

IMPACT OF CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL DISTRESS ON FINANCIAL STATEMENT INTEGRITY: EVIDENCE FROM INDONESIAN MANUFACTURING FIRMS (2020–2022)

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ABSTRACT

This study aims to determine the effect of Corporate Governance mechanisms consisting of institutional ownership, managerial ownership, audit committees, independent commissioners and financial distress on the integrity of financial statements in manufacturing companies listed on the IDX in 2020-2022. The population in this study is manufacturing companies listed on the IDX in 2020-2022. The samples in this study were 75 samples with outlier healing so that the samples in this study were 45 samples. The sampling technique in this study used purposive sampling techniques. The data analysis method used in this study is a quantitative approach analysis technique with analysis tools using panel data regression. Based on data analysis conducted, institutional ownership, managerial ownership, audit committee, independent commissioner, and financial distress have a positive effect on the integrity of financial statements in manufacturing companies listed on the IDX for 2020-2022.

Keywords: *managerial ownership, audit committee, independent commissioner, financial distress, financial statement integrity*

INTRODUCE

The COVID-19 pandemic, declared a global pandemic by the World Health Organization (WHO) on March 11, 2020, has had a serious and widespread impact on the global socio-economic conditions. Indonesia is one of the affected countries, particularly on the economic side. The manufacturing industry is one of the sectors affected by the COVID-19 pandemic. This sector significantly influences the national economy. The most widely used parameter to assess a company's performance from a financial perspective is the financial statements (Revita, Gagaring & Darmawati, 2023).

Financial statements are documents that provide information regarding a company's financial position and performance, which are typically used by stakeholders as a basis for making

economic decisions (PSAK 1, 2018). Every company is required to prepare financial statements by management, which are then verified through an audit process. The purpose of preparing financial statements is to provide information on the company's finances, the development of its financial position, and to assess the company's performance over a specific period for various stakeholders such as management, prospective investors, investors, creditors, and the government.

Financial statements should reflect the company's actual condition. However, they are prone to fraud through data manipulation, resulting in untruthful and inaccurate reports (Muthia & Noer, 2021). According to Herada and Dwijayanti (2022), a financial statement is considered to have integrity if it meets the criteria of reliability, meaning it faithfully represents

the company's condition by being free from material errors, complete, and neutral, so that users of financial statements can understand the company's true condition. Financial statements that meet qualitative characteristics will produce accurate and integrity-driven information.

When a company faces unfavorable conditions (e.g., declining revenues, expenses exceeding revenues), managers tend to conceal these conditions from the owners. This behavior stems from managers' fear of presenting undesirable information to the owners, prompting them to manipulate reporting (Lubis et al., 2018). Such actions lead to a lack of integrity in the financial statements, making the company less attractive to potential investors.

According to the Central Bureau of Statistics, the manufacturing sector has experienced a continuous decline (Malau et al., 2018). If this trend continues, Indonesian companies may find it difficult to compete, leading to financial distress as they fail to evaluate and predict their financial condition. A company's financial condition is crucial for its survival. Continuous profit decline increases the likelihood of financial distress (Arifiana & Khalifaturrofi'ah, 2022). This situation must be avoided as it may lead to bankruptcy if management fails to address financial problems appropriately. Companies in good condition can be identified through financial statements with integrity. However, problems arise when management commits fraud in financial reporting.

Several cases of financial statement fraud have occurred in Indonesia. One example is the fraud perpetrated by two former directors of PT Tiga Pilar Sejahtera (AISA) Tbk, revealed in early 2021. AISA reported increasing receivables from six distributors and rising sales performance. Further investigation revealed that six of these companies were actually affiliates, but were recorded as third parties in the 2016 and 2017 financial reports. This fraud

drove AISA's stock price up to IDR 2,360 per share in mid-2017. The high Earnings Per Share (EPS) led the market to expect higher dividends, attracting many investors to invest in PT AISA. Retail investors accumulated shares from 2018, drawn by the 2017 book value of IDR 1,300–1,400 per share while the market price was only around IDR 300 per share.

