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ANALYSIS OF THE EFFECT OF GOOD CORPORATE GOVERNANCE STRUCTURE ON THE INTEGRITY OF FINANCIAL STATEMENTS AND THEIR IMPACT ON THE QUALITY OF FINANCIAL STATEMENTS

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Abstract. This research aims to examine the influence of the Good Corporate Governance structure on the integrity of financial statement and its impact on quality of financial reporting. By taking this population research, energy sector companies listed on the Indonesia Stock Exchange in 2016- Year 2020. The research sample was selected using purposive sampling technique and obtained a sample of 31 companies with period 5 years so that 155 samples were obtained . Data analysis techniques were performed using data panel regression and hypothesis testing using eviews 11 and sobel test. Good Corporate Governance is proxied by Institutional ownership, Managerial ownership, Independent Commissioners, and Audit Committeees. Integrity of financial statement is proxied by Price Book Value. Financial reporting quality is proxied by Timeliness. Based on the results data panel regression analysis with a significance level of 10%, then the results. This study shows that only the managerial ownership variables have an impact on financial reporting quality. For other variables have no effect on the integrity of financial statements and have no impact on financial reporting quality.

Keywords: good corporate governance; integrity of financial statements; price book value; financial reporting quality

I. INTRODUCTION

The condition of the Covid-19 pandemic that began to occur in the first half of 2020 has caused disruption and shifted various previously known life orders. This pandemic seems to remind the importance of business continuity, that companies must pay attention to all internal and external stakeholders affected, from shareholders, employees, to end consumers. Seeing the importance of the company's speed in responding to things that were previously unexpected. All of them reemphasize the need for good corporate governance as the main foundation for better decision making. In the context of implementing good corporate governance, financial statements are the main tool for companies to convey financial information regarding management accountability. However, in practice, there is an imbalance in information ownership between management and external parties (investors, creditors, government), where this information imbalance occurs because there are parties who can obtain and utilize information for their benefit while other parties cannot obtain the same information (information asymmetry). As a result of management behavior that is not transparent in presenting this information, it will be a barrier to the practice of good corporate governance in the company. Thus, financial statements as information that describes the financial position and assesses the company's performance must be a report that has integrity and quality, because it plays a role in decision making by investors and other stakeholders where this can affect the sustainability of the company and the follow-up of the business plan that has been prepared by management.

So far, *good corporate governance* is still one of the weaknesses of most companies in Indonesia. Some phenomena of violation cases found in Indonesia, namely: problems of PT. Asuransi Jiwasraya starts from the manipulation of financial statements. In addition to the practice of "*windows dressing"*, the factor that causes Jiwasraya to have negative equity of up to Rp. 37.6 trillion as of July 2020 is also motivated by the existence of insurance products with high fixed interest, including JS Protection Plan products which are known to have definite interest ranging from 7-10 percent net per year. The problem was compounded when the old management placed Jiwasraya's investment portfolio in low-quality stocks, either directly or wrapped in mutual funds owned by other defendants. The next phenomenon is the strong suspicion of financial engineering, the year of financial engineering carried out by Garuda Indonesia mainly leads to the recognition of transaction receivables between Garuda Indonesia and Mahata Aero Teknologi as a partner of the aircraft Wifi service provider(Saiman **[1]**) (Sampurna **[2]**).

Research conducted by concluded that managerial ownership has a significant positive effect on company value, institutional ownership has no effect on company value. Sofiamira & Asandimitra **[3]**)Research conducted by concluded thatArista et al. **[4]**) independent commissioners, managerial ownership and audit committees have a significant positive effect on the integrity of financial

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statements. The purpose of this study is to examine and analyze the effect of institutional ownership, managerial ownership, independent board of commissioners and audit committee on the integrity of financial statements and to review and analyze the impact institutional ownership, managerial ownership, independent board of commissioners, audit committee, integrity of financial statements on the quality of financial statements.

