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Corporate Governance and Leverage Mechanisms on Integrity of Financial Report: Conservatism Index Approach in BUMN

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ABSTRACT: The integrity of financial statements is related to one of the characteristics required by IFRS, namely faithful representation. The financial statements that are presented must contain information that is relevant and reliable so that it has high integrity and can be used by stakeholders in making decisions. In reality, realizing the integrity of financial statements is a difficult thing. There have been several cases that cast doubt on the level of integrity of financial statements. One of them happened to PT Jiwasraya (Persero) recently. This research is aimed to examine the effect of corporate governance mechanisms proxied by (institutional ownership, proportion of independent commissioners, and audit committee meetings) and leverage on the integrity of financial statements using a conservatism index approach in the market book value. Firm size as a control variable. The population is BUMN listed on the Indonesia Stock Exchange from 2016 to 2018 with a sample of 22 companies. The data analysis method used is panel data regression. The results of the common effect model test that only the audit committee meeting variable has a significant influence on the integrity of the financial statements, while the variable institutional ownership, the proportion of independent commissioners and leverage has an effect but is not significant on the integrity of the financial statement

KEYWORDS: Corporate Governance Mechanism, Leverage, Size, Market Book Value

I. INTRODUCTION

Financial statements are a means of communication between management and stakeholders regarding the company's financial position and performance. Financial reports must be presented honestly and reliably. Also, financial reports must have high integrity so that they are not misleading for users in making decisions. The integrity of financial statements is closely related to one of the characteristics required by IFRS, namely faithful representation. Given the very importance of financial reports for stakeholders, financial reports are required to be presented with high integrity. However, in reality, realizing the integrity of financial statements is a difficult thing. It is proven that there are so many cases of accounting manipulation. Many domestic and multinational companies present information in their financial statements without integrity, where the information in the financial statements does not match the actual situation (Susanti, Mellynda, & Sumiati, 2019)

PT Asuransi Jiwasraya (Persero) is in the public spotlight. The oldest life insurance company in Indonesia is experiencing liquidity pressure so that the company's equity was recorded negative at IDR 23.92 trillion in September 2019. The Jiwasraya case began in 2002. At that time, the insurance BUMN was reportedly experiencing difficulties. However, based on BPK's records, Jiwasraya has posted a false profit since 2006. Then in 2015, Jiwasraya launched the JS Saving Plan product with a very high cost of funds above deposit and bond interest. Unfortunately, these funds are then invested in low-quality stocks and mutual funds. In 2017, Jiwasraya again received an unfair opinion in its financial statements. Currently, Jiwasraya can book a profit of Rp 360.3 billion. This unfair opinion was obtained due to a lack of reserves of Rp. 7.7 trillion. Continuing to 2018, Jiwasraya finally posted an unaudited loss of IDR 15.3 trillion. Previously mentioned, the loss was mainly due to Jiwasraya selling a saving plan product with a high cost of funds above deposit and bond interest rates. (money.kompas.com)

As for the period 2010-2019, the BPK has conducted two inspections on Jiwasraya, namely the 2016 Specific Purpose Audit (PDTT) and 2018 preliminary investigative examinations. What is surprising is that the results of this investigation show irregularities that indicate fraud in managing saving plans and investments. Potential fraud is caused by buying and selling shares shortly to avoid recording unrealized losses. Then, the purchase is made by negotiating with certain parties to get the desired price. Also, another indication of fraud was the result of an audit by the Public Accountant Firm (KAP) PricewaterhouseCoopers

(PwC) on the 2017 financial statements correcting interim financial reports from a profit of Rp2.4 trillion to only Rp428 billion. (cnnindonesia.com)

The case that occurred at PT. Jiwasraya (Persero), which shows the weak integrity of the financial statements presented by the company, involves many parties, from internal to external parties, namely public accountants. The disclosure of the company's dishonesty in presenting financial statements has an impact on decreasing public trust, one of which is marked by the drastic decline in the share price of companies that have been hit by scandals and the sanctions imposed on their public accounting firms. This raises the question of how corporate governance and ownership patterns that are widely distributed are better known as corporate governance so that they are unable to minimize management dishonesty in the presentation of financial statements. The accounting scandal that occurred indicated that good corporate governance had not been implemented properly by the company.