This misinformation resulted in investments totaling IDR 335 million, equivalent to 1.4 million shares. In July 2018, AISA's shares were suspended due to various problems, including failure to pay bond interest and earnings manipulation. After two years, the shares resumed trading, but investors suffered losses as their funds were tied up during the suspension (Antara News, 2021). This incident eroded investors' trust in the company, as the financial statements did not faithfully represent its poor performance but instead presented misleading and biased information, which also affected stock returns.

Another case involved financial statement manipulation by PT Waskita Karya Tbk (Waskita) and PT Wijaya Karya Tbk (WIKA), which undermined investor confidence in public companies listed on the Indonesia Stock Exchange (Tempo, June 18, 2023). In 2020, WIKA reported a net profit of IDR 322 billion, which dropped to IDR 214 billion in 2021 and plummeted to IDR 12.5 billion in 2022. Meanwhile, Waskita reduced its net loss from IDR 9.28 trillion in 2020 to IDR 1.67 trillion in 2022. Both companies manipulated their books by hiding vendor payables since 2016, creating an illusion of healthy financial conditions despite ongoing financial distress.

Notably, financial statements of public companies undergo at least five levels of review by management, the board of commissioners and audit committee, the public accounting firm, the Financial Services Authority (OJK), and external stakeholders, including investors. Even after reaching the stock exchange floor, the

bourse operator conducts another review. Ironically, these layered audits failed to detect the fraud perpetrated by Waskita and WIKA, highlighting poor governance and ineffective audits, which may drive investors away from such businesses.

Another example is PT Tirta Amarta Bottling (TAB), which manipulated financial statements to obtain credit facilities from Bank Mandiri by overstating its assets reporting inflated inventories and receivables to appear financially sound and secure credit extensions (Nasional.kontan.co.id, 2018). These cases demonstrate persistent dishonesty in financial reporting, undermining users' trust. Corporate governance mechanisms are crucial for enhancing financial statement integrity and reducing fraud. Therefore, managerial ownership, institutional ownership, audit committees, and independent commissioners as part of the company's governance system play vital roles in overseeing the company. External parties, such as auditors, also act as supervisors and mediators, ensuring integrity-driven financial statements.

Besides corporate governance mechanisms, financial distress is another factor affecting financial statement integrity. Nurbaiti et al. (2021) define financial distress as a situation where a company struggles to meet short-term obligations. Managers are more likely to manipulate accounting data during financial distress to avoid appearing weak to investors. Similarly, Febriyanti and Khalifaturofi'a (2023) describe financial distress as a condition of financial ill-health that precedes bankruptcy. Investors base their decisions on analyses of the company's financial condition through its financial statements. In this regard, auditors play a crucial role in bridging the interests of companies and investors, ensuring high-quality information that enables investors to make sound economic and investment decisions.

Several prior studies have examined the relationship between corporate

governance mechanisms, financial distress, and financial statement integrity. Herada and Dwijayanti (2022) found that corporate governance variables (managerial ownership, institutional ownership, independent commissioners, and audit committees) had no significant effect on financial statement integrity, while financial distress had a negative effect. Conversely, Nurbaiti et al. (2021) reported that neither corporate governance nor financial distress affected financial statement integrity. In contrast, Dewi and Putra (2016) found that managerial ownership, institutional ownership, and independent commissioners positively affected financial statement integrity, while audit committees did not. Similarly, Lubis (2018) found that financial distress had an insignificant positive effect, suggesting that earnings management serves as a communication tool but does not materially distort overall financial statements. Arista (2018) reported that all four governance variables significantly affected financial statement integrity.

This study builds upon Herada and Dwijayanti (2022), who examined the influence of corporate governance mechanisms and financial distress on financial statement integrity. However, this study differs by focusing on the 2020–2022 period, capturing the post COVID 19 conditions and offering more recent insights into corporate financial statement integrity.

The present study extends Herada and Dwijayanti (2022) by investigating the same variables corporate governance mechanisms (managerial ownership, institutional ownership, independent commissioners, and audit committees) and financial distress on the integrity of financial statements of manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2020–2022. The manufacturing sector was chosen due to its larger, more complex, and more varied transactions compared to other sectors. Unlike the previous study (2018–2020),

this research focuses on the 2020–2022 period to reflect updated corporate conditions and financial statement integrity following the COVID-19 pandemic.

