


FACTORS INFLUENCING THE INTEGRITY OF FINANCIAL STATEMENTS




<https://journal.unpas.ac.id/index.php/jrak/index>

Bambang Setyobudi Irianto¹, Eko Suyono , Amir Imeri³

^{1,2}Accounting Department, Faculty of Economics and Business,
Universitas Jenderal Soedirman, Indonesia

³University for Business and Technology, Pristina, Kosovo

Corresponding Author: ekyo75@unsoed.ac.id 

Jl. HR Boenyamin No.708, Purwokerto Utara, Banyumas, Central Java, Indonesia

Article Info

History of Article

Received: 24/8/2025

Revised: 12/10/2025

Accepted: 13/10/2025

Available Online: 28/10/2025


Jurnal Riset Akuntansi Kontemporer

Volume 17, No. 2, October 2025,

Page 438-448

ISSN 2088-5091 (Print)

ISSN 2597-6826 (Online)

 <https://doi.org/10.23969/jrak.v17i2.32712>

Keywords: auditor specialist; financial statements; firm size; institutional ownership; managerial ownership; independent commissioners

Abstract

The conflicting findings on factors affecting the integrity of financial reports from previous studies served as the main problem of this study. Therefore, it aims at examining the impact of corporate governance mechanisms (i.e., institutional ownership, managerial ownership, independent commissioners, and audit committee), auditor industry specialist, and firm size on the integrity of financial statements, with COVID-19 as a control variable. Using purposive sampling and selecting a total of 74 manufacturing companies (i.e., 518 observations over seven years from 2018 to 2024), the findings showed that institutional ownership, managerial ownership, independent commissioners, and COVID-19 did not influence the integrity of financial statements. On the other hand, the auditor industry specialist, the audit committee, and firm size had a favorable impact on the integrity of financial statements. The practical implication of these findings was that company management should prioritize the use of industry-specialized auditors and enhance the role of the audit committee in overseeing financial reporting.

INTRODUCTION

Financial reports in a company must be meticulously presented with accurate and truthful information to ensure they do not deceive users. Financial reports with high integrity must adhere to the qualitative characteristics of financial statements to ensure that the information provided is accurate and beneficial for decision-making (Suyono & Farooque, 2018). Moreover, the integrity of financial reports

is crucial because it reflects that the information presented is impartial, fair, and can be verified accurately. It is also useful in supporting users' decision-making processes and ensuring comparability (Sriyono et al., 2022; Amalia et al., 2024). The International Financial Reporting Standards (IFRS) Conceptual Framework 2018 sets forth two categories of qualitative characteristics that financial reports must adhere to (Raj & Azam, 2023). The first category, known as fundamental characteristics, comprises relevance and faithful representation. The second category, known as enhancing characteristics, encompasses comparability, verifiability, timeliness, and understandability. This research is therefore necessary to analyze the factors suspected of affecting the integrity of financial reports in companies listed on the Indonesian Stock Exchange, based on these arguments.

The integrity of financial reports can be defined as the degree to which the information presented in the reports is accurate and honest. Instances existed where companies released financial reports with diminished integrity, such as the Enron case in 2002. The outcome of this lawsuit led to Enron's bankruptcy and the revocation of Arthur Andersen's practice license as an independent auditor (Suyono & Farooque, 2018). In 2015, Toshiba recorded a profit increase of 151.8 billion yen. The outcome of this case led to the resignation of Toshiba's CEO and other high-ranking officials, a decrease in Toshiba's share value, and a loss of public confidence (Yuniawati, 2023).

Indonesia has experienced several instances of financial report manipulation, such as the case at PT Kimia Farma in 2001. The audit report dated December 31, 2001, which was examined by PAF, revealed this manipulation. Another case occurred at PT Garuda Indonesia in 2018, which severely compromised the integrity of the company's financial reports. Following consecutive profit decreases in 2015, 2016, and 2017, PT Garuda Indonesia unexpectedly declared a substantial profit increase in 2018, a result plainly attributable to management's manipulation of financial reporting (Prayoga & Purwanti, 2020). Moreover, a similar case occurred at PT Asuransi Jiwa Wanaartha Life in 2023, which provided products with fixed returns that lacked compensation from potential profits generated by its investment management. It was implicated in a substantial case of financial statement manipulation (Mayangsari & Santoso, 2025).