The corporate governance mechanism is a rule, procedure, and relationship between the party making the decision and the party who will supervise the decision. The main motivation in implementing GCG is so that the value of the company increases and it is easy to obtain funding from within and outside the country (Utami, 2005). Also, the implementation of good corporate governance is expected to reduce corporate management behavior that is selfish and fraudulent in the preparation of financial reports so that financial reports can be presented with high integrity. In this study, the corporate governance mechanism is measured using institutional ownership, independent commissioners, and audit committee activities. (Wulandari & Budiartha, 2014); (AlJufri, 2014); (Dewi & Putra, 2016) show that institutional ownership has a significant effect on the integrity of financial statements. Institutional ownership has higher resources and professionalism to oversee the use of company assets and can test the reliability of analyzing information. (Gayatri & Suputra, 2013) independent commissioners have a significant influence on the integrity of financial statements.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory (Jensen & Meckling, 1976) explains the relationship between two parties, namely the principal and the agent. A principal is defined as a party that mandates another party, called an agent, to be able to act on behalf of that agent. The separation between ownership and control of a company is one of the factors that trigger a conflict of interest called agency conflict. The emergence of agency problems caused by conflicts of interest and information asymmetry can make companies bear agency costs. Agency theory says it is difficult to believe that management (agent) will always act based on the interests of the shareholders (principal) so that a control mechanism is needed that can align the differences in interests between the two parties. The corporate governance mechanism is expected to be a way of reducing agency conflicts. With good governance, it is hoped that it will produce a financial report with more integrity.

Signaling Theory

The signal theory according to (Spence, 1973) states that companies with high performance use financial information to send signals to the market. Signaling theory explains why companies have the urge to provide financial report information to external parties because there is information asymmetry between the company and outsiders. Managers provide information through financial reports that they are implementing conservatism accounting policies that result in higher quality earnings or the integrity of financial statement information.

Corporate Governance

Corporate governance is a concept based on agency theory and is expected to serve as a tool to provide confidence to investors that they will receive a return on the funds they have invested. Corporate governance is related to how investors believe that managers will provide benefits for them, believe that managers will not steal/embezzle or invest in unprofitable projects related to the funds that have been invested by investors, and concerning how investors control managers (Shleifer & Vishny, 1996). The corporate governance mechanism in this study is proxied by institutional ownership, independent commissioners, and audit committee.

Leverage

Leverage according to (Kasmir, 2018) is a calculation used to measure the extent to which the company's assets are financed with debt. A company with high leverage means that the company has a high financial risk because it experiences financial difficulties due to high debt to finance its assets. In this study, leverage is used with the proxy debt to equity ratio.

The debt to equity ratio is the ratio of debt to equity. The debt to equity ratio is used to measure the company's financial position in terms of investment. The debt to equity ratio can show the level of financial independence of a company about debt. The lower the debt to equity ratio, the better.

The integrity of Financial Statements

In Statement of Financial Accounting Concept (SFAC) No.2 regarding the qualitative characteristic of accounting information, two things are the primary qualities of a financial report, namely relevance and reliability. Thus, the integrity of financial statements is reliable accounting information that is presented in an honest, precise and impartial manner so that it allows users of accounting information to depend on that information and can influence users of financial statements to make decisions. Reliable or integrated financial reports can be measured by conservatism. According to (Savitri, 2016) conservatism is applied because accounting uses an accrual basis informing and presenting financial reports. Conservatism is identical with understate financial statements with less risk than overstated financial reports.

