

THE EFFECT OF CORPORATE GOVERNANCE MECHANISMS, AUDITOR INDEPENDENCE, AND AUDIT QUALITY TO INTEGRITY OF FINANCIAL STATEMENTS

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Abstract

This study aims to analyze and prove the effect of corporate governance mechanisms proxied by institutional ownership, managerial ownership, audit committee, number of boards of directors, and independent commissioners, auditor independence, and audit quality to financial statement integrity. The population used in this study is all manufacturing companies listed on the BEI period 2012-2015. The number of samples determined by purposive sampling technique amounted to 75 companies. Data were analyzed by using multiple linear regression. The results show that corporate governance mechanisms proxied by institutional ownership, managerial ownership, audit committees, number of boards of directors and independent commissioners jointly affect the integrity of financial statements. While partially not all proxy of corporate mechanism affect the integrity of financial statements. The independence of auditors does not affect the integrity of financial statements and audit quality positively affects the integrity of financial statements.

Keyword: Integrity of financial statement, conservatism, agency theory, corporate governance mechanis, independence of auditors, audit quality.

1. Introduction

The 1997-1998 financial crisis that affected many Asian countries, including Indonesia, has prompted reforms and initiatives to strengthen the national economy and regional cooperation. Indonesia has learned from experience during the global financial crisis of 1998 and 2008, where corporate governance is essential. The financial crisis also shows the importance of the role of the capital market for the national economy. Well-developed capital markets can support each other with a solid and stable banking system. The capital market provides an alternative to long-term corporate financing and investment facilities for investors. To that end, corporate governance plays an important role in ensuring that capital market players and banks are managed on the basis of fairness, transparency, accountability, responsibility and independence to gain investor confidence.

The financial statements are the final process in the accounting process that has an important role for the measurement and assessment of a company's performance. Companies in Indonesia, especially companies that have gone public are required to prepare financial statements for each period. According to the Indonesian Institute of Accountants (IAI, 2011), the financial statements have the objective to provide information on the company's financial position, performance, and cash flows that are beneficial to most users of the report in order to make economic decisions and demonstrate management stewardship over the use Resources.

The information produced by the financial statements will be very useful for users of financial statements if the information is made correctly and presented honestly to users of financial statements. The financial statements presented indicate that true and honest information is the definition of the integrity of the financial statements (Mayangsari, 2003). The integrity of financial statements is closely related to one of the characteristics required by IFRS, ie faithful representation. Financial information is useful in making decisions if presented in a sincere and honest manner that reflects the true state of affairs. The IFRS conceptual framework describes faithful representation information should provide all information useful for complete decision making so as not to mislead its users (completeness). In addition, information that is faithful representation must also contain the substance of neutrality. Information is said to be neutral if it is

free from attempts to prioritize the interests of a particular group or provide benefits to a particular party. Financial information must also be free from error that can mislead users to meet the quality of faithful representation (Kieso et al, 2011).

Linata and Sugiyarto (2012), the integrity of the financial statements is the responsibility of the two entities involved in reporting, namely the management of the company as the internal party of the company and the public accountant as an external party auditing and giving opinion on the company's financial statements. Therefore, the information presented in the financial statements should also be reliable. Information that has reliable quality that is not misleading, there is no material error, and reliable the wearer as honest information and presented fairly (SAK, 2012), but at this time much manipulation of accounting data more especially financial statements.

The case of accounting data manipulation occurred in some big companies in America such as Enron, Tyco, Global Crossing, and Worldcom as well as some big companies in Indonesia such as PT. Kimia Farma and Bank Lippo which previously had good audit quality (Boediono, 2005). Based on data on Enron company, it turns out the case of manipulation of accounting data involves many parties, and most are parties from within the company itself, such as CEO, commissioner, audit committee, internal auditor, to the external auditor. The disclosure of such cases will make public confidence declining, especially the financial community, which is marked by the decline in stock prices of these companies. This is a big loss for the company, because the financial community is hesitant to join the company (Susiana and Herawaty, 2007). Cases of manipulation of financial data that many can prove that the lack of integrity of financial statements in the presentation of information for users of financial statements, so the financial statements do not indicate the actual financial condition of the company. Should honesty and truth of the data presented in the financial statements is very important, because it is very influential in making decisions for users of financial statements.

