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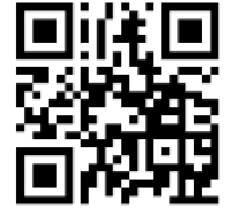
Determinants of Integrity of Financial Statements in Indonesian Manufacturing Companies



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ABSTRACT: This study aims to analyze the effect of Institutional Ownership, Leverage, and Company Size on the Integrity of Financial Statements either partially or simultaneously. The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) research for three years, from 2019 to 2021. The sampling method in this study was carried out by using the simple random sampling method and obtaining 65 companies; with a 3-year observation, the total sample size is 195 sample data. The research method used is a causal model research. The type of data used in this research is secondary data. The data analysis method used in this study is multiple linear regression analysis. The results of this study indicate that Institutional Ownership, Leverage, and Company Size positively affect the Integrity of Financial Statements.

KEYWORDS: Institutional Ownership, Leverage, Company Size, Integrity of Financial Statements

INTRODUCTION

Quality financial reports are financial reports that are presented in full. Presenting complete financial reports will protect the rights of stakeholders because complete financial reports will present real business conditions, thereby preventing manipulated and misleading financial reports (Amelia et al., 2021). According to Fikri & Suryani (2020) the integrity of financial reports means financial reports that present and display the correct information according to the actual situation.

The phenomenon that has occurred related to the Integrity of Financial Statements is the case of manipulation of financial report data. This case occurred at PT Tiga Pilar Sejahtera Food Tbk (AISA) in 2021. The Marketing Director of the Capital Market of the Financial Services Authority (OJK) provided evidence of manipulation of financial statements by the former Board of Directors of PT Tiga Pilar Sejahtera Food Tbk. This action was carried out by the former Tiga Pilar Board of Directors, who manipulated the company status of six distributors in the 2017 financial statements of PT Tiga Pilar Sejahtera Food Tbk by an overstatement of account receivables reaching IDR 4 trillion. Overstatements were also made to the sales account of IDR 662 billion and the EBITDA of the Tiga Pilar entity in the food division of IDR 329 billion. As well as sending a flow of funds reaching IDR 1.78 trillion to affiliated parties (investor.id, 2021). Another case of manipulation of financial report data occurred at PT Nissan Indonesia in 2018, where the former CEO of PT Nissan Indonesia did not report PT Nissan Indonesia's revenue for five consecutive years, US$44 million or around Rp641 billion. As well as misusing company money for personal needs (oto.detik.com, 2018).

Efforts are made to prevent manipulation in the presentation of financial statements so that it does not recur by paying attention to the factors suspected by the authors to affect the integrity of financial reports, including institutional ownership, whose job is to oversee the running of the company so that it is good according to the mechanism of good corporate governance. Then leverage to determine the financial performance of a company, as well as company size, to evaluate how big a company is. The bigger the company, the more information investors need to make decisions.

Based on the literature review, various factors affect the integrity of financial statements, one of which is leverage. According to the results of research conducted by Amelia et al. (2021), Atiningsih & Yohana Kus (2018), Purwantiningsih & Anggaeni (2021), and Hasanuddin (2018), institutional ownership has a positive effect on the integrity of financial statements. This is different from the research by Suzan et al. (2021), which states that institutional ownership has a negative effect on the integrity of financial statements. The results of the two studies above differ from those of Wardhani & Samrotun (2020), and Verya (2017), which explain that institutional ownership affects the integrity of financial statements. This turned out to be different from the results of Putra et al. (2022), Febriyanti & Wahidahwati (2020), Fajar & Nurbaiti (2020), Akram et al. (2017), Fikri & Suryani (2020), Nurdiniah & Pradika (2017), Prananti (2018), and Novianti & Isyunuwardhana (2021) which show that institutional ownership does not affect the integrity of financial statements.

Factors of leverage were also revealed to play a role in the integrity of financial statements. Based on the research results of by Novianti & Isyunuwardhana (2021), it explains that leverage positively affects the integrity of financial statements. Then based on the results of research conducted by Atiningsih & Yohana Kus (2018), Wahyuni (2022), and A'yunin et al. (2019) shows that leverage has a negative effect on the integrity of financial statements. While the results of the research by Febriyanti & Wahidahwati (2020), leverage affects the integrity of financial statements. Different empirical evidence is research conducted by Wardhani & Samrotun (2020), Verya (2017), Akram et al. (2017), Suzan et al. (2021), Nurdiniah & Pradika (2017), and Safitri & Bahri (2018) state that leverage does not affect the integrity of financial statements.

