it has been fulfilled, means that the financial statements presented are of high integrity. The integrity of a financial statement shows that reported information is presented honestly, unbiased, and reasonably (Dewi and Putra 2016). Measuring the integrity of a financial statement can use the principle of conservatism.

According to Himawan (2019), this principle of conservatism is the principle of caution regarding uncertainty to protect the rights of lenders and shareholders. The principle of conservatism can be used to lower the risk of manipulating frequent financial statements (Dwidinda et al. 2017). This principle of caution is expected to help to produce integrity financial statements. This measurement of conservatism was used using the formulas Ghivoly and Hayn 2000 as done in the study of (Dwidinda et al. 2017). Negative results indicate that the company does not apply accounting conservatism and the positive results indicate that it does not apply accounting conservatism.

The case of PT Asuransi Jiwasraya Tbk has been indicated since 2006, but in 2018 this case began to grow and become publicized. It was started by the new directors of PT Asuransi Jiwasraya Tbk, who saw a failure in the financial statements in 2017 and verified the failure by the PwC Public Accountant Office (KAP) that there was a correction in the financial statements from the original Rp2.4 trillion to Rp428 billion and could not pay the policy claims due date. The JS Saving Plan is worth Rp802 billion. This case shows that PT Asuransi Jiwasraya Tbk has manipulated his financial statements.

According to the above description, there is a problem in the insurance sub-sector, the case of manipulating financial statements that cause losses to many parties and causing disbelief among users of financial statements about the integrity of a financial statement. The results of previous studies show inconsistent results. Based on previous research, researchers wanted to re-examine the effect of managerial ownership, independent commissioners, auditor industry specialization, and profitability on the integrity of financial statements.

1.1 Objectives

This study aims to determine the effect of managerial ownership, independent commissioner, auditor industry specialization, and profitability on the integrity of financial statements of insurance sector companies listed on the Indonesia Stock Exchange in 2017 – 2020.

2. Literature Review

2.1 Agency Theory

According to Supriyono (2018), the agency theory is an agency relationship, such as an agreement between shareholders and corporate managements company to conduct activities on behalf of the principal and authorize the agent to make decisions. Implementing this activity does not always go smoothly; in other words, several possible problems will occur.

2.2 The Integrity of Financial Statements

Financial Statements with a high integration must be relevant to decision-making so that they can benefit users and must be reliable and reliable. The information in the financial statements is presented following the actual circumstances (Fahmi 2018). Kartika and Nurhayati (2018) stated that the integrity of financial statements is good, honest, and biased information presentation of financial statements. Dwidinda et al. (2017) stated that integrity is an honest and impartial moral principle. The integrity of financial statements can be measured using conservatism.

2.3 Managerial Ownership

Managerial ownership is a shareholding owned by a manager within a company, thus creating a manager as a shareholder which fosters management responsibility in managing the company because managers benefit or bear any consequences of decisions made (Dwidinda et al. 2017). Santia and Afriyenti (2019) stated that managerial ownership is a share owned by management that plays a role in making decisions of a company consisting commissioners and directors. Panjaitan and Muslih (2019) stated that If managerial ownership increases, it reduces agency problems that might happen from differences in interests, as management aligns interests between shareholders and management.

H1: Managerial ownership has a significant positive effect on the integrity of financial statements.

2.4 Independent Commissioner

An Independent commissioner is part of a board of commissioners who have an independent character and act on behalf of the company (Dewi and Putra 2016). The existence of an independent commissioner can maximize the transparency of the company's management performance, thus minimizing activities related to the personal interests of management. Monitoring the management performance of independent commissioners can improve the integrity of financial statements to improve the performance of independent commissioners as a company Santia and Afriyenti (2019).

H2: Independent commissioner has a significant positive effect on the integrity of financial statements.

2.5 Auditor Industry Specialization

Jorjani and Gerayli (2018) stated that the auditor's industry specialization is an auditor with extensive knowledge and work experience regarding the client's business as well as knowing general accounting guidelines and special audits to carry out audits of high quality. Auditor industry specialization is an auditor with accounting and work experience in client business to carry out high-quality audits (Kartika and Nurhayati 2018). Auditors with specialization will have expertise in examining financial statements so that they can easily find indications of fraud in the financial statements and become financial statements of integrity. Auditors' industry specialization was measured using variables dummy with a rule written 0 For auditors not with industrial specialization if results show less than 15% and written 1 for auditors with industrial specialization if results show more than 15% (Adhi Pratama Ishak et al. 2015).