The various instances above demonstrate the significance of maintaining the integrity of financial reports. The assessment of financial report integrity is conducted through two distinct methods: evaluating the degree of conservatism exhibited in the reports and assessing the level of earnings management (Meiryani et al., 2023; Mayangsari & Santoso, 2025). This study assesses the integrity of financial reports by examining their level of conservatism. Amalia et al., (2024) suggested that companies adopting conservative accounting policies signaled to users of financial reports that the reports possessed a high degree of integrity.

This study aimed to examine the impact of corporate governance measures (i.e., institutional ownership, managerial ownership, independent commissioners, and audit committee), auditor industry specialty, and firm size on the integrity of financial reporting by using the COVID-19 dummy variable as a control, which also represents the novelty of this research. Corporate governance processes are integral components of the framework for ensuring effective corporate governance. According to Sriyono et al., (2022) and Dewi et al. (2024), the implementation of good corporate governance (GCG) influenced the integrity of financial reports. However, due to numerous instances of financial report manipulation, users of financial reports have doubts about the governance practices employed by companies (Sayekti & Reschiwati, 2024).

The quality of the auditor is considered another factor that can impact the integrity of financial reporting. The auditor's industry expertise is a key component in assessing the quality of their audit. Safitri et al. (2023), Sayekti and Reschiwati (2024) elucidated that PAFs focusing on a specific sector of the economy enhanced the proficiency of auditors in delivering audit services, thereby ensuring greater precision in audit outcomes.

Specialized Key Audit Partners (KAPs) in specific industries are more likely to generate superior audit reports compared to non-specialized KAPs due to the varying levels of expertise and knowledge acquired by auditors. Consequently, specialist Public Accounting Firms (PAFs) are believed to enhance the accuracy and reliability of financial reports. Sawaya et al. (2025) found that auditor industry specialization had a notable impact on the integrity of financial reports. Similarly, Mayangsari and

Santoso (2025), Ogiriki et al. (2024), Rijal et al. (2023), and Safitri et al. (2023) concluded that auditor industry specialization had a positive influence on the integrity of financial reports. However, Nurbaiti and Elisabet (2023) and Nicolin and Sabeni (2013) reached the opposite conclusion, stating that auditor industry specialization did not affect the integrity of financial reports.

Company size is considered another influential factor affecting the integrity of financial reports. Prior research indicated variations in the outcomes of the correlation between the size of a corporation and the integrity of its financial reports. In their study, they found that large-scale companies faced more extensive requirements in presenting financial reports compared to small-scale companies. Consequently, large-scale companies were obligated to present financial reports with the utmost integrity due to the larger number of stakeholders who relied on these reports. Amalia et al. (2024) and Setiawati et al. (2025) determined that firm size harmed the credibility of financial statements, as larger companies tended to attract greater scrutiny from both the public and government authorities. Conversely, Suzan and Mutiah (2024) and Mayangsari and Santoso (2025) failed to demonstrate that firm size enhanced the credibility of financial reporting.

This research aims at analyzing and assessing the impact of institutional ownership, managerial ownership, independent commissioners, audit committee, auditor industry specialist, and firm size on the integrity of financial reports by using a dummy COVID-19 variable as a control. This is because the COVID-19 pandemic raised apprehensions among all stakeholders, including accountants in companies, who were suspected of having their financial report presentations influenced by concerns regarding the business challenges they faced as a result of COVID-19 (Fenitra et al., 2021). This situation affected the behavioral aspects of accountants in preparing financial reports.

Within the framework of agency theory (Jensen & Meckling, 1976), agency problems occurred due to information asymmetry, in which managers possessed superior knowledge of company performance compared to shareholders. Managers might have taken steps to alter financial reports to create a favorable perception among owners as a result of this asymmetry. To counteract manipulative behavior by managers, owners incurred agency costs, such as monitoring costs, to supervise, restrict, and mitigate managers' actions.