Some literature also reveals that company size can affect the integrity of financial statements. According to the research results of Fajar & Nurbaiti (2020), Halim (2021), Suzan et al. (2021), Nurdiniah & Pradika (2017), and Permatasari et al. (2019) results conclude that company size has a positive effect on the integrity of financial statements. This is different from the research by Putra et al. (2022) and Sormin (2021), which show that company size has a negative effect on the integrity of financial statements. Based on the research of Verya (2017) and Akram et al. (2017), company size affects the Integrity of Financial Statements without emphasizing the direction of the relationship. This contrast the research conducted by Wardhani & Samrotun (2020), which states that company size does not affect the integrity of financial statements.

Based on the background and problem formulation described, this research aims to examine the effect of institutional ownership, leverage, and company size on the integrity of financial statements in manufacturing companies listed on the IDX in 2019-2021. The theoretical benefit of this research is that it can add insight into concepts and theories regarding factors that influence the integrity of financial statements and can also be a reference as well as a comparison for similar researchers by discussing the same study in order to advance the world of education, especially in the field of financial accounting.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) explain agency theory as a relationship between two parties, namely the owner (principal) and management (agent). Therefore, agency theory is defined as a contract in which one or more people (principal) involve another person (agent) to perform a service on behalf of the owner and authorize management to make the best decision for the owner of the integrity of the financial statements. According to Eisenhardt (1989), agency theory uses three assumptions about human nature, including (1) humans, in general, will undoubtedly be selfish (self-interest), (2) humans have limited thinking power regarding perceptions in the future (bounded rationality), and (3) humans always avoid risks (risk averse). Based on the basic assumptions of human nature, managers as humans will act opportunistically, prioritizing their interests.

Integrity of Financial Statements

According to Istiantoro et al. (2017), the integrity of financial statements is the presentation and disclosure of financial statements containing accounting data that can explain the actual economic reality of a company and is disclosed honestly without anything being hidden. The principle of conservatism can measure financial reports with high integrity because, from the perspective of opportunistic behavior and positive accounting theory, in companies that experience failure, management will cover up the company's performance problems by increasing income and net assets to avoid manipulation of financial data. The application of conservatism is needed (Novianti & Isyunuwardhana, 2021).

Conservatism is the level of prudence in financial reporting where companies are not in a hurry to recognize and measure assets and profits and immediately recognize losses and debts that may occur (Savitri, 2016, p. 22). Conservatism is applied because accounting uses the accrual basis in measuring and presenting financial statements. The total accrual component can be proxied based on the value of net income plus depreciation/amortization expenses minus cash flows from operating activities (Utami, 2006). The company applies conservatism if the accrual value is negative because operating cash is more significant than accruals. The company does not apply conservatism if the accrual value is positive because accruals are more significant than cash flows (Savitri, 2016). A high accrual component has low integrity potential because accruals are management's discretionary policy; conversely, if accruals are lower than operating cash flow, this reflects high integrity (Utami et al., 2020).

The proxy for the integrity of financial statements uses a conservatism approach with the Givoly and Hayn accrual model, also used by Savitri (2016:52). The proxy for the integrity of financial statements is the accrual ratio calculated using CONACC. A low or decreasing accrual ratio will reflect high financial report integrity; conversely, a high or rising accrual ratio will reflect low financial report integrity. This study uses a measurement of conservatism based on the method (Givoly & Hayn, 2002):

$$CONACCit = \frac{(NIit + DEPit) - CFOit}{TAit}$$

Information:

CONACCit	: Degree of accounting conservatism
NIit	: Net income of company i in year t
DEPit	: Company depreciation i in year t
CFoit	: Cash flow from company i operations in year t
TAit	: Total assets of company i in year t

Institutional Ownership

Institutional ownership is the percentage of shareholders owned by institutional owners such as insurance companies, banks, investments, and other institutional owners, excluding subsidiaries and other institutions with unique relationships (such as affiliated companies and associations) (Hery, 2017, p. 98).