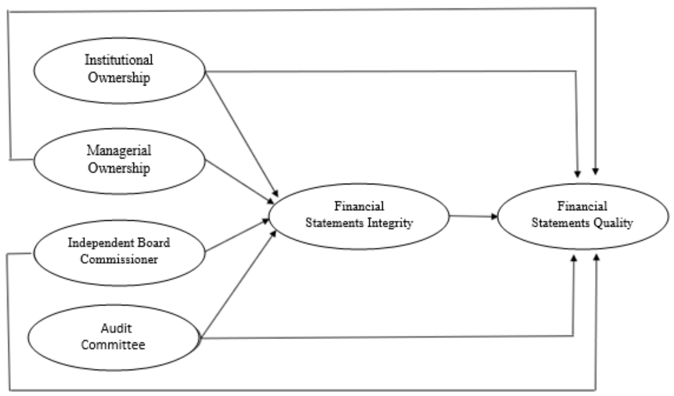

Figure 1. Conceptual Framework

II. RESEARCH METHODS

The type of research used is causal research, where research to test whether one variable causes another variable to change or not. This study will test the hypothesis on the effect of Good corporate governance structure proxyed with Institutional Ownership (X1), Managerial Ownership (X2), Independent Board of Commissioners (X3) and Audit Committee (X4) on Financial Statement Integrity (Y) and its impact on Financial Statements Quality (Z). The independent variable in this study is the structure of good corporate governance. The variables used in this study are independent variables, intervening variables and dependent variables, namely analyzing the influence of institutional ownership (X1), managerial ownership (X2), independent board of commissioners (X3) and Audit Committee (X4), while the dependent variables are Financial Statement Integrity (Y) and Financial Statements Quality (Z).

All data collected in this study are secondary data obtained from various sources. Data related to the variables used in the study were obtained from the company's financial statements, data on changes in stock prices and JCI index by downloading from the www.idx.co.id website, www.e-bursa.com andthe Capital Market Information Center (PIPM). The measurement scale used in this study is a ratio scale. The data analysis method to be used in this study is the panel data regression method, which is a combination of cross section data and time series data, where the same cross section unit is measured at different times.

III. RESULTS AND DISCUSSION

The Effect of Institutional Ownership on the Integrity of Financial Statements

Institutional Ownership does not affect the Integrity of Financial Statements. The reason for its insignificance is that institutional ownership in the company is owned by many institutions that have a small share of shares. So even though the number of institutional ownership is large, but actually each institution is not the majority owner who has influence in a decision and policy determination, which causes managers to lack the urge to align interests with principals which causes agent conflicts. With many minority owners not having a major impact on corporate decision-making, institutional ownership cannot affect the company's price-to-book value.. This result is in line with research that has been conducted by which states that Institutional Ownership does not have a significant effect on the Integrity of Financial Statements Izzah & Nawirah **[5]**).

The Effect of Managerial Ownership on the Integrity of Financial Statements

Managerial Ownership has no effect on the Integrity of Financial Statements. Managerial ownership is established to reduce agency conflicts that may arise due to differences in interests. In managing a company, management must be transparent so that there is no conflict of interest with shareholders as owners. However, managerial ownership also indicates the dual role of a manager in a company, namely being a manager and being a shareholder. In practice, managers have interests for themselves and are more inclined to satisfy individual needs than the interests and goals of the company. Thus, it is not uncommon for managers to act to report financial statements that are not transparent.. This result is in line with research that has been conducted by which states that managerial ownership has no effect on the value of the company which is proxied by Ilmi et al. **[6]** *Price Book Value*).

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

The Independent Board of Commissioners does not affect the Integrity of the Financial Statements. This condition shows that the number of independent board of commissioners does not affect the high and low integrity of financial statements in the company. Increasing the number of board of commissioners may not necessarily increase the effectiveness of company supervision. Therefore, the effectiveness of supervision of management carried out by the board of commissioners has not been able to minimize agency problems so that it is not aligned with agency theory. This is because the board of commissioners is tasked with controlling and supervising the course of management policies without having a deep understanding of internal information, so it is not directly involved in supervising the company's operations or the company's financial reporting process which causes the company's management and supervision to be inefficient. In addition, the formation and presence of the board of commissioners in an entity is carried out to meet formal rules or regulations that have been set, but it is not able to enforce good governance which will ultimately affect the company's performance, increasing the value of the company's shares, one of which is reflected in the price to book value. This result is in line with research conducted by Pratika & Primasari **[7]** which states that the Independent Board of Commissioners has no effect on the Integrity of Financial Statements

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

The Audit Committee does not affect the integrity of the Financial Statements. The existence of an audit committee body is less effective because the number of audit committees in the company has not been able to maximize its function in accounting practices. The existence of the agency is allegedly only reviewing financial and accounting information that will be issued by the company, but is not directly involved in solving financial problems faced by the company, so that the audit committee does not affect the integrity of financial statements This result is in line with research that has been conducted by those who states that Marlinda et al., **[8]** the Audit Committee has no effect on the Integrity of Financial Statements.