According to Wati et al. (2024), integrity in financial reports was achieved through various processes involved in their preparation, including management activities, relevant accounting policies, and decision-making processes. Moreover, Smith et al. (2011) stated that a more suitable approach to assess the reliability of financial reports was to gauge the degree of conservatism. This aligned with the perspective of positive accounting theory, which suggested that companies might engage in opportunistic behavior by manipulating or managing earnings to boost their income and assets.

Auditor industry specialization, as defined by Nicolin and Sabeni (2013), referred to the number of clients in related sectors serviced by a Public Accounting Firm (PAF) within a year. A PAF that efficiently managed a large number of similar clients within a single year was considered a specialist PAF. According to Nicolin and Sabeni (2013), the auditor's capacity to conduct an audit successfully and efficiently depended on their proficiency in the client's specific industry. Auditors with extensive experience in handling clients in comparable industries were expected to deliver high-quality audits, thereby enhancing earnings quality. Moreover, elucidated that auditor industry specialization could be measured using two methods: market share in the industry and market share within the PAF or portfolio share.

Company size refers to the magnitude of a company's operations, indicating its overall scope. Additionally, company size reflects the organization's capacity to handle investments and risks (Suzan & Mutiah, 2024). It is generally considered that large companies possess substantial assets and income, resulting in higher profits. Prominent corporations gain greater recognition among the general public and exert influence over a broader spectrum of stakeholders. Consequently, the actions taken by these organizations to address and resolve issues are more likely to be disseminated to the wider public, prompting them to exercise greater caution. In the context of agency theory (Jensen & Meckling, 1976), the larger the company, the more business transactions it manages.

Moreover, the COVID-19 pandemic during 2020, 2021, and 2022 was an additional phenomenon that required examination. It was believed to have influenced the behavior of company management in financial reporting mechanisms and impacted the integrity of financial reports. Indonesia was

significantly affected by the COVID-19 pandemic, which began in March 2020 and manifested in various forms, including economic, social, health, and humanitarian impacts. This condition was believed to have affected the integrity of corporate financial reports. This is because indications suggested that numerous companies manipulated their financial reports to make it appear as though they were performing well, as a result of the deteriorating financial performance conditions caused by the COVID-19 pandemic (Ofori et al., 2024; Jufita & Meini, 2022). Consequently, it was intriguing to investigate whether the integrity of corporate financial reports was affected by the COVID-19 pandemic in Indonesia. This factor distinguished this research from previous studies and contributed to its novelty.

Institutional ownership serves as a mechanism for enhanced oversight of management, ensuring that managerial decisions are aligned with the best interests of the organization. Agency theory, as developed by Jensen & Meckling (1976), posited that the presence of institutional ownership established a more robust control mechanism, enabling managers to act as agents in accordance with the interests of shareholders as principals. Safitri et al. (2023) demonstrated that institutional investors possessed superior analytical abilities and were less susceptible to manipulation by management regarding financial reports. This aligned with the findings of previous research conducted by Nicolin and Sabeni (2013) and Sriyono et al. (2022), which suggested that institutional ownership had a favorable impact on the integrity of financial reporting.

The company aims at establishing a managerial ownership system to foster a sense of ownership among managers and enable them to actively participate on par with other owners. The purpose of granting managers share ownership rights, in the context of Agency Theory as developed by Jensen & Meckling (1976), was to generate an alignment effect by establishing them as company owners, which was expected to enhance their sense of belonging. This ensured that managerial decisions were aligned with the company's objectives, thereby increasing managers' accountability as they had a stake in the company's ownership. The study conducted by Yuniawati (2023) found a positive correlation between the level of managerial ownership and the integrity of financial reporting. Similarly, the research conducted by Sriyono et al. (2022) demonstrated that managerial ownership had a beneficial impact on the integrity of financial reports.