In this study, institutional ownership is measured using the ratio between the number of shares owned by the institution to the total shares outstanding in the company. The reason for choosing this measurement is because it can measure how much a company owns the average institutional ownership. The formula for measuring institutional ownership refers to research by Nurdiniah & Pradika (2017):

$$INST = \frac{The\ number\ of\ shares\ owned\ by\ the\ institution}{Number\ of\ outstanding\ shares}$$

Leverage

Leverage is a ratio that measures how much debt the company must bear to fulfill its assets (Hery, 2015). Leverage can be measured using several methods, including Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER).

In this study, leverage is proxied by using the Debt to Asset Ratio (DAR) because DAR can reflect the ability of a company to fulfill all of its obligations as shown by some parts of its assets used to pay off debt:

$$Leverage = \frac{Total\ Debt}{Total\ Assets}$$

Company Size

Company size is a scale for classifying the size of a company based on various criteria such as total assets, total sales, the market value of shares, and so on. Company size can determine investors' perceptions of the company (Hery, 2017, p. 3).

In this study, company size is proxied using the Log Natural Total Assets. The reason for using this proxy is that the company's total assets can be simplified using transformations in the form of natural logarithms and can also reduce excessive data fluctuations. This measurement refers to research (Suzan et al., 2021):

$$Company\ Size = LN\ (Total\ Assets)$$

Thinking Framework and Hypotheses The Effect of Institutional Ownership on the Integrity of Financial Statements

Institutional ownership has a significant meaning in terms of supervision. The purpose of this supervision is to direct and monitor a company's management so that it runs effectively and optimally, can improve company performance, and can be more careful in making decisions (Suteja, 2018). The higher the institutional ownership, the more optimal the supervision is carried out and can reduce agency problems that occur so that institutional ownership will affect the integrity of financial statements.

Based on previous research conducted by Amelia et al. (2021) and Atiningsih & Yohana Kus (2018), institutional ownership positively affects the integrity of financial statements.

H1: Institutional Ownership has a positive effect on the Integrity of Financial Statements.

The Effect of Leverage on the Integrity of Financial Statements

According to Kasmir (2017), leverage is the ratio used to measure the extent to which a company's assets are financed with debt. This means that the company uses a large amount of debt to finance its business activities when compared to using its assets. The

lower the company's leverage, the can indicate its low dependence on its creditors. So that shareholders will be interested in investing and management will be more stringent in presenting financial reports.

The results of research conducted by Atiningsih & Yohana Kus (2018) and Wahyuni (2022) show that leverage negatively affects the integrity of financial statements.

H2: Leverage has a negative effect on the Integrity of Financial Statements.

The Effect of Company Size on the Integrity of Financial Statements

Company size is one of the variables considered in determining the integrity of financial statements. According to Hery (2017), company size describes the size of a company, and large companies can reflect a strong commitment to continuously improve their performance. Large companies can also encourage investors to fully trust the company so that the size of the company can reduce agency problems. Large companies will undoubtedly be more careful in presenting financial reports for the public interest by prioritizing a high value of integrity compared to small companies.

Previous research conducted by Suzan et al. (2021) and Nurdiniah & Pradika (2017) shows that company size positively affects the integrity of financial statements.

H3: Company size has a positive effect on the Integrity of Financial Statements.

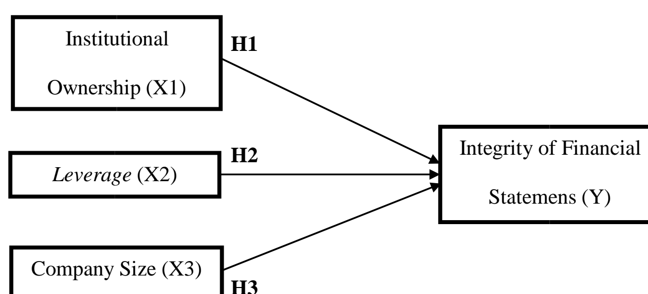

Figure 1. Thinking Framework

METHOD

Types of Research

The model used in this study is causal. This causal model research aims to determine causal relationships and hypothesize the effect of the independent variable (independent variable) as a variable that influences the dependent variable (dependent variable) as the variable that is affected (Febriyanti & Wahidahwati, 2020). The problem to be studied is the type of research used is quantitative research, conducted by collecting data in the form of numbers. The aim is to describe the phenomenon of the research object as it is and make decisions based on the statistical analysis results.