The current problem of accounting manipulation is causing many questions for the public at large to various parties, especially to the company's widely-shared management system and ownership system often referred to as corporate governance, which informs the fact that good corporate governance

mechanism has not Applied to the company. The absence of good corporate governance mechanism in this company can be the cause of the company or the management to provide information that gives a positive impact on stock prices and can encourage companies to tend to manipulate accounting by presenting certain information to avoid stock prices dropped (Susiana And Herawaty, 2007).

According Susiana and Herawaty (2007), the case of manipulation of accounting data is actually not only from within the company alone is responsible, but from outside also very influential. Such an external auditor should also be responsible for the many cases of manipulation of accounting data like this. The position of a public accountant who is considered as an independent party who gives fair opinion to the financial statements and auditor profession which is a profession of public trust as users of financial statements also began a lot of questioning, especially after proven that the increasing lawsuits against the accounting firm. While the accounting profession itself has an important role in providing financial information that can be relied upon for the government, investors, creditors, shareholders, employees, debtors, as well as for the community and other interested parties.

There is a positive relationship between audit quality and KAP size based on two things, the first is reputation reason and the second is the deep pocket owned by big KAP. This study proves conformity with reputable hypotheses arguing that larger firms have greater incentives to audit more accurately because large firms have more specific relationships with clients that will disappear if large firms provide inaccurate reports. In addition, since large KAPs have larger resources or wealth than small KAPs, large KAPs are threatened by larger third party lawsuits if large firms do not produce inaccurate audit reports (Lennox 1999 in Jama'an 2008).

Research on the integrity of financial statements still yields inconsistent findings on several variables. So this research is still relevant for re-examination. Inconsistency of research conducted by Mayangsari (2003); Susiana and Herawaty (2007); Jamaan (2008); Hardiningsih (2010); Linata and Sugiyarto (2012); Karo-karo (2012); Efrianti (2012); Saksakotama and Nurcahyonowati (2014); Subandono (2014) becomes the motivation of researchers to conduct research on the integrity of a financial report.

Based on the above description, the formulation of the problem in this study can be described as follows: (1) whether the corporate governance mechanisms proxied by institutional ownership, managerial ownership, audit committee, number of boards of directors, and independent commissioners influence the integrity of financial statements; (2) does the auditor's independence affect the integrity of the financial statements? And (3) does audit quality affect the integrity of financial statements ?. The purpose of this study is to analyze and prove the influence of corporate governance mechanisms proxied by institutional ownership, managerial ownership, audit committee, number of boards of directors, and independent commissioners, auditor independence and audit quality to integrity of financial statements.

2. Theoretical Framework and Hypothesis Development

2.1 Agency Theory

The agency theory or Agency Theory explains the (contract) relationship between the two parties namely principal (investor) and agent (manager). The theory of agency relationships is used in order to understand deeper corporate governance. Jensen and Meckling (1976) stated that there are two kinds of agency relationships, between managers and shareholders and between managers and lenders. Scott (2000) states that the company has many contracts, such as contract workers with its managers and loan contracts between the company and the creditor. The work contract in question is the employment contract between the owner of capital and the manager of the company, where between the agent and the principal aims to maximize the utility of each with information owned.

Ownership and control are separated within a company is one of the factors that lead to conflict of interest called the agency conflict. The agency conflicts that arise between different stakeholders can make it difficult and hamper the company in achieving a positive performance to generate value for the company itself as well as shareholders.

The emergence of agency problems caused by conflict of interest and the asymmetry of such information may cause the company to bear agency costs. The agency theory states that the conflict of interest and information asymmetry that emerges can be reduced by appropriate oversight mechanisms to

align the interests of various parties in the company. The supervisory mechanisms referred to in agency theory can be done using the corporate governance mechanism (Guna and Herawati, 2010).

Corporate governance is expected to serve as a tool to give investors confidence that investors will receive return on the funds they have invested. Implementation of corporate governance can also provide confidence in the performance of management in managing wealth owners (shareholders), so as to minimize conflicts of interest and agency costs. Good corporate governance produces various mechanisms aimed at ensuring that management actions are aligned with the interests of shareholders (Susiana and Herawaty, 2007).