Independent commissioners are external members of the board of commissioners who possess independence from the firm. They serve as a counterbalance in the decision-making process, aiming to safeguard the interests of minority shareholders and other relevant stakeholders. The company's control mechanism is further strengthened by the presence of independent commissioners within the framework of Agency Theory (Jensen & Meckling (1976), ensuring that managers act in accordance with the interests of shareholders as the company's owners. Independent commissioners can also prevent any attempts at manipulation or undesirable managerial actions within the organization.

The study conducted by Amalia et al. (2024) elucidates that organizations with independent commissioners are more likely to produce financial reports with a high level of integrity. This is attributed to the presence of a governing body that oversees and safeguards the interests of external stakeholders, independent of management. The findings of previous studies by Mayangsari and Santoso (2025), Suzan and Mutiah (2024), Wati et al. (2024), Meiryani et al. (2023), Sriyono et al. (2022), Mais and Nuari (2016), and Nicolin and Sabeni (2013) also confirm that the presence of independent commissioners positively influences the integrity of financial reports.

The company's Board of Commissioners establishes an audit committee composed of members appointed and dismissed by the Board, responsible for facilitating audits or investigations necessary for the company's management by the Board of Directors. The audit committee's control mechanism is designed to assist the Board of Commissioners in fulfilling its supervisory responsibilities over company management in accordance with the principles of good corporate governance (Jensen & Meckling, 1976). Consequently, the supervision of the company's financial reporting is further optimized by the presence of an audit committee. This body is responsible for identifying and assessing the effectiveness of public accounting firms (Amalia et al., 2024). An increase in audit committee members results in greater pressure on management to deliver financial statements characterized by integrity and transparency (Savero, 2017). Numerous previous studies have demonstrated that the audit

committee can strengthen its function, thereby positively influencing the integrity of financial reports (Yuniawati, 2023; Amalia et al., 2024; Kusumaningrum & Rohman, 2025)

Industrial specialist auditors are defined as auditors who possess industry-specific experience, characterized by PAF, enabling them to excel in the audit market within a particular industry sector. The utilization of external auditors within the Agency Theory framework (Jensen, & Meckling, 1976) can be interpreted as a monitoring cost. PAF specializes in specific industries to enable auditors to concentrate on the audit process. Additionally, specialist auditors conduct audits with greater efficiency and effectiveness due to their extensive experience and comprehensive understanding of the industry. Consequently, financial reports audited by specialist auditors are deemed more reliable. A study conducted by (Ogiriki & Pabraebiwei, 2024) suggests that auditor industry specialization has an impact on audit quality. Specialist auditors demonstrate superior ability in identifying errors in financial reports, resulting in the production of financial reports with high levels of integrity. (Ogiriki & Pabraebiwei, 2024) Discovered empirical data indicating that the involvement of specialized industry auditors markedly enhances the integrity of financial reporting in Nigerian oil and gas firms. Furthermore, Sawaya et al. (2025) demonstrated that auditors' competence is crucial for assuring adherence to accounting rules and ethical principles, consequently enhancing the quality of financial reporting. Moreover, He (2021) discovered that financial reports audited by specialized industry auditors yielded more valuable information than those certified by non-specialized industry auditors. The findings of the studies conducted by Rijal et al. (2023) indicate that specialized auditors have a positive influence on the integrity of financial reports.

The firm size is quantified by total assets, which can be determined using the natural logarithm of total assets. Company size indicates both the extent of its assets and its capacity to offer superior financial information. Large corporations bear greater responsibility and exercise caution when publishing financial information due to the involvement of several stakeholders and their high visibility to the public. In the context of agency theory, the complexity of the agency relationship mechanism between principals and agents increases as the size of the company increases. This condition necessitates increased agency costs in the form of monitoring costs to ensure that managers, acting as agents, consistently act in accordance with the interests of shareholders, acting as principals. Nurbaiti and Elisabet (2023) asserted that larger organizations require more information for investors to make judgments, leading to the disclosure of honest and accurate information. Saksakotama and Cahyonowati (2014) found that the size of a company positively affects the integrity of financial reports. Amalia et al. (2024) discovered that firm size can enhance the impact of many independent variables on the integrity of financial reporting. Moreover, Safitri et al. (2023) and Setiawati et al. (2025) demonstrated that firm size enhanced the integrity of financial reporting.