Population and Sample

The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 20192021. This study used a simple random sampling approach, namely a random sampling technique for the entire population, without paying attention to differences in levels or groups (Fauzy, 2019). In this study, the Slovin formula was used using a confidence level of 90% to determine the number of samples so that the error value was 10%. Therefore, the following is the Slovin formula which is used as follows:

$$n = \frac{N}{1 + N.\,e_2}$$

Information:
n = Sample size
N = Population size
e = Percentage of tolerance for inaccuracy due to errors in sampling.

$$n = \frac{193}{1 + 193\,.\,10\%^2} = 65$$

Based on the calculation of the Slovin formula using the simple random sampling method, there were 65 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2019-2021. This sample was determined using the total research data for the 2019-2021 observation year, namely 65 companies x 3 years, to obtain 195 samples for this study.

Data Collection and Analysis Techniques

This data collection technique uses literature study and documentation study. A literature study collects and studies journals, articles, previous research, the internet, and related research problems. Then proceed with a documentation study, namely, the researcher collects secondary data. Secondary data is quantitative data obtained from the annual reports of manufacturing companies from 2019 to 2021 by downloading them on the Indonesian Stock Exchange (IDX) website, namely www.idx.co.id and the website of the company concerned. The data analysis method used in this research is multiple linear regression analysis which includes Descriptive Statistics, Classical Assumption Test consisting of Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test. Hypothesis Testing consisting of R^2 Test, F Test, and Statistical t Test.

RESULTS AND DISCUSSION

Description of Research Object

This study used secondary data obtained from the Annual Report of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2019-2021 period, which amounts to 193 companies. The sample of manufacturing companies in this study can be selected using the simple random sampling method based on the formula, percentage, and calculation that has been determined. Based on the calculation process, 65 companies could be used as research samples. Observation in this study was carried out for three years so that as many as 195 data observations were obtained. However, after a classic assumption test, it can be seen that there is a data problem that is not normally distributed. The researcher suspects this is due to the outlier data contained in the observation data, causing the data not to pass the classic assumption test. So that data can be distributed normally, the existing outlier data must be deleted in advance from the research sample.

In this study, we used the Casewise Diagnostics method to detect outlier data (Ghozali, 2013, p. 41). Outlier Casewise Diagnostics is carried out when data with a standardized residual value above 3 or below -3 appears in the SPSS output in the Casewise Diagnostics table. After the Casewise Diagnostics process, it can be seen that the results of the detection of the outlier found as many as 10 observational data that had to be deleted data. Therefore, the number of samples used was as follows:

Table 1. Research Samples After Outlier

No.	Sample Criteria	Number of Companies
1.	The number of companies all manufacturing listed on the Indonesia Stock Exchange (IDX) in the 2019-2021 period.	193
2.	The number of companies that have been calculated based on the Slovin formula and have complete data according to the data requirements of the research variable.	65
	The total sample used in research for 3 years (65 x 3 years)	**195**
3.	Outlier	(10)
	The number of samples after the outlier	**185**

Source: Data is processed with SPSS version 25

Descriptive Statistics

Table 2. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership	185	.045	1.000	.69068	.214671
Leverage	185	.063	2.821	.47971	.343600
Company Size	185	26.335	33.537	29.02242	1.508280
Integrity of Financial Statements	185	-.228	.276	-.01154	.070769
Valid N (listwise)	185				

Source: Data is processed with SPSS version 25

1. Institutional Ownership

Institutional ownership in this study uses the calculation of the number of shares owned by the institution divided by the number of shares in circulation. The minimum value of 0,045 was owned by PT Kimia Farma Tbk in 2019. The maximum value of 1,000 was

owned by PT Cahaya Bintang Medan Tbk in 2019. The average value (mean) was 0,69068, and the standard deviation was 0,214671.