H3: Auditor industry specialization has a significant positive effect on the integrity of financial statements.

2.6 Profitability

Profitability is a measuring instrument to demonstrate a company's success in producing its profit (Fahmi 2018). The greater the value of profitability can indicate that the company's earnings have improved. Profitability can also demonstrate the level of effectiveness of a company's management. Profitability is calculated using return on assets (ROA) indicators. Return on assets (ROA) is used to calculate how much profit it makes after taxes are generated by the company's total assets (Husnan and Pudjiastuti 2015). *Return on assets* (ROA) is the ratio that shows the return on the number of assets used by the company (Himawan, 2019).

H4: Profitability has a significant positive effect on the integrity of financial statements.

3. Methods

This study used quantitative methods with secondary data. Data is obtained through the official website of the Indonesia Stock Exchange and the company's official website. The population of this study is an insurance sub-sector listed on the Indonesia Stock Exchange for the period 2017–2020. The sampling technique used in this study is purposive sampling. There were 48 samples, but seven outlier data were obtained, bringing the sample used in this study to 41. The data analysis used is descriptive statistics and panel data regression analysis using the EViews 12 Student Version.

4. Data Collection

The sample for this study is selected by using the purposive sampling method. For the four-year observation, there were 48 data samples used. After the outlier, the data samples changed to 41. The research method for this study is panel data regression analysis.

5. Results and Discussion

5.1 Descriptive Statistics Result

Descriptive statistics can be frequency, mean – mean (mean), and standard deviation that provides descriptive information or an overview of a set of data (Sekaran and Bougie 2016).

Table 1. Descriptive Test Result of Variables with a Nominal Scale

	Auditor industry specialization		Total
	SIA > 15% = 1	SIA < 15% = 0	
Total Observation	25	16	41
Percentage	61%	39%	100%

Table 2. Descriptive Test Result of Variables with a Ratio Scale

	Integrity of Financial Statements	Managerial Ownership	Independent Commissioner	Profitability
Mean	-0,0114	1,5959	0,5689	3,5303
Standard Deviation	0,0472	7,5170	0,1303	2,1506
Maximum	0,0723	46,8611	0,7500	7,6736
Minimum	-0,1104	0,0000	0,3333	-2,1236

According to Table 1. it can be seen that in the insurance sub-sector listed on Indonesia Stock Exchange in 2017 – 2020, there were 25 companies with a percentage score of 61% audited by auditors who specialized in the insurance industry and 16 companies with a percentage score of 39% not audited by auditors. It has a specialization in the insurance industry.

According to the results of the descriptive statistics tests in Table 2. it can be seen that the managerial ownership variable has a mean value of 1.5959 with a standard deviation of 7,5170, indicating that the standard deviation is greater than the mean value so that the managerial ownership variable varies or groups. The maximum value of managerial ownership is 46.8611, and the minimum value of managerial ownership is 0.

Based on the results of the descriptive statistics tests in Table 2. it can be seen that independent commissioner variables have a mean value of 0.5689 with a standard deviation of 0.1303, indicating that the mean values are more significant than the standard deviation values so that independent commissioner variables do not vary or are not grouped. The maximum value of an independent commissioner is 0.7500, and the minimum value of an independent commissioner is 0.3333.

Based on the results of the descriptive statistics test in Table 2. it can be known that the profitability has a value of the mean, 5303 with a standard deviation of 2, 1506 which shows that the value of the mean is more significant than the value of standard deviation and variables from the not vary or not grouped. The maximum profitability is equal to 7, 6736, and the value of the minimum profitability of - 2, 1236.

Based on the results of the descriptive statistics tests in Table 2. it can be seen that the financial statement integrity variable has a mean value of -0.0114 with a standard deviation of 0.0472, indicating that the standard deviation value is greater than the mean value, so that the financial statement integrity variable varies or groups. The maximum value of financial statements integrity is 0.0723, and the minimum value of financial statements integrity is -0.1104.

5.2 Classic Assumption Test

5.2.1 Normality Test

A normality test is a test aimed at finding out that the data obtained from the population is normal (Basuki and Prawoto 2017).