In addition to corporate governance in minimizing conflict, the situation also requires independent third parties as mediators between agents and principals. This third party serves to monitor the behavior of agents whether it is acting in accordance with the wishes of the principal (Susiana and Herawaty, 2007). Auditors are parties who are considered able to bridge the interests of the principal with the agency in managing the company's finances. The auditor performs the monitoring function of the agent's work through a means of financial report.

2.2 Integrity of Financial Statements

Based on Statement of Financial Accounting Concepts (SFAC) No. 2 regarding Qualitative Characteristic of Accounting Information, there are two things that become primary quality in a financial statement, namely relevance (relevance) and reliability (reliability). According to Kieso and Weygant (2011), financial statements that have high integrity must meet the two main characteristics in a relevant financial statement and faithful representation. Relevant accounting information is accounting information that has predicted values and confirmed values. While accounting information faithful representation is complete accounting information, neutral and free from misstatement. Based on both types of fundamental quality, financial reporting information has high integrity is reliable because it is an honest presentation that allows users of accounting information to rely on the information, so as to have the ability to influence the decision of users of financial statements to help make decisions.

Mulyadi (2004) defines integrity as follows: "Integrity is a moral principle that is impartial, honest, someone with high integrity views the fact as it is and puts the facts as they really are." Mayangsari's (2003) study of financial statement integrity is defined as follows: "The integrity of financial statements is the extent to which the financial statements presented indicate true and honest information." The size of the integrity of the financial statements intuitively can be divided into two, as measured by conservatism as well as the existence of financial statement manipulation which is usually measured by earnings management, Mayangsari (2003).

2.3 Corporate Governance

Understanding corporate governance is: "The roles of shareholders, directors and other managers in corporate decision making." According to (Griffin, 2002 in Susiana and Herawaty, 2007). Good governance is a good governance in a business based on professional ethics in trying or working. In principle the goal of corporate governance is to create value for interested parties. The parties are internal parties that include the board of commissioners, directors, employees, and external parties concerned.

The elements contained in the measurement of corporate governance mechanisms in this study are (a) percentage shares owned by the institution; (b) the percentage of shares held by management; (c) the existence of audit committees within the company; (d) the existence of a board of directors within the company; And (e) the existence of independent commissioners within the company.

2.4 Development of Hypotheses

2.4.1 Effect of Corporate Governance Mechanism on Financial Statement Integrity

2.4.1.1 Effect of Institutional Ownership on the Integrity of Financial Statements

Institutional ownership is measured by the percentage of shares owned by the institution divided by the number of shares outstanding. Institutional ownership is the percentage of voting rights owned by the institution (Beiner et al., 2003 in Jama'an, 2008). Boediono (2005) states that certain percentage of shares owned by the institution can affect the process of preparing financial statements that do not rule out the existence of accrualization according to the interests of the management. Corporate oversight by

institutional investors can encourage managers to focus more attention on corporate performance, thus reducing opportunistic or self-serving behavior Cornet et al. (2006) in Jama'an (2008).

The results of Mayangsari (2003), Jama'an (2008), Linata and Sugiyarto (2012), Karo-karo (2012), Efrianti (2012) and Subandono (2014) show that institutional ownership affects the integrity of financial statements. While research conducted by Susiana and Herawaty (2007) shows that institutional ownership has an insignificant effect on the integrity of financial statements. The first hypothesis section a (H1a) proposed by researchers in this study are as follows:

H1a: Institutional ownership positively affects the integrity of financial statements.

2.4.1.2 Effect of Managerial Ownership on the Integrity of Financial Statements

Ownership of the company is one mechanism that can be used for managers to conduct activities according to the interests of the owner of the company. Ownership of shares owned by management includes owned by management individually or owned by subsidiaries of affiliated companies and their affiliates (Susiana and Herawaty, 2007). Managerial ownership plays a role in limiting the deviant behavior of corporate management. Managerial ownership is one of the mechanisms that can be applied in improving the integrity of financial statements (Linata and Sugiarto, 2012).