Size

(Sudarmadji & Sularto, 2007) defines company size as the size of a company which can be seen from its total assets, sales, and market capitalization. These three measurements are often used to identify the size of a company because the greater the assets owned by the company, the greater the capital invested. The greater the sales, the greater the circulation of money in the company, and the greater the market capitalization, the more public the company is known.

Previous Research

(Al-Sraheen, Fadzil, & Syed Ismail, 2014); (Saksakotama & Cahyonowati, 2014) show that the proportion of independent commissioners affects the integrity of financial statements. (Fajaryani, 2015);(Atiningsih & Suparwati, 2018) shows the results of their research, namely institutional ownership and company size have a positive effect on the integrity of financial statements while leverage has a negative effect on the integrity of financial statements. Research conducted by (Nurdiniah & Pradika, 2017) states that independent commissioners affect the integrity of financial statements while the audit committee, institutional ownership, and leverage do not affect the integrity of financial statements. (Priharta, 2017) found that the results of institutional ownership and independent commissioners affect the integrity of financial statements. (Qonitin & Yudowati, 2018) found that the audit committee affects the integrity of financial statements. (Verya, Indrawati, & Hanif, 2017)stated that independent commissioners, audit committees, and institutional ownership affect the integrity of financial statements while leverage does not affect the integrity of financial statements. (Malau & Murwaningsari, 2018) show that leverage has a significant negative effect on the integrity of financial statements.

HYPOTHESIS DEVELOPMENT

The Effect of Institutional Ownership on the Integrity of Financial Statements

Institutional investors are experienced investors so that they can carry out their supervisory functions more effectively and are not easily deceived by the manager's actions such as manipulating the presentation of financial statements. Institutional investors are expected to supervise and encourage management to focus on efforts to improve company performance to reduce fraudulent management behavior towards the company. Thus, the financial statements presented by the company's management are expected to be free from material misstatement and the information should not mislead the users. Therefore, the existence of institutional investors can improve the integrity of financial statements (Wulandari & Budiartha, 2014)

The Effect of the Proportion of Independent Commissioners on the Integrity of Financial Statements

An independent commissioner is defined as a person who is not affiliated in any way with the controlling shareholder, does not serve as a director in a company related to the owner company (Fitria, 2018). The existence of independent commissioners in a company can balance decision making, especially in the context of protecting minority shareholders and other related parties. This indicates that the existence of independent commissioners in a company can affect the integrity of a financial report produced by management.

If the company has independent commissioners, the financial statements presented by management tend to have more integrity, because in the company there is a body that oversees and protects the rights of parties outside the company's management (Susiana & Herawaty, 2007). This is in line with the research conducted (Gayatri & Suputra, 2013);(Saksakotama & Cahyonowati, 2014) which show that the proportion of independent commissioners affects the integrity of financial statements.

The Effect of Audit Committee Meetings on the Integrity of Financial Statements

The audit committee is a body formed by the board of directors to audit operations and conditions (Susiana & Herawaty, 2007). According to OJK Regulation No.55 / POJK.04 / 2015. The Audit Committee is obliged to hold meetings as a form of this committee's duties in supervising financial reporting. In terms of financial reporting, the role and responsibility of the audit committee are to monitor and supervise the audit of financial statements and ensure that applicable financial standards and policies are met and to re-examine financial reports. The existence of an audit committee in a company is expected to be one way to reduce and prevent opportunistic behavior by management to commit fraudulent practices in the presentation of financial statements so that the integration of financial statements can be increased. The more the audit committee holds meetings, the control over the duties and responsibilities of the audit committee in maintaining the integrity of the company's financial statements can be effectively carried out and this will improve the integrity of the financial statements presented. Research (Gayatri & Suputra, 2013) states that the presence of an audit committee in a meeting has a significant effect on the integrity of financial statements.