RESEARCH METHOD

Type of Research and Data Sources

This study is a quantitative research aiming to analyze the causal relationship between corporate governance mechanisms and financial distress on the integrity of financial statements. The data used are secondary data in the form of annual financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. The sample was determined using purposive sampling based on specific criteria, resulting in 75 companies with a total of 225 observations. The data were obtained from the official IDX website and Yahoo Finance, with documentation techniques employed as the data collection method.

Analytical Technique

This study employs descriptive statistical analysis to describe the characteristics of the data and panel data regression to test the influence of independent variables on the dependent variable. Data processing was carried out using EViews software. Classical assumption tests, including normality, multicollinearity, autocorrelation, and heteroscedasticity tests, were conducted to ensure the feasibility of the regression model. Hypothesis testing was performed through t-tests, F-tests, and the coefficient of determination, with a 5% significance level to measure the significance of the variables' effects.

Model Selection

To select the most appropriate panel regression model, a series of tests were conducted, including the Chow test to choose between the Common Effect Model (CEM) and the Fixed Effect Model (FEM), the Hausman test to choose between FEM and the Random Effect Model (REM), and the Lagrange Multiplier test to choose

between CEM and REM. These tests were used to determine whether the panel data are best analyzed under the assumption of a common intercept, different intercepts across individuals, or random disturbances across time and individuals, thereby obtaining the most suitable estimation model for the characteristics of the research data.

LITERATURE REVIEW

Agency Theory

Agency theory explains the contractual relationship between the principal (capital owner) and the agent (manager), in which the principal delegates authority to the agent to manage the company on their behalf, including decision-making authority. According to Jensen and Meckling (1976), the main objective of this relationship is to optimize resource utilization for both short-term and long-term welfare. Since only management fully understands the company's actual condition, strong trust is required, whereby agents are obligated to transparently convey corporate information through accounting reports. This separation of ownership and control is prone to creating conflicts of interest, known as agency conflicts, or agency problems.

To mitigate such conflicts, the theory advocates the implementation of control mechanisms through corporate governance, which bridges the interests of principals and agents. These mechanisms aim to ensure that agents act in the owners' best interests, create added value, and prevent abuse of power. In other words, agency theory provides an essential foundation for understanding good corporate governance practices to minimize potential conflicts arising from misaligned objectives.

Signaling Theory

Signaling theory posits that companies can reduce information asymmetry by providing clear signals to stakeholders. These signals are typically conveyed by management through financial statements that reflect the adoption of

conservative accounting policies, aiming to present earnings realistically and avoid earnings manipulation (overstatement). By providing accurate and honest information, a company can position itself more favorably than competitors and enhance its credibility in the eyes of investors and stakeholders.

The information disclosed by the company functions as a signal, which investors interpret as either positive or negative regarding the company's prospects. Investors evaluate this information when making investment decisions, thus requiring management to exercise caution when preparing financial statements. In summary, signaling theory emphasizes the importance of honest and transparent communication to reduce market uncertainty and build external trust in the company.

Definition of Financial Statements

Financial statements are crucial documents that depict a company's financial position, performance, and cash flows over a specific period, serving as the basis for stakeholders' economic decisions. According to PSAK 1 (2018), financial statements are prepared by management, audited, and presented fairly, relevantly, reliably, and understandably. The objective of preparing financial statements is not only to report to external parties, such as investors and creditors, but also to assist management in planning and evaluating performance.

In their preparation, financial statements must comply with applicable accounting standards so that the information presented is relevant and comparable, thereby providing a comprehensive view of the company's condition. Fair and transparent presentation helps stakeholders assess the company's financial standing objectively and make informed decisions.

Integrity of Financial Statements

The integrity of financial statements refers to their being prepared honestly, reflecting the actual economic condition,

and being accountable without manipulation. Integrity in information represents the company's accountability to its users. According to Istiantoro et al. (2018), integrity encompasses reliability, faithful representation, neutrality, and data completeness. Financial statements with high integrity instill confidence in users to understand the company's performance.

Financial statements lacking integrity risk eroding public trust due to misleading information. Factors such as strong corporate governance mechanisms, low levels of financial distress, and the roles of the audit committee and independent commissioners significantly influence integrity. Therefore, integrity is not merely about fulfilling reporting obligations but also about demonstrating a commitment to transparency and honesty to all stakeholders.