Based on the above arguments, the hypotheses of this study are as follows:

H₁ : The presence of institutional ownership has a beneficial impact on the integrity of financial reports.

H₂ : Managerial ownership positively influences the integrity of financial reports.

H₃ : The presence of independent commissioners has a positive influence on the integrity of financial reports.

H₄ : The number of audit committee members positively influences the integrity of financial reports

H₅ : The expertise of auditors in a certain industry positively impacts the integrity of financial reporting.

H₆ : Company size positively influences the integrity of financial reports.

METHOD

The dependent variable in this study is the integrity of financial reporting, which refers to the accuracy and veracity of the information presented in a company's financial statements (Mayangsari & Santoso, 2025), with the measurement as follows:

$$CONACC_{it} = (NI_{it} - CFO_{it}) \times -1$$

Where: $CONACC_{it}$ = the level of conservatism of company i in year t ; NI_{it} = net profit plus depreciation of company i in year t ; CFO_{it} = cash flow from operating activities of company i in year t ;

Then, the CONACC results derived from the above computation are multiplied by -1; a larger result indicates a greater degree of conservatism.

Meanwhile, the independent variables are institutional ownership, managerial ownership, independent commissioner, audit committee, auditor industry specialist, and company size, with COVID-19 as a control. The measurement of institutional ownership is determined by calculating the percentage of shares owned by institutional entities relative to the total number of shares outstanding in the company. The assessment of managerial ownership is conducted by determining the percentage of shares owned by management relative to the total shares outstanding.

Moreover, independent commissioners are board members who originate from external parties unaffiliated with the corporation. The commissioners are evaluated by determining the ratio of independent commissioners to the total number of board members, expressed as a percentage. Furthermore, the audit committee is measured by the number of audit committee members in one year. An auditor industry specialist refers to the quantity of clients within the same industry managed by a Public Accounting Firm (PAF) throughout the course of a year. The specialization of auditors in a specific industry is quantified by determining the proportion of clients audited by a PAF within that industry. A PAF is deemed specialized if it audits a minimum of 20% of the total clients within a specific industry. A specialist PAF is designated a value of 1, whereas a non-specialist PAF is assigned a value of 0 (dummy variable). Then, firm size pertains to the total assets of the organization, measured by the natural logarithm of total assets. Finally, COVID-19 as a control is measured by a dummy variable, where 1 is given for years with COVID-19 and 0 otherwise.

The population for this study consists of all manufacturing companies that were listed on the Indonesia Stock Exchange between 2018 and 2024. Sampling selection uses purposive sampling, where the criteria in this study consist of: (1) manufacturing companies listed on the IDX; (2) companies that consistently released financial reports and annual reports from 2018 to 2024; (3) the necessary data for the research can be found in the company's financial statements and annual reports; and (4) the financial reports use the rupiah currency. Based on these criteria, of the 213 manufacturing companies, 89 companies met the sample criteria. Subsequently, we evaluated the classical assumptions of multiple regression, encompassing normality, heteroscedasticity, multicollinearity, and autocorrelation. All classical assumptions were satisfied except for normality, as 15 companies exhibited non-normal data (i.e., outliers) and were consequently excluded from the sample. As a result, the ultimate sample size was 74 firms. Therefore, for 7 years, there are 518 observations. Then, the data were statistically analyzed, and the regression equation is as follows:

$$INTEG = \alpha + \beta_1 INST + \beta_2 MAN + \beta_3 INDEP + \beta_4 AC + \beta_5 AUDIT + \beta_6 SIZE + \beta_7 COVID + \varepsilon$$