Results of research conducted by Mayangsari (2003), Hardiningsih (2010), Karo-karo (2012), Saksakotama and Cahyonowati (2014) show that managerial ownership affects the integrity of financial statements. While research conducted by Susiana and Herawaty (2007) shows that managerial ownership has an insignificant influence on the integrity of financial statements. The first hypothesis section b (H1b) proposed by researchers in this study are as follows:

H1b: Managerial ownership positively affects the integrity of financial statements

2.4.1.3 Influence of the Audit Committee on the Integrity of Financial Statements

The audit committee is a body established by the board of directors to audit operations and circumstances. This agency is tasked with selecting and assessing the performance of the company's public accounting firm. (Siegel, 1996 in Susiana and Herawaty, 2007). Audit Committee is an agency established

within the client company that is responsible for maintaining the independence of the auditor's accountant to management. (Agoes, 2011).

The results of research conducted by Efrianti (2012), and Subandono (2014) indicate that audit committees have a significant positive effect on the integrity of financial statements. While research conducted by Mayangsari (2003) found a negative relationship between the audit committee with the integrity of the financial statements, the existence of the audit committee is considered less effective related in improving company performance. The first hypothesis section c (H1c) proposed by researchers in this study are as follows:

H1c: Audit Committee positively affects the integrity of financial statements

2.4.1.4 Influence Number of Board of Directors to Integrity of Financial Statement

The Board of Directors is fully responsible for the management of the company. Each member of the board of directors can perform the task and make decisions in accordance with the division of tasks and authority (Linata and Sugiyarto, 2012). In general, the board of directors is assigned and given the responsibility to coordinate the activities of the board of directors. Members of the Board of Directors are elected and dismissed by the GMS through a transparent process. The number of members of the board of directors in the company includes directors who come from outside the company (independent directors) as well as directors who come from within the company. The more members of the board of directors of a company, the higher the degree of integrity of financial statements (Linata and Sugiyarto, 2012).

The results of research conducted by Linata and Sugiyarto (2012) showed that the number of boards of directors affect the integrity of financial statements. In managing the company, the board of directors as the manager of the company set policy policies that must be applied within the company such as policies on the application of conservative accounting. Test results of Linata and Sugiyarto (2012) indicate that the size of the board of directors of large companies can monitor the financial reporting process more effectively than the size of the board of directors is small, so that financial statements more integrity. The first hypothesis part d (H1d) proposed by researchers in this study are as follows:

H1d: The number of boards of directors positively affects the integrity of the financial statements

2.4.1.5 Effect of Independent Commissioners on the Integrity of Financial Statements

An independent commissioner is a member of the board of commissioners who is not affiliated with the board of directors, other members of the board of commissioners and the controlling shareholder, and is free from any business relationship or other relationship that may affect his ability to act independently or act solely for the benefit of the company (KNKG, 2004). To further strengthen the effectiveness of independent commissioners, the number of independent commissioners within the company is set at least 30% of the total number of commissioners or at least 1 (one) person (KNKG, 2004).

The results of research conducted by Jamaan (2008), Linata and Sugiyarto (2012), Efrianti (2012), Karo-karo (2012), Subandono (2014) show significant positive results affect the integrity of financial statements. While research conducted by Mayangsari (2003) proves that independent commissioners negatively affect the integrity of financial statements. Susiana and Herawati (2007), indicating the results of independent commissioners has an insignificant influence on the integrity of the financial statements. The first hypothesis section e (H1e) proposed by researchers in this study are as follows:

H1e: The number of independent commissioners positively affects the integrity of the financial statements

2.4.2 Effect of Auditor Independence on Financial Statement Integrity

Based on the decision of the Chairman of BAPEPAM LK number KEP-310 / BL / 2008 dated 01 August 2008 regarding the independence of accountants who provide services in the capital market. In the attachment to the decision of the Chairman of BAPEPAM LK number KEP-310 / BL / 2008, there are Regulations number VIII.A.2 which contains the independence of accountants who provide services in the capital market. Such regulations restricts the audit assignment, namely the provision of general audit services to the client's financial statements can only be conducted by the Public Accounting Firm for the last 6 (six) consecutive year and by an Accountant for 3 (three) consecutive years in a row .

Results of research conducted by Mayangsari (2003) and Subandono (2014) show that the independence of auditors significantly influence the integrity of financial statements. While research conducted by Susiana and Herawaty (2007) shows the result that independence has an insignificant

influence on the integrity of financial statements. The second hypothesis proposed by researchers in this study are as follows:

H2: Auditor independence positively affects the integrity of financial statements

2.4.3 Effect of Audit Quality on Financial Statement Integrity

Research on the demand for audit quality has been described using agency literature and contracting. The argument is that the higher the agency cost, the greater the demand for higher audit quality, either by managers or by shareholders (Watts and Zimmermann, 1986). Several previous studies have shown that auditors offer different levels of audit quality to respond to variations in client demand for audit quality. Previous studies have distinguished auditor quality based on big four and non big four differences and some also use industry auditor specialization to assign value to this audit quality such as research (Mayangsari, 2003).