2. Leverage

This study's Leverage uses the Debt to Asset Ratio (DAR) calculation. The minimum value of 0,063 was owned by PT Supreme Cable Manufacturing & Commerce Tbk in 2021. The maximum value of 2,821 was owned by PT Tirta Mahakam Resources Tbk in 2021. The average value (mean) was 0,47971, and the standard deviation was 0,343600.

3. Company Size

The company's size in this study uses a log of natural (LN) calculation. The minimum value of the company size of 26,335 is owned by PT Cahaya Bintang Medan Tbk in 2019. The maximum value of 33,537 is owned by PT Astra Internasional Tbk in 2021. The average value (mean) amounting to 29,02242, and the standard deviation value is 1,508280.

4. Integrity of Financial Statements

The results of calculating the integrity of the financial statements were measured using conservatism as a dependent variable. Shows the minimum value of -0,228 owned by PT SLJ Global Tbk in 2020. The maximum value of 0,276 is owned by PT Alaska Industrindo Tbk in 2020. The average value (mean) is -0,01154 and the standard deviation is 0,070769.

Classic Assumption Test

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		185
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.06936167
Most Extreme Differences	Absolute	.054
	Positive	.051
	Negative	-.054
Test Statistic		.054
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Source: Data is processed with SPSS version 25

Based on the table above, the results of the normality test output in the One-Sample Kolmogorov-Smirnov Test (K-S) table show that data is normally distributed. This can be seen from the Asymp. Sig. (2-tailed) of 0,200 > 0,05, so the regression model in this study is good, and the data has been normally distributed.

Table 4. Multicollinearity Test

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Institutional Ownership	.922	1.084
	Leverage	.943	1.060
	Company Size	.952	1.050
a. Dependent Variable: Integrity of Financial Statements			

Source: Data is processed with SPSS version 25

Based on the table above, it can be seen that the results of the multicollinearity test output shows that there is no multicollinearity problem between independent variables in the regression model because the tolerance value is > 0,10 and VIF < 10,00.

Table 5. Heteroscedasticity Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6.877	3.705		-1.856	.065
	Institutional Ownership	.471	.858	.042	.550	.583
	Leverage	.679	.530	.098	1.282	.201
	Company Size	-.022	.120	-.014	-.187	.852
a. Dependent Variable: LnU2i						

Source: Data is processed with SPSS version 25

Based on the table above, it can be seen that the output of heteroscedasticity tests using the park test shows the significance value (Sig.) All independent variables are greater than 0,05 or 5%, namely institutional ownership of 0,583, leverage of 0,201, and company size of 0,852. In the regression model in this study, there are no heteroscedasticity symptoms.

Autocorrelation Test

Table 6. Autocorrelation Test

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.629[a]	.396	.386	.01748	1.913
a. Predictors: (Constant), Company Size, Institutional Ownership, Leverage					
b. Dependent Variable: Integrity of Financial Statements					

Source: Data is processed with SPSS version 25

Based on the table above, it can be seen that the results of the autocorrelation test output show the Durbin-Watson value of 1,913. Dl and du values in this study use three independent variables and research samples of as many as 185, then the value of dl = 1,7266 and the value of du = 1,7924. The measurement results are du < dw < 4-du then 1,7266 < 1,913 < 2,2076. So, the data in this study did not occur autocorrelation.

Table 7. Test Results of Determination (R^2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.629[a]	.396	.386	.01748
Predictors: (Constant), Company Size, Institutional Ownership, Leverage Dependent Variable: Integrity of Financial Statements				

Source: Data is processed with SPSS version 25

Based on the table above, it can be seen that the results of the determination coefficient (R^2) test show that the Adjusted R Square value is 0,386. So the proportion of the influence of the integrity of financial statements can be explained by the institutional ownership variable, leverage, and company size of 38,6%. In comparison, the remaining 61,4% is explained by other variables not contained in this study.