The Effect of Leverage on the Integrity of Financial Statements

A company that has a high degree of leverage will indicate that the company has too high a financial risk. This is because the company is experiencing financial difficulties, which can be seen in how much debt is used to finance the company's activities. The concerns faced by investors will increase so that they will demand to get a large return on investment. This condition will trigger management to apply window dressing to the financial statements, resulting in weak integrity. To eliminate creditors' doubts about the company's ability to fulfill their rights, companies must disclose financial statements honestly by describing the existing economic reality. Therefore, the higher the leverage of the company, the integrity of the financial statements will increase (Gayatri & Suputra, 2013). According to (Malau & Murwaningsari, 2018) it shows that leverage has a significant effect on the integrity of financial statements.

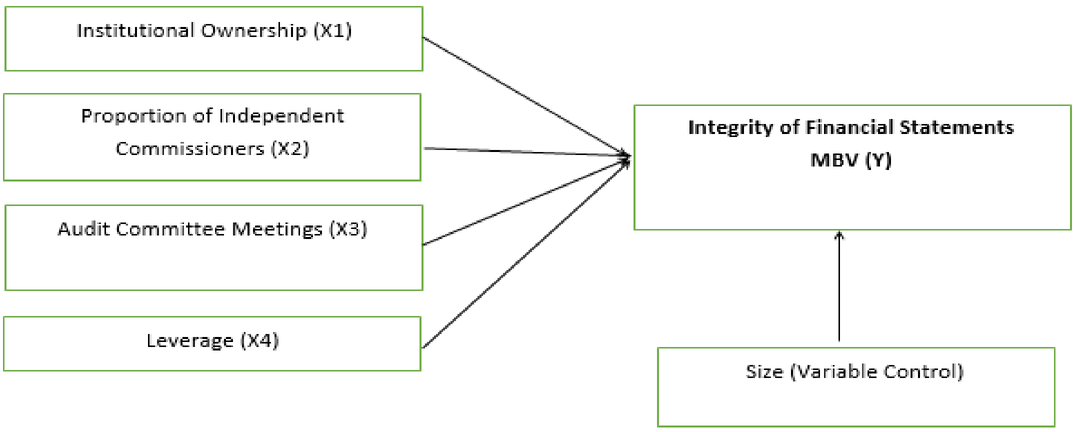

Figure 1. Research Frameworks

RESEARCH METHOD

The type of research used is causal research. The population of this study is state-owned companies listed on the Indonesia Stock Exchange. The samples used in this study are state-owned companies listed on the IDX in 2016-2018. The sampling method used was purposive sampling. the reason for choosing BUMN is because currently there are many problems with the integrity of their financial statements.

Table 1. Sample Selection Criteria

BUMN companies listed on the Indonesia Stock Exchange	**22**
Sample Selection Criteria:	
BUMN companies that are not listed on the IDX for the year 2016 - 2018	(0)
BUMN companies that are not consistently listed on the IDX during 2016 - 2018	(0)
Companies conducting mergers or acquisitions	(0)
Total	**22**
Total Sample 3 Years (period 2016 - 2018)	**66**