The Impact of Institutional Ownership on Financial Statement Quality

Institutional Ownership has no impact on the Quality of Financial Statements. institutional ownership does not promote a better level of oversight of agents or managers. Supervision carried out by institutional ownership cannot prevent fraud committed by management and cannot improve management performance on the quality of financial statement submission. Institutional ownership cannot be calculated using a comparison of outstanding share ownership and shares owned by the institution. A link to agency theory is that institutional ownership is unlikely to affect the asymmetry of information that will emerge. This result is in line with research that has been conducted by those who states that Institutional Ownership has no effect on the quality of financial statements Sumantri **[9]** .

The Impact of Managerial Ownership on the Quality of Financial Statements

Managerial Ownership has an impact on the Quality of Financial Statements. Managerial ownership is the ownership of the company by management that has a role in decision making. With this ownership part, it is expected that there will be alignment of goals between the interests of the company and management in agency relations. Managers will be free to regulate the implementation of accounting methods and company accounting policies so that the greater the managerial ownership, the more timely the reporting of financial statements. This result is in line with research conducted by Rivandi & Gea **[10]** which states that Managerial Ownership has a positive and significant effect on the timeliness of financial statements.

The Impact of the Board of Independent Commissioners on the Quality of Financial Statements

The Board of Independent Commissioners has no impact on the Quality of Financial Statements. This condition can be caused by the establishment of an independent board of commissioners just to fulfill the formalities in carrying out good corporate governance, while the majority shareholder still plays an important role in monitoring the company, which causes the supervisory activities carried out by the independent board of commissioners are not enough to improve the quality of the company's financial statements. The ineffectiveness of the supervisory function of the independent board of commissioners will certainly also affect the inaccuracy in the submission of the company's financial statements. This result is in line with research **[11]** which states that the Independent Board of Commissioners has no effect on the quality of financial statements.

The Impact of Audit Committee on Quality of Financial Statements

The Audit Committee has no impact on the Quality of Financial Statements. The audit committee cannot reduce improper accounting measurements and disclosures, and cannot reduce fraud committed by management and other unlawful acts. The presence of the audit committee in agency theory does not affect the asymmetry of information to be conveyed by management in its financial reports, the supervision carried out by the audit committee does not minimize fraud that will be committed by management. The audit committee should also have various duties and functions, including reviewing the issuer's financial information, the issuer's compliance with laws and regulations, reviewing complaints related to the issuer's accounting and financial reporting processes, recommending the appointment of accountants, and reviewing and conducting audits by internal auditors. However, it is possible that the audit committee does not perform its functions optimally, so it cannot encourage the company to submit its financial statements in a timely manner. This is not in line with the theory that the audit committee becomes a form of supervision in agency relations so as to ensure management submits financial statements on time. This result is in line with research conducted by Azhari & Nuryatno **[12]** which states that the Audit Committee has no effect on the timeliness of financial reporting **[13]**.

The Impact of Financial Statement Integrity on Financial Statement Quality

The integrity of the Financial Statements has no impact on the Quality of the Financial Statements. The integrity of financial statements in relation to the quality of financial statements is not always positively correlated, especially on the punctuality factor. Inaccuracy in time will reduce the value of the quality of financial statements in providing useful information. It is possible that in order to display financial statements with honest presentation that is in line with the integrity of financial statements, additional time is needed so that financial reporting becomes incorrect. Thus, the integrity of financial statements tends not to show the high and low

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quality of financial statements in the company. This result is not in line with research that has been conducted by Febrita & Kristanto **[14][15]** that states Financial Statement Integrity affects the Quality of Financial Statements **[16]**.

IV. CONCLUSION

The conclusion obtained from this study are Institutional Ownership, Managerial Ownership, Independent Board of Commissioners and Audit Committee have no effect on the Integrity of Financial Statements. This means that the Effect of Institutional Ownership, Managerial Ownership, Independent Board of Commissioners and Audit Committee on Financial Statement Integrity still requires further research. Institutional Ownership, Independent Board of Commissioners, Audit Committee and Financial Statement Integrity have no impact on the Quality of Financial Statements. This means that the Impact of Institutional Ownership, Independent Board of Commissioners, Audit Committee and Financial Statement Integrity on Financial Statement Quality still requires further research. Managerial Ownership has an impact on the Quality of Financial Statements. Managerial ownership will make managers strive to increase the value of their wealth as shareholders of the company, which in turn will also increase the value of the company. This causes managers to act cautiously and will pay more attention to the performance of the company. The existence of managerial ownership will align the interests of managers and companies to achieve quality financial statements that are reflected in the information contained therein and the timeliness of financial reporting.

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