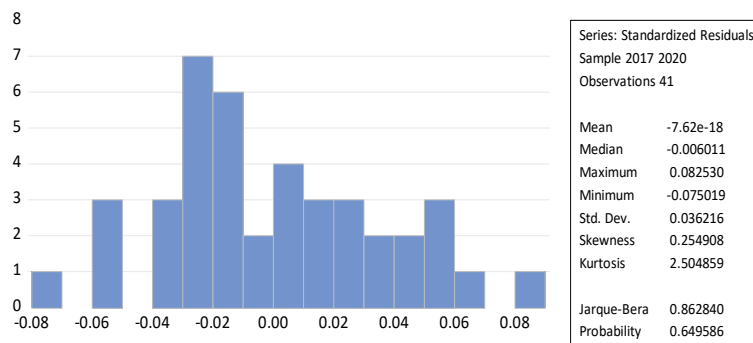


Figure 1. Normality Test

Based on the result of the normality test in Figure 1. Showing that probability is $0,649586 > 0,05$, so that it can be inferred that the data in this study are distributed normally.

5.2.2 Autocorrelation Test

An autocorrelation test is a test performed to see if data is free from autocorrelation problems (Basuki and Prawoto 2017).

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.542496	Prob. F(2,34)	0.5862
Obs*R-squared	1.267913	Prob. Chi-Square(2)	0.5305

Figure 2. Autocorrelation Test

Based on the result of the autocorrelation test in Figure 2. Showing that prob. chi-square is $0,5305 > 0,05$, so that it can be inferred that there is no autocorrelation problem.

5.2.3 Multicollinearity Test

A multicollinearity test is a test that aims to determine whether or not a regression model has a correlation between independent variables (Ghozali 2018).

	X1	X2	X3	X4
X1	1.000000	0.182828	0.104092	0.027228
X2	0.182828	1.000000	0.226019	0.109431
X3	0.104092	0.226019	1.000000	-0.322436
X4	0.027228	0.109431	-0.322436	1.000000

Figure 3. Multicollinearity Test

Based on the result of the multicollinearity test in Figure 3. Showing that the correlation between independent variables is $< 0,08$, so that it can be inferred that there is no multicollinearity problem.

5.2.4 Heteroscedasticity Test

An heteroscedasticity test is a test performed to see if data is free from heteroscedasticity problems (Basuki and Prawoto 2017).

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	2.208952	Prob. F(4,36)	0.0875
Obs*R-squared	8.079884	Prob. Chi-Square(4)	0.0887
Scaled explained SS	4.687142	Prob. Chi-Square(4)	0.3209

Figure 4. Heteroscedasticity Test

Based on the result of the heteroscedasticity test in Figure 4. Showing that prob. chi-square is $0,0887 > 0,05$, so that it can be inferred that there is no heteroscedasticity problem.

5.3 Panel Data Regression Model Estimation

5.3.1 Chow Test

With the decision-making criteria, if the probability result is $F > 0.05$, then H_0 is accepted, so the appropriate use is the common effect model; if the probability result is $F < 0.05$, the table is rejected, so the appropriate use is the fixed effect model.

Redundant Fixed Effects Tests
Equation: MODEL_FEM
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.108569	(11,25)	0.0594
Cross-section Chi-square	26.910931	11	0.0047

Figure 5. Chow Test Result

Based on the results of the chow test in Figure 5. showing that probability F is $0.0594 > 0.05$, this can be interpreted as H_0 being accepted, so the regression model of panel data is appropriate for this study, the common effect.

5.3.2 Hausman Test

With decision-making criteria, if the cross-section probability value chi-square > 0.05 , then H_0 is accepted, so the proper use is random effect, and then if the cross-section probability value chi-square < 0.05 is rejected, so the proper use is fixed effect.

Correlated Random Effects - Hausman Test
Equation: MODEL_REM
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.250693	4	0.2625

Figure 6. Hausman Test Result

The results of the hausman test in Figure 6. show that the chi-square cross-section ($0.2625 > 0.05$) result can be interpreted as H_0 being accepted, so the regression model of the panel data is appropriate for this study is common effect.

5.3.3 Lagrange Multiplier Test

With the decision-making criteria, if the probability result F Breusch-Pagan > 0.05 is accepted, the appropriate use is the common effect model; if the probability result F Breusch-Pagan < 0.05 is rejected, the appropriate use is the fixed effect model.

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.787672 (0.3748)	1.143107 (0.2850)	1.930779 (0.1647)

Figure 7. Lagrange Multiplier Test Result

Based on the result of the lagrange multiplier test in Figure 7. shows that the probability F Breusch-Pagan (0.1647) is > 0.05, so the common effect model is suitable for this study.