Variable Measurement

Table 2. Operationalization Variable

No.	Variable	Definition	Measurement
Dependent			
1	Market Book Value	An indicator used to assess the stock price in the market. Reason for using conservatism as a proxy for the integrity of financial statements is that conservatism is identical to understate financial statements whose risk is smaller than overstated financial statements so that the resulting financial statements will be more reliable, meeting the qualitative characteristics of accounting information under the provisions of SFAC No.2 (Widya, 2005 in (Verya et al., 2017)	Stock market price / Stock book value **(Beaver & Ryan, 2000); (Istiantoro, Paminto, & Ramadhani, 2017)**
Independent			
2	Institutional Ownership	Institutional ownership is the ownership of shares by institutions such as the government, financial institutions, foreign institutions, legal entities, trust funds, and other institutions.	(∑institutional share ownership)/∑shares outstanding) x 100% **(Parinduri, Pratiwi, & Purwaningtyas, 2019)**
3	[Proportion of Independent Commissioner	To carry out corporate governance management, a listed company is required to have independent commissioners whose number is proportional to the number of shares owned by non-controlling shareholders, provided that the number of independent commissioners is at least 30% of the total members of the board of commissioners.	(∑ independent board of commissioners) / (∑ a member of the board of commissioners) x 100% **(Nurdiniah & Pradika, 2017)**
4	Audit Committee Meetings	The audit committee is a committee appointed by the company to act as a liaison between the board of directors and external audit, internal auditors and independent members	Number of meetings held by the audit committee in one year **(Obradovich & Gill, 2012)**
5	Leverage	Leverage is a measure of the number of assets spent on debt	(Total Liabilities) / (Total Asset) **(Gayatri & Suputra, 2013)**
Control Variable			
6	Size	Firm size is a picture of the size of a company based on total assets and sales that are presented in the financial statements at the end of the period.	Ln(Total Asset) **(Nurdiniah & Pradika, 2017)**

Analysis Method

The data analysis method in this research is descriptive analysis and verification. Verification analysis in this study used panel data regression analysis (pooled data). The data processing tool in this study uses Eviews 9 software. Classical assumption tests are not required in panel data analysis because panel data can minimize the bias that is likely to appear in the analysis results, providing more information, variation, and degree of freedom (Gujarati, 2012).

The steps for statistical testing in this study are as follows:

1. Statistic Descriptif Analysis
   Statistics are used to analyze data by describing or describing the collected data as is without making generalized conclusions or generalizations.
2. Model Selection Testing
   To determine what model is most appropriate to choose for selecting the panel data regression model, we can perform two tests. The first test is used to choose between the common effect approach or the fixed-effect approach. The second test is used to choose between the fixed effect approach or the random effect approach.

Panel Data Regression Analysis

The data analysis method used to examine the effect of institutional ownership, independent commissioners, audit committee, and leverage on the integrity of financial statements, either simultaneously or partially.

The regression model in this study is stated as follows:

$$\mathbf{MBV = \alpha + \beta1\ INST + \beta2\ IND\_COMM + \beta3MEETING\_\ AUD + \beta4LEV + \beta5\ SIZE\ + e}$$

Explanation:

MBV	= integrity of financial statements (Market Book Value)
INST	= Institutional Ownership
IND_COMM	= Proportion of Independent Commissioners
MEETING_AUD	= Audit Committee Meetings
LEV	= Leverage
SIZE	= Firm Size

RESULT AND ANALYSIS

Descriptive Statistical Analysis

Table 3. Descript if Statistic Analysis

	MBV	INST	IND_COMM	MEETING_AUD	LEV	SIZE
Mean	55.50318	66.18106	40.78924	90.42652	1.953278	23.28351
Median	2.445000	65.00000	38.75000	91.90500	0.865406	22.97502
Maximum	1767.240	94.31000	75.00000	118.0600	10.34000	32.45446
Minimum	0.380000	51.01000	20.00000	52.00000	0.326946	12.09855
Std. Dev.	280.2825	10.92362	11.80290	12.52619	2.170969	5.369958
Skewness	5.543317	0.959341	0.434010	-1.104060	2.131414	-0.105807
Kurtosis	32.03682	3.232127	2.909070	4.547254	7.644348	2.321785
Jarque-Bera	2656.639	10.27186	2.094752	19.99191	109.2896	1.388079
Probability	0.000000	0.005882	0.350857	0.000046	0.000000	0.499554
Sum	3663.210	4367.950	2692.090	5968.150	128.9164	1536.711
Sum Sq. Dev.	5106287.	7756.150	9055.056	10198.86	306.3520	1874.369
Observations	66	66	66	66	66	66