Corporate Governance Mechanisms

Corporate governance refers to a set of principles, rules, and mechanisms that regulate, manage, and oversee companies to create value, maintain accountability, and ensure the interests of all stakeholders are safeguarded. International institutions such as the OECD, World Bank, and ADB define corporate governance as a system that directs and controls companies to operate efficiently, accountably, and sustainably. In Indonesia, the implementation of good corporate governance (GCG) is regulated by the National Committee on Governance Policy (KNKG) and the Indonesia Stock Exchange (IDX) through the principles of transparency, accountability, responsibility, independence, and fairness. GCG mechanisms are categorized as internal and external. Internal mechanisms include rules, incentive contracts, financial reporting, and supervision by the board of commissioners and audit committee to encourage management to act in shareholders' interests. External mechanisms, such as the market for corporate control, ensure that managers who fail to improve performance are replaced. Internal factors influencing GCG

mechanisms include institutional ownership, which can more effectively monitor management due to professional experience, and managerial ownership, which aligns owners' and managers' interests as they share the risks and rewards of decisions made.

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Descriptive statistics provide an overview of the data, reflected by measures such as mean, standard deviation, variance, minimum, maximum, sum, and range.

Table 1. Descriptive Statistics (Before Outlier Removal)

Date: 11/25/23 Time: 20:19						
Sample: 2020 2022						
	ILK	KI	KM	KOMITE	DKI	FD
Mean	1.661	0.604	0.161	2.977	0.412	3.194
Median	1.210	0.660	0.060	3.000	0.400	2.420
Maximum	20.590	0.960	0.870	4.000	1.000	14.310
Minimum	-21.150	0.020	0.000	2.000	0.250	-11.770
Std. Dev.	2.551	0.2159	0.214	0.257	0.108	3.371
Skewness	-1.058	-0.829	1.574	-1.045	1.667	0.611
Kurtosis	43.364	2.940	4.535	14.818	9.031	6.694
Jarque-Bera	15316.51	25.858	115.050	1350.487	445.325	142.023
Probability	0.000	0.000	0.000	0.000	0.000	0.000
Sum	373.900	135.950	36.430	670.000	92.740	718.830
Sum Sq. Dev.	1458.756	10.449	10.329	14.888	2.613	2546.687
Observations	225	225	225	225	225	225

Source: Process Data *Eviews* 12

Table 1 presents the descriptive statistics of each research variable. Based on Table 4.2, the descriptive analysis of financial reporting integrity (ILK) shows a minimum value of -21.500, a maximum value of 20.590, a mean of 1.661, and a standard deviation of 2.551. The skewness is -1.058, and the kurtosis is 43.364. The descriptive analysis of institutional ownership (KI) shows a minimum of 0.020 and a maximum of 0.960, with a mean of 0.604 and a standard deviation of 0.215. The skewness is -0.829, and the kurtosis is 2.940.

For managerial ownership (KM), the minimum value is 0.000 and the maximum is 0.870, with a mean of 0.161 and a standard deviation of 0.214. The skewness is 1.574, and the kurtosis is 4.535.

The analysis of the audit committee (KOMITE) reveals a minimum of 2.000 and a maximum of 4.000, with a mean of 2.977 and a standard deviation of 0.257. The skewness is -1.045, and the kurtosis is 14.818. The independent commissioner (DKI) shows a minimum of 0.250 and a maximum of 1.000, with a mean of 0.412

and a standard deviation of 0.108. The skewness is 1.667, and the kurtosis is 9.031. Finally, the analysis of financial distress (FD) indicates a minimum of -11.770 and a maximum of 14.310, with a mean of 3.194 and a standard deviation of 3.371. The skewness is 0.611, and the kurtosis is 6.694.

Among these variables, some exhibit a mean greater than their standard deviation, indicating relatively good data quality since

the mean exceeds the dispersion of the data. These variables include institutional ownership, audit committee, and independent commissioner. Conversely, financial reporting integrity, managerial ownership, and financial distress have means lower than their standard deviations, suggesting that the data quality for these variables is relatively weaker.