Results of research conducted by Mayangsari (2003), Linata and Sugiyarto (2012), show the result that audit quality affects the integrity of financial statements. Jamaan (2008), audit quality showed a significant positive result to the integrity of financial statements. While research conducted by Susiana and Herawaty (2007), shows the result that audit quality has an insignificant influence on the integrity of financial statements. Karo-karo (2012) shows the result that audit quality has no positive effect on financial statement integrity. The third hypothesis proposed by researchers in this study are as follows:

H3: Audit quality positively affects the integrity of financial statements

3. Research Method

3.1 Types and Sample Research

This type of research is associative research. This research intends to explain the relationship and influence of corporate governance mechanism, auditor independence, audit quality and earnings management to financial statement integrity at manufacturing companies listed in Indonesia Stock Exchange (IDX).

Sampling is done by purposive sampling technique. According Sugiyono (2014: 118) purposive sampling technique is one of the techniques determination of the sample is done based on certain

considerations and criteria tailored to the purpose of research. The sample of the research amounted to 75 manufacturing companies by considering the following criteria:

- 1) Manufacturing companies listed on the BEI, with listed criteria as public companies during the period January 1, 2012 to December 31, 2015.
- 2) The company has complete data related to the variables used in this study. The complete definition is the company must have the following data:
 - a) The audited or annual report (if the financial statements are not obtained) for the periods ended December 31, 2012 through December 31, 2015.
 - b) Data on the composition of the board of commissioners and audit committee and the board of directors.
 - c) The name of the public accountant auditing the financial statements of the company, clearly stated in the financial statements published on the Stock Exchange.
 - d) The financial statements are presented in rupiah

3.2 Operational Definition of Variables

3.2.1 Independent Variables

3.2.1.1 Corporate Governance Mechanism

- a. The institutional ownership (percentage of shares owned by the institution), symbolized by INST is measured using the ratio scale through the percentage of shares owned by the institution divided by the number of shares outstanding (Linata and Sugiarto, 2012).
- b. Managerial ownership (percentage of shares owned by management), symbolized by MANJ, is measured using a ratio of the percentage of the number of shares held by management, including the percentage of shares held by the management personally or owned by the subsidiaries concerned and its affiliates (Susiana And Herawaty, 2007).
- c. The audit committee, symbolized by KAUD and measured using a ratio scale through percentage of the total audit committee from independent commissioners of all audit committees (Rahiim and Wulandari, 2014).

- d. Board of directors, symbolized by DDIR and measured by the number of boards of directors in the company including directors coming from outside the company (independent directors) as well as directors coming from within the company (Linata and Sugiarto, 2012).
- e. Independent commissioners, symbolized by KIND and measured by percentage of independent commissioners of all members of the company's board of commissioners (Rahimim and Wulandari, 2014).

3.1.1.2 Auditor Independence

Auditor independence symbolized INDP is measured by the duration of audit assignment between auditors, where variables are measured using dummy variables, ie 1 = client using the same auditor in 3 years; 0 = The client replaces the auditor for 3 years. If the firm's dummy value 1 then the company's financial statements are getting less integrity, and vice versa (Linata and Sugiarto, 2012).

3.1.1.3 Audit Quality

The quality of this KAP is differentiated into a large KAP with more than 10 partners, medium with partner 4-9 and small with partner 1-3. This study evaluates the quality of auditors based on large groupings of KAPs with more than 10 partners because large firms with more than 10 partners can be trusted by the public or users of financial statements in the performance of their duties (Mustafa, 2014).

This variable is symbolized KUA measured by using dummy variable where number 1 is given if auditor auditing company is auditor of big KAP with partner more than 10 and 0 if it turns out the company is audited by middle KAP with partner 4-9 and small with partner 1-3.