Market Book Value (MBV) is the ratio between the market price of the shares and the book value of the company's shares. Market book value reflects how much the market views that the company can use its equity in carrying out its operational activities. The average market book value of BUMN companies is 55.50, which means that the market values the companies at 55.50 times. The bigger the MBV, the more expensive the value of the shares. A market book value ratio of more than 1 indicates a conservative accounting application because the company records company value lower than its accounting book value, this happens because the company's asset value reported in that financial position is not affected by inflation or goodwill because of the assets purchased several years ago are recorded at original cost. The minimum value is 0.38 times that of PT Bukit Asam in 2017. The maximum value is 1.767 times that of PT Adhi Karya in 2016. Institutional Ownership is the proportion of shares owned by an institution or institution in a company. In the table above, the average shareholding value of BUMN companies is 66.18, which means that the shares of BUMN companies owned by an institution or institution of a company are 66.18% and are classified as high so that supervision efforts become large which can inhibit opportunistic behavior for management. The minimum value of 51.01% owned by PT Semen Indonesia from 2016-2018. The maximum value of 94.31% owned by PT Bank BRI Agro in 2016. Independent Commissioner is a member of the board of commissioners who comes from outside the company and has met the stipulated requirements as an independent commissioner. The existence of independent commissioners has the objective of balancing the decision-making process, especially in terms of protecting non-controlling shareholders and other interested parties. In the table above, independent commissioners have an average of 40.78, which means that the proportion of independent commissioners is 40.78% of the total commissioners in the company and on average BUMN companies already have the proportion of independent commissioners under OJK Regulation No.10 / POJK.04 / 2018 regarding the Implementation of Investment Manager Governance, namely the number of Independent Commissioners must be at least 30% (thirty percent). The minimum value of 20% is owned by PT Kimia Farma, PT Timah, and PT Semen Baturaja. The maximum value of 75% is owned by PT Bank BRI Agro. Audit Committee Meetings are the number of meetings attended by the audit committee in a year. Audit committee meetings are a means to discuss significant problems that occur in the company and to supervise the accuracy of financial reporting so that integrity is achieved. The average value of the BUMN company audit committee meeting is 90.43%. The minimum value of 52% is owned by PT Wijaya Beton in 2018. The maximum value of 118.06% is owned by PT Aneka Tambang in 2017. Leverage, as proxied by debt to equity ratio, is the ratio of debt to equity of the company. Leverage shows how much the company's assets are financed by debt compared to the capital owned by the company. In the table above, the average leverage value of BUMN companies is 1.95, which means that the DER of a BUMN company of 1.95 times is classified as unsafe and risky because the amount of debt exceeds the amount of equity owned by the company so that the amount of debt to be paid is large. The ideal DER is below number 1 or under 100%. The minimum value is 0.33 times that of PT Bukit Asam in 2018. The maximum value is 10.34 times that of PT Bank Tabungan Negara in 2017. Firm Size (Size) is the size of the company which describes the size of the company as seen from several indicators, including total equity, sales, and total assets. The average size of BUMN companies is 23.28, which means that the average total assets owned by BUMN companies are 23.28 billion rupiahs and it is classified as a medium-sized company where the greater the assets owned by the company, the company can invest properly and product demand can be met. The minimum value of 12.10 billion rupiahs is owned by PT Telekomunication Indonesia in 2016. The maximum value of 32.45 billion rupiahs is owned by PT Waskita Karya in 2017.

Selection of Estimation Model

Based on the estimation technique, the regression model with panel data can be estimated using three estimation models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

a) Chow Test

Table 4. Chow Test

Uji Chow

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.030031	(21,39)	0.0013
Cross-section Chi-square	63.859952	21	0.0000

Based on the results of the chow test above, the cross-section probability F value is 0.0013 < 0.05, then H1 is accepted, which means that the selected Fixed Effect Model then performs the Hausman test.

b) Hausman Test

Table 5. Hausman Test

Uji Hausman

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.258762	5	0.6602

Based on the results of the Hausman test above, the random cross-section probability value is 0.6602 > 0.05, then H1 is rejected, which means that the selected Random Effect Model then performs the Lagrange Multiplier test.

c) Lagrange Multiplier Test

The Lagrange Multiplier Test (LM Test) is performed when the model selected in the Hausman Test is REM. To find out whether the Random Effect model is better than the Common Effect (OLS) method, the Lagrange Multiplier (LM) test is used.