Where: INTEG = The integrity of financial statements; A = constant; $\beta_1 \dots \beta_5$ = Regression coefficient; INST = Institutional ownership; MAN = Managerial ownership; INDEP = Independent commissioner; AUDIT = Industry specialist auditor; AC = Audit Committee; SIZE = Size of the firm; COVID = COVID 19 pandemic; and E = error

RESULTS

The descriptive statistical analysis of the data for all variables can be seen in Table 1. The integrity of financial reports (INTEG), as assessed by the level of conservatism in millions of rupiah, has a negative mean value of -18,260.0167. This indicates that the average level of conservatism in the financial reports of the sample companies is low. The minimum value is -726,092.20, while the maximum value is 534,079.00. The standard deviation is 119,868.0784, indicating considerable variability in the data associated with this characteristic.

The variable of institutional ownership (INST) has a mean of 66.4794%, a minimum value of 30.80%, a maximum value of 91.37%, and a standard deviation of 0.1372382. The data indicate that the average level of institutional ownership in the sample companies is 66.4794% out of a total of 100%. The standard deviation is 0.1372382, showing low variability in the data associated with this characteristic.

The variable of management ownership (MAN) has a mean of 4.5142%, a minimum value of 0%, a maximum value of 33.32%, and a standard deviation of 0.1079684. According to the data, the average ownership by managers in the company sample is 4.5142% of the total ownership. The standard deviation is 0.1079684, indicating low variability in the data related to this attribute.

The independent commissioner (INDEP) has a mean of 42.29%, a minimum value of 25%, a maximum value of 81%, and a standard deviation of 0.19859. The data indicates that the proportion of independent commissioners to the total number of commissioners in the corporation is 42.29%. A standard deviation of 0.19859 indicates a low degree of variability for this measure.

The variable of industry specialist auditor (AUDIT) is measured by a dummy variable. It has a mean of 0.3333, a minimum value of 0, a maximum value of 1, and a standard deviation of 0.45761. The findings indicate that, on average, the sample companies do not utilize specialized auditor services. A standard deviation of 0.45761 signifies a minimal level of variability for this measure.

The variable of audit committee (AC) has a mean value of 3.8823, a minimum value of 3, a maximum value of 8, and a standard deviation of 0.87553. A standard deviation of 0.87553 signifies a minimal level of variability for this metric.

The variable of company size (SIZE) is calculated by taking the natural logarithm of the total assets of the sample company. It has a mean of 15.9323, a minimum value of 11.52, a maximum value of 18.24, and a standard deviation of 0.69348. A standard deviation of 0.69348 signifies a minimal level of variability for this metric.

The variable of the COVID-19 pandemic (COVID) is measured by a dummy variable, where it is assigned a value of 1 during the COVID-19 pandemic and 0 otherwise. It has a mean of 0.4285, a minimum value of 0.00, a maximum value of 1.00, and a standard deviation of 0.16937. A standard deviation of 0.16937 signifies a minimal level of variability for this metric (Table 1).

Table 1. Descriptive Statistics

Variable	N	Min	Max	Mean	Deviation Standard
INTEG	518	-726092.20	534079.00	-18260.0167	119868.0784
INST	518	0.3080	0.9137	0.664794	0.1372382
MAN	518	.00	0.3332	0.045142	0.1079684
INDEP	518	25	81	42.290	0.19859
AC	518	3	8	3.8823	0.87553
AUDIT	518	.00	1.00	0.3333	0.45761
SIZE	518	11.52	18.24	15.9323	0.69348
COVID	518	.00	1.00	0.4285	0.16937

Source: Output of Descriptive Statistics from SPSS

Following the descriptive statistical test, the conventional multiple regression assumptions were examined, encompassing normality, heteroscedasticity, multicollinearity, and autocorrelation. The model employed in this research satisfies all the necessary classical assumption tests, thereby enabling the execution of multiple regression analysis. The corresponding results are presented in Table 2.