Table 2. Descriptive Statistics (After Outlier Removal)

Date: 11/25/23 Time: 13:08						
Sample: 2020-2022						
	ILK	KI	KM	KOMIT E	DKI	FD
Mean	0.857	0.608	0.147	2.985	0.409	2.486
Median	0.720	0.660	0.060	3.000	0.400	1.950
Maximum	2.390	0.890	0.790	4.000	0.670	13.160
Minimum	0.160	0.070	0.000	2.000	0.250	-0.730
Std. Dev.	0.445	0.191	0.205	0.243	0.096	2.267
Skewness	0.755	-0.974	1.729	-0.849	0.619	2.286
Kurtosis	3.067	3.149	4.906	16.771	2.442	10.291
Jarque-Bera	12.861	21.494	87.775	1082.996	10.386	416.651
Probability	0.001	0.000	0.000	0.000	0.005	0.000
Sum	115.750	82.180	19.950	403.000	55.300	335.650
Sum Sq. Dev.	26.589	4.917	5.676	7.970	1.242	688.939
Observations	135	135	135	135	135	135

Source: Process Data *Eviews* 12

Table 2 presents the descriptive statistics of each research variable. Based on Table 4.3, the descriptive analysis of financial reporting integrity (ILK) shows a minimum value of 0.160, a maximum value of 2.390, a mean of 0.857, and a standard deviation of 0.445. The skewness is 0.755, and the kurtosis is 3.067. The descriptive analysis of institutional ownership (KI)

shows a minimum of 0.070 and a maximum of 0.890, with a mean of 0.608 and a standard deviation of 0.191. The skewness is -0.974, and the kurtosis is 3.149.

For managerial ownership (KM), the minimum value is 0.000 and the maximum is 0.790, with a mean of 0.147 and a standard deviation of 0.205. The skewness is 1.729, and the kurtosis is 4.906.

The analysis of the audit committee (KOMITE) reveals a minimum of 2.000 and a maximum of 4.000, with a mean of 2.985 and a standard deviation of 0.243. The skewness is -0.849 , and the kurtosis is 16.771. The independent commissioner (DKI) shows a minimum of 0.250 and a maximum of 0.670, with a mean of 0.409 and a standard deviation of 0.096. The skewness is 0.619, and the kurtosis is 2.442. Finally, the analysis of financial distress (FD) indicates a minimum of -0.730 and a maximum of 13.160, with a mean of 2.486 and a standard deviation of 2.267. The skewness is 2.286, and the kurtosis is 10.291.

Among these variables, some exhibit a mean greater than their standard deviation, indicating relatively good data quality since

the mean exceeds the data's dispersion. These variables include institutional ownership, audit committee, independent commissioner, financial distress, and financial reporting integrity. Conversely, managerial ownership has a mean lower than its standard deviation, suggesting that the data quality for this variable is relatively weak.

Normality Test Results

The normality test aims to assess whether the residuals of the regression model are normally distributed. If the Jarque-Bera probability value is < 0.05 , H_0H_0 is rejected and H_aH_a is not rejected, indicating that the data are not normally distributed.

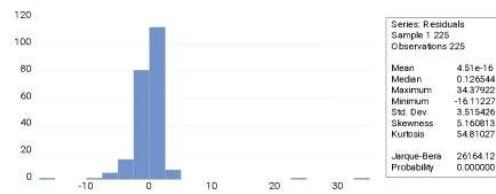


Figure 1. Normality Test Results (Before Outliers)

Sources: Process Data *Eviews 12*

Based on Figure 1, the results of the normality test for the data from 2020 to 2022 show that the Jarque-Bera probability value is 0.000, which is < 0.05 . Therefore, H_0H_0 is rejected and H_aH_a is not rejected, indicating that the data are not normally distributed.

The following describes the screening and correction steps taken to transform the residuals, which were initially not normally distributed, into normally distributed residuals.

The author conducted the correction by identifying and removing outliers, which are data points with unique characteristics that deviate significantly from the rest of the observations and appear as extreme values in SPSS v26. The procedure for identifying outliers follows the guidelines of Ghazali (2018:40), which were particularly helpful for achieving normally distributed data.

After the correction process, 90 sample observations were removed by the author, reducing the total sample from 225 to 135 observations.



Figure 2. Normality Test Results (After Outliers)

Source: Processed data *Eviews 12*

Based on Figure 2, the results of the normality test for the data from 2020 to 2022 show that the Jarque-Bera probability value is 0.3401, which is greater than 0.05. Therefore, H_0 is not rejected and H_{aH_aHa} is rejected, indicating that the data are normally distributed.