Table 6. Lagrange Multiplier Test

Uji Lagrange Multiplier

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	9.348596 (0.0022)	0.986928 (0.3205)	10.33552 (0.0013)
Honda	3.057547 (0.0011)	-0.993442 --	1.459543 (0.0722)
King-Wu	3.057547 (0.0011)	-0.993442 --	-0.047645 --
Standardized Honda	3.699371 (0.0001)	-0.687275 --	-1.923871 --
Standardized King-Wu	3.699371 (0.0001)	-0.687275 --	-2.407419 --
Gourierioux, et al.*	--	--	9.348596 (< 0.01)

In the table above, the Breusch - Pagan value in the Both column has a value of 0.0013 <0.05 so that H1 is accepted, which means the common effect model is chosen

Identification of Panel Data Regression Equation Estimation Results

Table 7. Panel Data Regression Equation Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	368.1705	353.1137	1.042640	0.3013
INST	1.579312	3.102876	0.508983	0.6126
IND_COMM	-0.550491	3.342059	-0.164716	0.8697
MEETING_AUD	-7.828194	2.721693	-2.876222	0.0056
LEV	10.85925	17.78542	0.610570	0.5438
SIZE	12.53812	6.250689	2.005878	0.0494
R-squared	0.186805	Mean dependent var	55.50318	
Adjusted R-squared	0.119039	S.D. dependent var	280.2825	
S.E. of regression	263.0718	Akaike info criterion	14.06924	
Sum squared resid	4152407.	Schwarz criterion	14.26830	
Log likelihood	-458.2849	Hannan-Quinn criter.	14.14790	
F-statistic	2.756609	Durbin-Watson stat	0.755526	
Prob(F-statistic)	0.026264			

Coefficient of Determination

Based on the table above, it shows that the coefficient of determination indicated by an R-squared value of 0.186805, which means that 18.68% of the variation in the number of institutional ownership, the proportion of independent commissioners, audit committee meetings, leverage, and size, while (100% - 18.68%) = 81.32% total integrity Financial reports proxied by Market Book Value (MBV) are explained by other variables that are not present in this research model.

Statistical F Test

The statistical F test in this study shows a probability value (F-Statistic) of 0.026264 < 0.05 which means that this research model is feasible to use.

T-Statistical Test

No.	Hypothesis	Beta	Sig	Decision
1	H1. Institutional Ownership	1.579312	0.6126	Rejected
2	H2. Proportion of Independent Commissioners	-0.550491	0.8697	Rejected
3	H3. Audit Committee Meetings	-7828194	0.0056	Accepted
4	H4. Leverage	10.85925	0.5438	Rejected

DISCUSSION

The Effect of Institutional Ownership on the Integrity of Financial Statements

Institutional ownership has a positive but insignificant effect on the integrity of financial statements so that the first hypothesis is rejected. This contradicts the agency theory which states that institutional ownership is an experienced investor so that it can monitor properly and effectively as an effort to encourage management to perform well and reduce selfish behavior so that the integrity of financial statements is achieved. In the results of this study, it turns out that institutional ownership cannot produce financial reports with integrity. This indicates that institutional ownership has not been able to perform optimal oversight of management performance to create financial reports with integrity. The results of this study are in line with the research conducted (Nurdiniah & Pradika, 2017) which states that institutional ownership has no significant effect on the integrity of financial statements.