Table 2. Multivariate Data Analysis Results

Variable	Regression Coefficient B	t	Sig.
Constant	36788.954	2.251	0.036
INST	720.458	1.872	0.064
MAN	336.427	1.011	0.214
INDEP	13713.671	1.284	0.102
AC	117.261	5.683	0.005
AUDIT	1722.820	3.242	0.001
SIZE	5863.649	3.035	0.002
COVID	283.469	1.309	0.137

a. Dependent Variable: INTEG

Source: Output of regression from SPSS

Table 2 indicates that the model is appropriate, as evidenced by an F significance value of 0.001, which is lower than 0.05. Moreover, the significance values from the t-test results show that the variables of institutional ownership, managerial ownership, and independent commissioners have significance values greater than 0.05, implying that they do not influence the integrity of financial reporting. On the other hand, the audit committee, industry specialist auditor, and firm size variables exhibit significance values from the t-test that are less than 0.05. These results indicate that the audit committee, industry specialist auditor, and firm size significantly enhance the credibility of financial reporting. The equation derived from the multiple regression analysis is as follows:

$$\text{INTEG} = 36788.954 + 720.458\text{INST} + 336.427\text{MAN} + 13713.671\text{INDEP} + 117.261 \text{ AC} + 1722.820\text{AUDIT} + 5663.649\text{SIZE} + 283.469\text{COVID} + \varepsilon$$

DISCUSSION

The initial hypothesis, which suggests that institutional ownership positively impacts the integrity of financial reporting, is not supported. These findings contradict the premise of agency theory, which posits that institutional ownership may effectively control and reduce opportunistic conduct by managers. This suggests that institutional shareholders on the Indonesia Stock Exchange have failed to effectively fulfil their supervisory role, thereby being unable to mitigate opportunistic behaviour such as financial report manipulation, which consequently leads to a decrease in the integrity of the financial reports. The relatively high level of institutional ownership in the Indonesian Stock Exchange has not effectively performed its ideal control functions. This discovery aligns with the research conducted by Meiryani et al. (2023) which found that institutional investors have not adequately fulfilled their role as supervisors in financial report presentation policies. Contrary to the research conducted by Suyono & Farooque, (2018) and Sriyono et al. (2022), these findings suggest that institutional ownership does not effectively deter managers from engaging in opportunistic behavior, hence undermining the integrity of financial reporting.

The result of the second hypothesis test suggests that there is insufficient evidence to support the hypothesis, which states that managerial ownership has a positive influence on the integrity of financial reports. This finding contradicts the concept of agency theory, which posits that managerial ownership will align the interests of managers and owners, reducing information asymmetry. This alignment is expected to result in truthful and accurate information in financial reports. Descriptive statistical data suggest that managerial ownership is relatively low in the context of companies listed on the Indonesia Stock Exchange. Due to its meager proportion, managerial ownership may not have yet exerted an alignment effect. It is suspected to be the cause of the lack of support for the hypothesis in this study. This discovery aligns with the research conducted by Meiryani et al. (2023), which concluded that a manager's little ownership stake does not grant them sufficient voting power in the decision-making process. The findings of this study are in direct opposition to the conclusions drawn by Saksakotama and Cahyonowati (2014), Suyono & Farooque (2018), Yuniawati (2023), and Sriyono et al. (2022) demonstrated that managerial ownership positively affects the integrity of financial reports.

The third hypothesis, which posits that independent commissioners have a favorable impact on the integrity of financial reports, is not supported. This suggests that having independent commissioners may not be ideal for effectively overseeing and guiding management to enhance the company's efficiency and competitiveness. This also suggests that the independent commissioners in companies listed on the Indonesia Stock Exchange have not yet completely implemented their role in independently monitoring the work of managers. As a result, the integrity of financial reporting has not been enhanced by the presence of independent commissioners. This finding aligns with the research conducted by Yuniawati (2023), which suggests that having independent commissioners in companies is merely a symbolic gesture in corporate governance mechanisms. As a result, the responsibilities and roles of independent commissioners in evaluating company performance are rendered ineffective. The findings of this study are in direct opposition to the claims made by Saksakotama and Cahyonowati (2014), Nicolin and Sabeni (2013), Mayangsari and Santoso (2025), Amalia et al. (2024), Suzan and Mutiah

(2024), Wati et al. (2024), Meiryani et al. (2023), Sriyono et al. (2022), and Mais and Nuari (2016) that independent commissioners have a beneficial impact on the integrity of financial reports.