5.4 Panel Data Regression Analysis

Based on the two model tests, the chow test and the lagrange multiplier test can be inferred that the model used in this study is a common effect model. The following are the results of the common effect model tests:

Dependent Variable: Y
 Method: Panel Least Squares
 Date: 06/24/22 Time: 17:39
 Sample: 2017 2020
 Periods included: 4
 Cross-sections included: 12
 Total panel (unbalanced) observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.074791	0.028850	2.592392	0.0137
X1	0.001938	0.000819	2.366546	0.0235
X2	-0.084329	0.049090	-1.717865	0.0944
X3	-3.91E-05	0.000457	-0.085543	0.9323
X4	-0.011475	0.003026	-3.791696	0.0006
R-squared	0.411123	Mean dependent var		-0.011446
Adjusted R-squared	0.345693	S.D. dependent var		0.047194
S.E. of regression	0.038175	Akaike info criterion		-3.579446
Sum squared resid	0.052463	Schwarz criterion		-3.370474
Log likelihood	78.37864	Hannan-Quinn criter.		-3.503350
F-statistic	6.283337	Durbin-Watson stat		1.387911
Prob(F-statistic)	0.000609			

Figure 8. Model Common Effect

Based on the results of the common effect model test in Figure 8. it can be seen that the same regression model of the panel data explains the influence of managerial ownership, independent commissioners, auditor industry specialization, and profitability on the integrity of financial statements in insurance sub-sector companies listed on the Indonesia Stock Exchange in 2017 – 2020 is:

$$Y = 0,074791 + 0,001938(X_1) - 0,084329(X_2) - 3,91E-05(X_3) - 0,011475(X_4) + e$$

Description:

Y = Integrity of Financial Statements

X₁ = Managerial Ownership

X₂ = Independent Commissioner

X₃ = Auditor Industry Specialization

X₄ = Profitability

e = Error term

The above equation can be described as follows:

1. A constant value of 0.074791 can be estimated that if the variables of managerial ownership, independent commissioner, auditor industry specialization, and profitability are constant, then the integrity of the financial statements is 0.074791.
2. The regression coefficient of managerial ownership is as significant as R 0.001938.

3. The regression coefficient of the independent commissioner is as significant as -0,084329.
4. Regression coefficient of auditor industry specialization -3.91E-05.
5. Profitability regression coefficient of -0.011475.

5.5 Simultaneous Test (F-test)

Based on table 6. of the common effect model test, the Prob (F-statistic) value of 0.000609 or less is 0.05, so H₀ is rejected, and H_a is accepted, so it can be interpreted that simultaneous ownership of managerial, independent commissioner, auditor industry specialization, and profitability affect the integrity of financial statements. Results showed that managerial ownership variables, independent commissioners, auditor industry specialization, and profitability could explain the integrity of financial statements by 34.56%, while others were explained by other factors that were not found in the study.

5.6 Partial Test (T-test)

This partial test or T-test is a test that aims to determine the influence of each independent variable (free) managerial ownership, independent commissioner, auditor industry specialization, and profitability with dependent variable (bound) integrity of financial statements. Based on the partial test results in the table, it is possible to conclude that:

1. Managerial ownership variable with a coefficient value of 0.001938 and a probability value of 0.0235. A probability value of $0.0235 < 0.05$ is rejected, and H_{a1} is accepted, so it can be inferred that the managerial ownership variable positively affects the integrity of the financial statements.
2. Independent commissioner variable with coefficient value of -0.084329 and probability value of 0.0944. A probability value of $0.0944 > 0.05$ is accepted, and H_{a2} is rejected, so it can be inferred that the independent commissioner variable does not affect the integrity of financial statements.
3. Auditor industry specialization variable with a coefficient value of -3.91E-05 and the probability value is 0.9323. The probability value of $0.9323 > 0.05$ was accepted, and H_{a3} was rejected, so it can be inferred that the auditor's industry specialization variable did not affect the integrity of financial statements.
4. Profitability variable with coefficient value of -0.011475 probability value of 0.0006. A probability value of $0.0006 < 0.05$ is accepted, and H_{a4} is rejected, so it can be inferred that the profitability variable negatively affects the integrity of financial statements.