The Effect of Proportion of Independent Commissioners on the Integrity of Financial Statements

The proportion of independent commissioners has a negative but insignificant effect on the integrity of the financial statements so that the second hypothesis is rejected. (Fama & Jensen, 1983) stated that independent commissioners can act as mediators in disputes that occur between internal managers, supervise management policies, and provide input to management. It turns out that the existence of independent commissioners has not been able to balance decision making, the effectiveness of the internal control system, and the effectiveness of the implementation of external and internal auditors' duties. In the end, companies that have independent commissioners should be more likely to produce financial reports that have high integrity. Besides, there is still a proportion of independent commissioners in BUMN companies that are not under the Financial Services Authority Regulation Number 33 / POJK.04 / 2014 which contains the number of Independent Commissioners who must be at least 30% (thirty percent) of the total members of the Board of Commissioners. The results of this study contradict research (Priharta, 2017) which states that independent commissioners have a significant effect on the integrity of financial statements. However, in line with research (Istiantoro et al., 2017) the results of independent commissioners have a negative and insignificant effect on the integrity of financial statements.

The Effect of Audit Committee Meetings on the Integrity of Financial Statements

Audit committee meetings have a negative and significant effect on the integrity of the financial statements so that the third hypothesis is accepted. The audit committee is a body formed by the board of directors to audit company operations. The function of the audit committee is to provide views on issues related to financial policy, accounting, and internal control. In carrying out its duties, the audit committee must coordinate among members and discuss findings from the supervision and analysis carried out about the company's financial statements. The high intensity of the meetings held will make the supervision and monitoring process better so that the financial reports presented are of higher quality so that the integration of financial reports is achieved. Also, the existence of an audit committee within a company is expected to be one way to reduce and prevent opportunistic behavior by management to commit fraudulent practices in the presentation of financial statements so that the integration of financial statements can be increased. This result is in line with research conducted by (Gayatri & Suputra, 2013) which states that the presence of an audit committee in a meeting has a significant effect on the integrity of financial statements.

The Effect of Leverage on the Integrity of Financial Statements

Leverage has a positive but insignificant effect on the integrity of financial statements so that the fourth hypothesis is rejected. This contradicts the signal theory which explains why companies have the incentive to provide financial statement information to external parties because there is information asymmetry between the company and outside parties. Managers provide information through financial reports that they are implementing conservatism accounting policies that result in higher quality earnings or the integrity of financial statement information. The results of this study are in line with research (Verya et al., 2017) which shows that leverage has a positive but insignificant effect on the integrity of financial statements. This shows that the size of the leverage in a company is likely not to interfere with the integrity of the financial statements in the company because the higher the debt or equity ratio of the company, the more likely it is for managers to choose accounting methods that can increase profits to loosen credit limits and reduce the cost of errors. Technical matters so that the integrity of financial statements is not the main thing for management in performing. The positive relationship between leverage and the integrity of financial statements, where the amount of corporate leverage will cause the company to improve the quality of financial reporting to maintain good performance in the eyes of investors and auditors, but not all companies can carry out this activity because it depends on the company's credibility.

CONCLUSION

Institutional ownership has no significant effect on the integrity of financial statements. This indicates that institutional ownership has not been able to perform optimal oversight of management performance to create financial reports with integrity. The proportion of independent commissioners has no significant effect on the integrity of the financial statements. It turns out that the existence of independent commissioners has not been able to balance decision making, the effectiveness of the internal control system, and the effectiveness of the implementation of external and internal auditors' duties. In the end, companies that have independent commissioners should be more likely to produce financial reports that have high integrity. Audit committee meetings have a significant and significant effect on the integrity of financial statements. The high intensity of the meetings held will make the supervision and monitoring process better so that the financial reports presented are of higher quality so that the integration of financial reports is achieved. Leverage has no significant effect on the integrity of financial statements. This shows that the size of the leverage in a company is likely not to interfere with the integrity of the financial statements in the company because the higher the debt or equity ratio of the company, the more likely it is for managers to choose accounting methods that can increase profits to loosen credit limits and reduce the cost of errors technical matters so that the integrity of financial statements is not the main thing for management in performing.

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