Chow Test

This test is conducted to determine whether the common effect model or the

fixed effect model is more appropriate for estimating panel data. To perform the Chow test, the data are first regressed using both the common effect and the fixed effect models. The hypotheses formulated in the Chow test are as follows:

H₀: Common Effect Model

H_a: Fixed Effect Model

Table 5. Chow Test Results

Redundant Fixed Effect Test

Equation: MODELFEM

Test cross-section fixed effects

Effect Test	Statistic	d.f	Prob
Cross-section F	1.026	(44,85)	0.449
Cross-section Chi Square	57.526	44	0.082

Sources: Process Data *Eviews 12*

Table 5 shows that the probability value of the cross-section F is 0.449. Based on the Chow test above, it can be seen that the Cross-Section Chi-Square value > significance level ($0.082 > 0.05$). Therefore, H_0 is not rejected, and H_{aH_aHa} is rejected. Thus, it can be concluded that the selected model is the common effect model.

Hausman Test

This test is conducted to determine whether the fixed effect model or the

random effect model is more appropriate for estimating panel data. To perform the Hausman test, the data are also regressed using both the fixed effect and the random effect models, and then the fixed/random effect test is carried out using the correlated random effects–Hausman test.

H₀: Random Effect Model

H_a: Fixed Effect Model

Table 6. Hausman Test

Correlated Random Effects – Hausman Test

Equation: MODELREM

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob
Cross-section random	7.743	5	0.171

Sources: Process Data *Eviews 12*

Table 6 shows that the result of the Hausman test indicates that the probability value of the cross-section random > significance level ($0.171 > 0.05$), thus H_0 is not rejected. Therefore, it can be concluded that the selected model is the random effect model.

Lagrange Multiplier Test

This test is conducted to determine whether the common effect model or the random effect model is more appropriate for estimating panel data. To perform the Lagrange Multiplier test, the data are first regressed using the common effect and

random effect models by employing the Lagrange Multiplier approach. The hypotheses formulated in the Lagrange Multiplier test are as follows:

H0: Common Effect Model

Ha: Random Effect Model

Table 7. Langrange Multiplier Test

Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects

Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Cross-sectiot Hypothesis ¹		Both
Breusch-Pagan	0.007	0.530	0.538
	(0.930)	(0.466)	(0.463)

Sources: Process Data *Eviews* 12

Table 7 shows that the result of the Lagrange Multiplier test indicates that the Breusch-Pagan value > significance level ($0.463 > 0.05$), thus H_0 is not rejected and H_{aH_aHa} is rejected. Therefore, it can be concluded that the selected model is the common effect model.

It can also be concluded from the three panel data regression model selection tests Chow test, Hausman test, and Lagrange Multiplier test that the most appropriate

model in this study is the common effect model.

Classical Assumption Test

Multicollinearity Test

The multicollinearity test aims to identify whether there is a correlation among the independent variables in the regression. The multicollinearity test can be performed using the Variance Inflation Factor (VIF). If the VIF value is less than 10, it can be stated that no multicollinearity exists in the sample (Ghozali, 2018).

Table 8. Multicollinearity Test

Variant Inflation Factors

Date: 11/25/23 Time: 13.36

Sample: 1 135

Included observations: 135

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.228	253.693	NA
KI	0.071	32.36	2.897
KM	0.062	4.466	2.939
KOMITE	0.016	163.981	1.079
DKI	0.111	21.933	1.140
FD	0.000	2.465	1.115

Sources: Process Data *Eviews* 12

Based on Table 8 above, the multicollinearity test shows that the VIF values for all independent variables

(institutional ownership, managerial ownership, audit committee, independent commissioners, and financial distress) are

less than 10. Therefore, it can be concluded that there is no multicollinearity present in the model.

Heteroscedasticity Test

The purpose of the heteroscedasticity test is to examine whether there is an imbalance in the variance of the residuals

from one observation to another in the regression model. In this study, the author used the White test to detect the presence or absence of heteroscedasticity. The results of the heteroscedasticity test are presented as follows:

Table 9. Heteroscedasticity Test

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	1.267	Prob. F(20,114)	0.215
Obs*R-squared	24.552	Prob. Chi-Square(20)	0.219
Scaled explained SS	24.654	Prob. Chi-Square(20)	0.215

Sources: Process Data *Eviews* 12

Based on Table 9 above, the White heteroscedasticity test indicates that the probability value of the Chi-Square Obs*R-squared is $0.219 > 0.05$. Therefore, it can be concluded that there is no heteroscedasticity present in the model.