Table 8. Coefficient Determinant (Test F)

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.036	3	.012	39.583	.000[b]
	Residual	.055	181	.000		
	Total	.092	184			
a. Dependent Variable: Integrity of Financial Statements						
b. Predictors: (Constant), Company Size, Institutional Ownership, Levera ge						

Source: Data is processed with SPSS version 25

Based on the table 8 above, it can be seen that the results of the F test output show that the value of the F count is 39,583 with a significance value of 0,000 < 0,05. It can be concluded that the regression model is fit. Its mean that the institutional ownership variable, leverage, and company size jointly affect the integrity of financial statements.

Table 9. Individual Parameter Significance Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.176	.027		6.500	.000
	Institutional Ownership	-.025	.006	-.240	-3.986	.000
	Leverage	-.038	.004	-.581	-9.765	.000
	Company Size	-.005	.001	-.354	-5.972	.000
a. Dependent Variable: Integrity of Financial Statements						

Source: Data is processed with SPSS version 25

1. The first hypothesis (H1) in this study states that institutional ownership positively affects the integrity of financial statements. While the test results show that the institutional ownership variable has a negative t value of -3,986 with a significance value of 0,000 < 0,05. It can be concluded that the institutional ownership variable has a negative effect on the accrual ratio. That is, the higher the value of institutional ownership, the lower the accrual ratio value so that the integrity of the financial statements is high. Thus the first hypothesis (H1) was accepted because it has a positive influence.
2. The second hypothesis (H2) in this study states that leverage has a negative effect on the integrity of financial statements. The integrity of the financial statements is proxied with an accrual ratio to total assets. Low accrual ratios reflect the integrity of high financial statements and vice versa. While the test results show that the leverage variable also has a negative t value of -9,765, with a significance value of 0,000 < 0,05. Then it can be concluded that the leverage variable has a negative effect on the accrual ratio. That is, the higher the leverage value, the lower the accrual ratio value so that the integrity of the financial statements is high. Thus the second hypothesis (H2) was rejected because it has a positive influence.
3. The third hypothesis (H3) in this study states that company size positively affects the integrity of financial statements. While the test results show that the company size variable also has a negative t value of -5,972 with a significance value of 0,000 < 0,05. Then it can be concluded that the company size variable has a negative effect on the accrual ratio. That is, the higher the value of the company size, the lower the accrual ratio value so that the integrity of the financial statements is high. Thus the third hypothesis (H3) Th was accepted because it has a positive influence.

Multiple Linear Regression Analysis

IFS = 0,176 – 0,025 (Institutional Ownership) – 0,038 (Leverage) - 0,005 (Company Size) + e

1. The constant value of the α obtained is positive of 0,176. It states that if the independent variable is institutional ownership, leverage, and company size is considered zero, then the dependent variable integrity of financial statements has a value of 0,176.

2. The coefficient of regression β institutional ownership variable shows a negative value of -0,025. This shows that any increase in institutional ownership by 1% will be followed by a decrease in the integrity of financial statements by 0,025, assuming other independent variables are constant or fixed. The coefficient is negative (opposite directions), which means the higher the value of institutional ownership, the lower the value of the accrual ratio so that the integrity of the financial statements is high.
3. The β regression coefficient value of the leverage variable shows a negative value of -0,038. This shows that every increase in leverage by 1% will be followed by a decrease in the integrity of financial statements by 0,038, assuming other independent variables are constant or fixed. The coefficient is negative (opposite direction), which means the higher the leverage value, the lower the accrual ratio value, so the integrity of the financial statements is high.
4. The β regression coefficient value of the company's size variable shows a negative value of -0,005. This shows that every increase in company size by 1% will be followed by a decrease in the integrity of financial statements by 0,005, assuming other independent variables are constant or fixed. The coefficient is negative (opposite directions), which means the higher the value of the company's size, the lower the accrual ratio value so that the integrity of the financial statements is high.

DISCUSSION

The Effect of Institutional Ownership on the Integrity of Financial Statements

Based on the results of research that has been carried out, it can be seen that the institutional ownership variable has a positive effect on the integrity of financial statements, so the first hypothesis (H1), which states that institutional ownership has a positive effect on the integrity of financial statements received.