3.1.1 Dependent Variables

3.1.1.1 Integrity of Financial Statements

The integrity of financial statements is the extent to which the financial statements presented indicate true and truthful information (Mayangsari, 2003). The integrity of financial statements can be measured using the principles of conservatism and earnings management. This study uses conservatism in measuring the integrity of financial statements. The measurement of conservatism in this study refers to Beaver and Ryan (2003) using net asset measure. This measurement is proxied by Market to book ratio that

reflects the market value relative to the book value of the company and is measured by the following formula:

$$\text{Book to Market Ratio (CON_MKT)} = \frac{\text{Stock Market Price}}{\text{Value of Share Book}}$$

Information:

Stock Market Price = Stock Price at the time of closing at the end of the year

Value of Share Book = Comparison of total equity with number of shares outstanding

A ratio of more than 1 indicates a conservative accounting application because the firm records company value lower than its market value (Anggraini and Trisnawati, 2008).

3.2 Data Analysis

Data analysis method used in this research is quantitative data analysis method which is expressed with numbers and calculation using statistical method assisted by SPSS program. This study uses multiple regression analysis which is used to know the accuracy of the relationship between financial statement integrity (variable dependent) with corporate governance mechanism (institutional ownership, ownerial ownership, audit committee, board of directors, and independent commissioner), auditor independence, audit quality and management Profit as an influencing variable (independent variable) with the equation:

$$\text{Con_MKT} = \beta_0 + \beta_1 \text{INST} + \beta_2 \text{MNJ} + \beta_3 \text{KAUD} + \beta_4 \text{DDIR} + \beta_5 \text{KIND} + \beta_6 \text{INDP} + \beta_7 \text{KUA} + \varepsilon$$

Where:

Con_MKT = Integrity of financial statements

B0 = Constant

B1INST = Institutional ownership

B2MNJ = Managerial ownership

B3KAUD = Audit Committee

B4DDIR = Board of directors

B5KIND = Independent Commissioner

B6INDP = Auditor independence

B7KUA = Audit quality

ε = Error

4. Research Results and Discussion

4.1 Statistical Test F

Test F is testing together the influence of independent variables to the dependent variable. Here are the results of Test F:

Table 1
ANOVA^b

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 36.470 | 7 | 5.210 | 2.632 | .018 ^a |
| | Residual | 132.612 | 67 | 1.979 | | |
| | Total | 169.082 | 74 | | | |

a. Predictors: (Constant), KUA, KAUD, INST, DDIR, KIND, MANJ, INDP

b. Dependent Variable: CON_MKT

The table above shows that the F value of 2.632 is greater than the value of F table 2.130 which means that all independent variables are institutional ownership, managerial ownership, number of boards of directors, audit committee, independent commissioner, auditor independence and audit quality jointly (Simultaneous) effect on the integrity of financial statements. This is also evidenced by the significant value of F arithmetic of 0.018 is smaller than 0.05 which means that simultaneously independent variables of institutional ownership, managerial ownership, number of boards of directors, audit committee, independent commissioner, auditor independence and audit quality Affect the integrity of financial statements.

4.2 Statistical Test t

The t test is used to determine the effect of independent variables separately on the independent variables. Here are the results of Test t:

Table 2
Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | -.265 | 1.017 | | -.261 | .795 |
| INST | -.005 | .007 | -.070 | -.626 | .533 |
| MANJ | -.041 | .020 | -.242 | -2.110 | .039 |
| KAUD | .004 | .014 | .030 | .269 | .788 |
| DDIR | .138 | .061 | .271 | 2.281 | .026 |
| KIND | .026 | .017 | .175 | 1.491 | .141 |
| INDP | -.215 | .544 | -.052 | -.395 | .694 |
| KUA | 1.039 | .505 | .277 | 2.056 | .044 |

a. Dependent Variable: CON_MKT

Based on the above table, partially not all independent variables significantly influence the dependent variable. The table above shows that institutional ownership has a t value of -0.626 <value t table 1.665 which means that hypothesis H1a failed to be accepted. Managerial ownership has a value of t arithmetic of -2.110 > t value table -1.665 which means that managerial ownership has a significant negative effect as shown sig value of 0.039 <value α 0.05. The audit committee has a t value of 0.269 <t value of 1.665 table which means that hypothesis H1c failed to be accepted. Board of directors has a value of t arithmetic of 2.281 > from the value of t table of 1.665 which means that hypothesis H1d accepted, it is proved also with the sig value of 0.026 <value α 0.05 indicating that there is a positive influence signifikan between variables board of directors with integrity financial statements. Independent Commissioner has a value of t arithmetic 1.491 <value t table 1.665 which means that hypothesis H1e failed to be accepted.