Autocorrelation Test

The autocorrelation test was conducted using the Durbin-Watson test. This test aims to determine whether there is a correlation in the regression model between

the disturbance errors in one period and those in the previous period. A good regression model is one that is free from autocorrelation problems. According to Gujarati (2009), in panel data regression, which tends to resemble cross-sectional data, autocorrelation is essentially not meaningful. However, in this study, the author still reports the results of the autocorrelation test that was carried out.

Table 10. Autocorrelation Test

R-squared	0.410	Mean dependent var	0.857
Adjusted R-squared	0.387	S.D dependent var	0.445
S.E. of regression	0.348	Akaike info criterion	0.773
Sum squared resid	15.674	Schwarz criterion	0.902
Log likelihood	-46.213	Hannan-Quinn criter.	0.826
F-statistic	17.966	Durbin-Watson stat	1.880
Prob(F-statistic)	0.000		

Sources: Process Data *Eviews* 12

From Table 10 above, it is shown that the Durbin-Watson (DW) value is 1.88. With a total of five predictors and a research sample of 135 observations, it is known that $DW = 1.88$, $DU = 1.79$, and $DL = 1.64$. Furthermore, $4 - DU = 2.214$ - $DU = 2.214 - DU = 2.21$.

Since $DU < DW < 4 - DU < DW < 4 - DU < DW < 4 - DU$ ($1.79 < 1.88 < 2.21$)($1.79 < 1.88 < 2.21$)($1.79 < 1.88 < 2.21$), $H_0H_0H_0$ is not rejected. Therefore, it can be concluded that there is no autocorrelation in the model.

Panel Data Regression Analysis

Table 11. Panel Data Regression Analysis

Dependent Variable: ILK
 Method: Panel Least Squares
 Date: 11/25/23 Time: 13:13
 Sample: 2020 2022
 Periods included: 3
 Cross-sections included 45
 Total panel (balanced) observations: 135

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	-2.079	0.477	-4.351	0.000
KI	1.081	0.267	4.041	0.000
KM	0.778	0.250	3.104	0.002
KOMITE	0.389	0.128	3.033	0.002
DKI	2.209	0.333	6.616	0.000
FD	0.039	0.014	2.783	0.006
R-squared	0.410	Mean dependent var		0.857
Adjusted R-squared	0.387	S.D dependent var		0.445
S.E. of regression	0.348	Akaike info criterion		0.773
Sum squared resid	15.674	Schwarz criterion		0.902
Log likelihood	-46.213	Hannan-Quinn criter.		0.826
F-statistic	17.966	Durbin-Watson stat		1.880
Prob(F-statistic)	0.000			

Sources: Process Data *Eviews* 12

Based on Table 11 above, the resulting regression equation is as follows:

$$ILK = -2,079 + 1,081KI + 0,778KM + 0,389KOMITE + 2,209DKI + 0,039FD$$

From the regression equation above, the following interpretations can be made:

1. The constant value of -2.079 indicates that if the independent variables in the regression, namely institutional ownership (KI), managerial ownership (KM), audit committee (KOMITE), independent commissioners (DKI), and financial distress (FD), remain constant, then the financial statement integrity of manufacturing companies listed on

the Indonesia Stock Exchange during the 2020–2022 period is -2.079.

2. The regression coefficient of institutional ownership is 1.081, indicating that each increase of one unit in the institutional ownership variable, assuming other variables remain constant, will increase financial statement integrity by 1.081.

3. The regression coefficient of managerial ownership is 0.778, indicating that each increase of one unit in the managerial ownership variable, assuming other variables remain constant, will increase financial statement integrity by 0.778.
4. The regression coefficient of the audit committee is 0.389, indicating that each increase of one unit in the audit committee variable, assuming other variables remain constant, will increase financial statement integrity by 0.389.
5. The regression coefficient of independent commissioners is 2.209, indicating that each increase of one unit in the independent commissioner variable, assuming other variables remain constant, will increase financial statement integrity by 2.209.
6. The regression coefficient of financial distress is 0.039, indicating that each increase of one unit in the financial distress variable, assuming other variables remain constant, will increase financial statement integrity by 0.039.