Institutional ownership is a percentage of shareholders owned by institutional owners such as insurance companies, banks, and investments. The results of this study indicate that institutional ownership positively affects the integrity of financial statements. That is, the higher the value of institutional ownership, the lower the accrual ratio value so that the integrity of the financial statements is high. This positive relationship is supported by agency theory, which states that institutional ownership significantly minimizes agency conflicts between managers and shareholders. Because the more significant amount of institutional ownership can improve the ability of institutional investors to conduct adequate supervision for management decision-making to increase the integrity of financial statements and vice versa.

The results of this study are in line with research conducted by Amelia et al. (2021), Atiningsih & Yohana Kus (2018), and Hasanuddin (2018), which states that institutional ownership has a positive effect on the integrity of financial statements. However, this study's results differ from research conducted by Suzan et al. (2021) and Verya (2017), which state that institutional ownership negatively affects the integrity of financial statements.

The Effect of Leverage on the Integrity of Financial Statements

Based on the research results, it can be seen that the leverage variable has a positive effect on the integrity of financial statements, so the second hypothesis (H2) states that leverage has a negative effect on the integrity of financial statements is rejected.

Leverage can be interpreted as the ability of a company to assess how much debt it has is shown by several parts of the asset used to pay off the debt. The results of this study indicate that leverage has a positive effect on the integrity of financial statements. That is, the higher the leverage value, the lower the accrual ratio value so that the integrity of the financial statements is high. This positive relationship is contrary to the theory of agency, which explains human nature and that humans always avoid risk (risk averse) (Eisenhardt, 1989). If the leverage of a company is low, it can indicate that the company has low dependence on creditors. However, in this positive relationship, it can be interpreted that when the company's debt increases, it will be bound by contracts to obey the provisions of existing creditors so that the credibility of financial statements also increases.

This study's results align with research conducted by Novianti & Isyunuwardhana (2021) and Febriyanti & Wahidahwati (2020), which states that leverage has a positive effect on the integrity of financial statements. However, the results of this study are not in line with research conducted by Atiningsih & Yohana Kus (2018), A'yunin et al. (2019), and Wahyuni (2022), who state that leverage has a negative effect on the integrity of financial statements.

The Effect of Company Size on the Integrity of Financial Statements

Based on the results of research that has been done, it can be seen that the company size variable has a positive effect on the integrity of financial statements, so the third hypothesis (H3), which states that the company's size has a positive effect on the integrity of financial statements received.

The size of the company can be interpreted as the ability to describe the size of a company. The results of this study indicate that company size positively affects the integrity of financial statements. This means that the higher the value of the company size, the lower the accrual ratio value, so the integrity of the financial statements is high. Moreover, more information is available to external parties in the financial statements presented. This positive relationship is by agency theory which states that the

greater the company's size, the more complete and comprehensive information expressed to reduce agency costs so that investors can use it for decision-making. Large-scale companies will also be more careful in presenting financial statements, and their performance will be more attention.

The results of this study are in line with research conducted by Suzan et al. (2021), Nurdiniah & Pradika (2017), Permatasari et al. (2019), Halim (2021), and Fajar & Nurbaiti (2020) which states that company size has a positive effect on the integrity of financial statements. However, the results of this study differ from those conducted by Putra et al. (2022) and Sormin (2021) which state that company size negatively affects the integrity of financial statements.

CLOSING

CONCLUSION

Based on the test results, data analysis, and discussions that have been carried out, the conclusion that can be obtained is that institutional ownership has a positive effect on the integrity of financial statements. This shows that the greater the amount of institutional ownership will increase the ability of investors to conduct supervision so that the value of financial statements will increase. Leverage has a positive effect on the integrity of financial statements. This shows that when the company's debt increases, the company is bound by a contract to obey the provisions of the creditor, so the credibility of financial statements has also increased. The higher the leverage value, the lower the accrual ratio value so that the integrity of the financial statements is high. Company size has a positive effect on the integrity of financial statements. This shows that the greater the company size, the more the center of attention for regulators and investors. So that the financial statements are increasingly transparent and have a higher integrity.

SUGGESTION

For further research, consider the other independent variable such as Return on Assets, Current Ratio, Debt to Equity Ratio, and others. For the development of science and technology is expected to add insight into concepts and theories about the factors that influence the integrity of financial statements. For government and regulators, this research can be used as a consideration in making regulations related to financial statements to minimize the occurrence of manipulation of financial statements.

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