5.6.1 The Influence of Managerial Ownership on the Integrity of Financial Statements

Managerial ownership is the ownership of shares held by the company management. Based on the results of the tests conducted using panel data regression, the probability value of the managerial ownership variable was $0.0235 < 0.05$ with a positive coefficient of 0.001938, indicating that H₀₁ was rejected and H_{a1} was accepted, so it is possible to conclude that the managerial ownership variable had a positive effect against the integrity of financial statements. The result suggests that the large percentage of managerial ownership in a company can improve the alignment of information between shareholders and management because, in addition to being shareholders, this management benefits and bears all consequences.

This result is consistent with the research by Kartika and Nurhayati (2018) and Kusuma et al. (2020) that managerial ownership positively affects the integrity of financial statements.

5.6.2 The Influence of Independent Commissioners on the Integrity of Financial Statements

An Independent commissioner is a commissioner who has no relationship with the government. The company is affiliated with other commissioners, directors, and shareholders. Based on the results of the tests conducted using the panel data, the probability value of the managerial independent commissioner variable was $0.0944 > 0.05$ with a negative coefficient of -0.084329, indicating that H₀₂ was accepted and H_{a2} was rejected, so it could be concluded that the independent commissioner variable had no effect against the integrity of financial statements. The result shows that the large proportion of independent commissioners in a company does not affect the integrity of financial statements.

It does not support research from Kusuma et al. (2020) and Dewi and Putra (2016) but is consistent with research by Ulfa and Challen (2020) that independent commissioners did not affect the integrity of financial statements.

5.6.3 The Influence Effects of Auditor Industry Specialization on the Integrity of Financial Statements

The auditor's industry specialization is an auditor who understands the industry—management of accounting and work experience regarding client business to carry out audits of high quality. Based on the results of the tests conducted using the panel data, the probability value of the auditor industry specialization commissioner was $0.9323 > 0.05$ with a negative coefficient of $-3.91E-05$, indicating that H02 was accepted and Ha2 was rejected, so it can be inferred that the auditor industry specialization does not affect the integrity of financial statements. The result indicates that or not an auditor who audits a company cannot affect the integrity of financial statements.

The result does not support research from Fajaryani (2015) and Kartika and Nurhayati (2018) but is consistent with research by Ramadani and Triyanto (2020) that an auditor's industry specialization did not affect the integrity of financial statements.

5.6.4 The Influence of Profitability on the Integrity of Financial Statements

Profitability is the ratio to assess the ability of an individual. The company is generating its profits based on asset level. Based on the results of the tests conducted using panel data regression, the probability value of the profitability variable was $0.0006 < 0.05$ with a negative coefficient of -0.011475 , indicating that H01 was rejected and Ha1 was accepted, so it can be concluded that the profitability variable has a negative effect on this. The severity of the financial statements. The result shows that despite a decline in profitability, the integrity of financial statements tends to increase. It is because companies continue to improve the presentation of integrity financial statements despite declining profitability. Information in financial statements is urgently needed for their users as a guideline for decision-making, so the information presented must be honest, relevant, and reliable.

The results of this study do not support Vitolla et al. (2020) and Ni Putu Intan Permata Sari et al. (2022), but are consistent with research by Himawan (2019) that profitability negatively affects the integrity of financial statements.

6. Conclusion

1. Descriptive statistics analysis:

- a. The mean managerial ownership of insurance companies listed on the Indonesia Stock Exchange in 2017 – 2020 is 1,5959 and standard deviation is 7,5170.
- b. The mean independent commissioner of insurance companies listed on the Indonesia Stock Exchange in 2017 – 2020 is 0,5689 and standard deviation is 0,1303.
- c. The mean profitability of insurance companies listed on the Indonesia Stock Exchange in 2017 – 2020 is 3,5303 and standard deviation is 2,1506.
- d. The mean integrity of financial statements of insurance companies listed on the Indonesia Stock Exchange in 2017 – 2020 is -0,0114 and standard deviation is 0,0472.
- e. In the insurance sub-sector listed on Indonesia Stock Exchange in 2017 – 2020, there were 25 companies audited by auditors who specialized in the insurance industry and 16 companies not audited by auditors. It has a specialization in the insurance industry.

2. The result showed that simultaneously four independent variables in this study have an impact on the integrity of financial statements. Partially, managerial ownership has an positive effect, profitability have an negative effect, while independent commissioner and auditor industry specialization have no effect on integrity of financial statements.

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Biography

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