Hypothesis Testing Coefficient of Determination

According to Ghozali (2018), the coefficient of determination measures the extent to which the model explains the variation in the dependent variable. In Table 4.10, the adjusted R-squared value is 0.3876 or 38.76%, indicating the extent to which the independent variables (institutional ownership, managerial ownership, audit committee, independent commissioners, and financial distress) explain the dependent variable (financial statement integrity). Thus, it can be concluded that these independent variables explain 38.76% of the variation in the dependent variable, while the remaining

61.24% is explained by variables outside the model.

t-Test

The t-test shows how far an individual independent variable influences the variation of the dependent variable. This test essentially demonstrates the partial effect of each independent variable in explaining the variation in the dependent variable (Ghozali, 2018). The hypothesis is tested at a significance level of 5% or ($\alpha=0.05$ \alpha = 0.05 \alpha=0.05). If the p-value > 0.05, H0 is not rejected; otherwise, if the p-value < 0.05, H0 is rejected, indicating a significant effect of the independent variable on the dependent variable (Ghozali, 2018).

Based on Table 11, the interpretations are as follows:

1. The institutional ownership variable has a p-value of $0.000 < 0.05$, thus H1 is not rejected, which means that institutional ownership has a positive and significant effect on financial statement integrity.
2. The managerial ownership variable has a p-value of $0.002 < 0.05$, thus H2 is not rejected, which means that managerial ownership has a positive and significant effect on financial statement integrity.
3. The audit committee variable has a p-value of $0.002 < 0.05$, thus H3 is not rejected, which means that the audit committee has a positive and significant effect on financial statement integrity.
4. The independent commissioner variable has a p-value of $0.000 < 0.05$, thus H4 is not rejected, which means that independent commissioners have a positive and significant effect on financial statement integrity.
5. The financial distress variable has a p-value of $0.006 < 0.05$, thus H5 is not rejected, which means that financial distress has a positive and significant effect on financial statement integrity.

Model Feasibility Test (F-Test)

This test essentially shows whether all the independent variables included in the model jointly (simultaneously) have an effect on the dependent variable (Ghozali, 2018). If the significance value < 0.05 , H_0 is rejected; otherwise, if the significance value > 0.05 , H_0 is not rejected.

In Table 11, it is shown that the probability of the F-statistic is $0.000 < 0.05$, which means that the variables of institutional ownership, managerial ownership, audit committee, independent commissioners, and financial distress simultaneously have a significant effect on financial statement integrity.

Discussion

The results of this study show that institutional ownership, managerial ownership, audit committee, and independent commissioners have a positive effect on financial statement integrity. Large institutional ownership enables more effective oversight because institutional investors generally have the experience and capability to assess and mitigate potential manipulation of financial statements by management. Similarly, managerial ownership encourages management to act honestly and responsibly, as they are also part of the shareholders and are directly affected by the reported financial outcomes.

In addition, the audit committee and independent commissioners also play an important role in enhancing financial statement integrity. An active and adequately staffed audit committee can reduce conflicts of interest between management and shareholders by conducting rigorous and comprehensive oversight of the company's financial processes. Independent commissioners, as external parties without direct ties to management, can provide objective control over corporate policies and suppress potential irregularities in financial reporting.

Financial distress also proves to have a positive effect on financial statement integrity, supporting signaling theory.

Companies in good financial condition tend not to manipulate their financial statements because they have no pressure to conceal poor performance. Conversely, companies that are not under financial pressure are better able to maintain the integrity of their financial reporting. Overall, these findings affirm that strong corporate governance mechanisms contribute to improving the integrity of financial statements.

CONCLUSION

This study aims to examine the effect of corporate governance consisting of institutional ownership, managerial ownership, audit committee, and independent commissioners as well as financial distress on the integrity of financial statements in manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2022 period. The analysis results show that all these variables have a positive and significant effect on the integrity of financial statements. This indicates that the stronger the implementation of corporate governance and the better the financial condition, the higher the level of financial statement integrity produced by the company.

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