While the independence of the auditor has a value of t arithmetic -0.395 <value t table -1.665 which means that hypothesis H2 failed to be accepted. Audit quality has a t value of 2.056 > t value table 1.665 which means that hypothesis H3 accepted, it is also proved by the value of sig of 0.044 <value of α 0.05 indicating that there is a significant positive influence between audit quality variables to integrity of financial statements .

4.3 Coefficient of Determination Test (R2)

Table 3
Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .464 ^a | .216 | .134 | 1.40687 |

a. Predictors: (Constant), KUA, KAUD, INST, DDIR, KIND, MANJ, INDP

From the result of double linear regression equation estimation through SPSS program, the value of R2 0,216, where the coefficient of determination is in hose $0 < R2 < 1$. Value of R2 0,216 shows the ability of independent variables in explaining the variation of the dependent variable is very limited, that is only 21.6%.

5. Conclusion, Implication and Limitation

5.1 Conclusion

Corporate governance mechanisms proxied by institutional ownership, managerial ownership, audit committees, number of boards of directors and independent commissioners jointly affect the integrity of financial statements. This can be proved by the result of F test analysis for independent variables of corporate governance mechanism as listed in table 4 below

Table 4
ANOVA^b

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 26.887 | 5 | 5.377 | 2.609 | .032 ^a |
| | Residual | 142.196 | 69 | 2.061 | | |
| | Total | 169.082 | 74 | | | |

a. Predictors: (Constant), KIND, MANJ, KAUD, INST, DDIR

b. Dependent Variable: CON_MKT

Based on table 4 above, it shows that the value of F arithmetic is $2.609 > t$ table value of 2,340 which means that the variables of corporate governance mechanism proxied by institutional ownership, management ownership, audit committee, the number of boards of directors and independent commissioners influence simultaneously to Integrity of financial statements. This is also evidenced by the sig value of $0.032 < \alpha 0.05$ which means simultaneously variables corporate governance mechanism is

accepted. While the t test results show that not all proxy variables corporate governance mechanism affect the integrity of financial statements.

Auditor independence has no effect on the integrity of financial statements. The test results influence the variables of independence on the integrity of financial statements shows a significance value of 0.694. This shows that the independence variable has no evidence to influence the integrity of the financial statements

Audit Quality positively affects the integrity of financial statements. Audit quality test results show a significance value of 0.044 where this value is smaller than 0.05. This shows there is evidence of audit quality variables have an influence on variable integrity of financial statements.

5.2 Research Implications

Researchers expect the results of this study can contribute to the development of accounting science that specifically discusses the integrity of financial statements. The following contributions and research implications are as follows:

1. The shareholders shall promote the implementation of Good Corporate Governance (GCG) by maximizing GCG instruments such as institutional ownership, managerial ownership, audit committee, independent commissioner, corporate secretary, GCG committee.
2. Company management parties shall be professional in regard to all responsibilities even if they have or do not own shares in the company
3. For Public Accounting Firm (KAP), must continue to improve the competence and proficiency profession
4. The creditor, investor, supplier can analyze the level of integrity of the financial statements made by the company, because if the integrity level of the company's financial report has been analyzed then the decision can be taken appropriately

5.3 Limitations of Research

This study has several limitations. First, the research variables are limited to corporate governance mechanisms, auditor independence and audit quality, while there are many other factors that affect the integrity of financial statements. For example earnings management, company size, timeliness of reporting and leverage. Second, the study sample is limited to only manufacturing companies. In addition there is a population elimination of the sample caused by the information not presented by the company in the annual report and financial statements. Third, this research only covers one research model, not yet compare two research models with proxy integrity of different financial statements. For example, using the proxy of conservatism criteria (Widya, 2005), conservatism index (Susiana & Herawaty, 2007).

On the basis of these limitations, for further research it is suggested to add other variables that are predicted to affect the level of integrity of the company's financial statements. Increase the observation population, not just limited to manufacturing companies and can compare two models of measurement or proxy integrity of financial statements in research and increase the proxy of corporate governance.

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