The fourth hypothesis test about the audit committee's involvement in enhancing the monitoring function of financial reporting is validated. The presence of a greater number of audit committees exerts more pressure on management to publish financial statements with honesty and transparency, hence enhancing the trustworthiness of financial reports. This finding is in line with Amalia et al. (2024), Yuniawati (2023), and Kusumaningrum and Rohman (2025), who found that the presence of an audit committee can improve the integrity of financial reporting.

Furthermore, the result of the fifth hypothesis test demonstrates that auditors who specialize in specific industries have a favourable impact on the integrity of financial reporting. These findings validate the principles of agency theory regarding the impact of monitoring costs, specifically that the utilization of auditor services enhances the dependability of financial reporting. The findings of this study align with the conclusions of Nicolin and Sabeni (2013), Ogiriki and Pabraebiwei, (2024), Sawaya et al. (2025), He (2021), and Rijal et al. (2023) who indicated that specialized auditors have a beneficial impact on the integrity of financial reports.

Moreover, the hypothesis related to company size is accepted. This supports the premise that company size has a substantial impact on the integrity of financial reporting. This demonstrates that larger corporations will exert greater efforts to provide financial reports of high integrity to establish trust with potential investors and other stakeholders. The results of this study align with the findings of Saksakotama and Cahyonowati (2014), Nurbaiti and Elisabet (2023), Amalia et al. (2024), Safitri et al. (2023), and Setiawati et al. (2025), who assert that there is a positive correlation between firm size and the integrity of financial reports. This finding contradicts Mayangsari and Santoso (2025) conclusion that larger companies have a greater need for public and government access to information, which facilitates management intervention in financial reporting and ultimately undermines the integrity of financial reports.

Finally, the integrity of financial reporting during the 2018–2024 period was not substantially affected by the COVID-19 pandemic that transpired in 2020, 2021, and 2022. This suggests that the quality of financial reporting did not generally suffer during the observed research period, despite the three-year COVID-19 pandemic. This also demonstrates that accountants' behavior in presenting financial reports may be influenced by concerns about the spread of COVID-19, which has a significant impact on business. However, this is not definitively confirmed in this study. This discovery is in direct opposition to the assertion made by that the quality of financial reporting was substantially impacted by the presence of COVID-19, which caused financial reporting delays.

CONCLUSION

Based on the findings of the data analysis, the following conclusions can be drawn: the integrity of financial reports is not significantly impacted by institutional ownership. Managerial ownership has no substantial impact on the integrity of financial reports. Independent commissioners have a negligible impact on the integrity of financial reports. The presence of an audit committee can optimize its role in monitoring the financial reporting process; as a result, it can improve the reliability of financial reporting. The specialization of auditors in specific industries has a notable and favourable impact on the integrity of financial reporting. The magnitude of a company's size has a positive influence on the integrity of financial statements. Meanwhile, the integrity of financial reporting for the 2018–2024 period was not impacted by the COVID-19 pandemic that occurred during the 2020, 2021, and 2022 periods.

To apply the concepts of agency theory to the agency relationship between agent and principal in accordance with the original concept of agency theory, the theoretical implications of the findings of this study can be employed to reformulate the agency model that is most suitable for the context of companies listed on the Indonesia Stock Exchange. Institutional owners (investors) should have a more rigorous role in overseeing company performance to ensure that managers, as agents, align their actions with the desires of the firm owner. The corporation requires managers to align their actions with the

owner's preferences to mitigate the negative effects of information asymmetry, which could be harmful to the company. Independent commissioners in a corporation have the responsibility of ensuring a fair balance between the rights and obligations of majority and minority investors, as well as promoting effective corporate governance. Specialist auditors possess greater expertise in auditing companies and identifying instances of fraud. Therefore, companies should prioritize engaging the services of specialist auditors. However, research findings indicate that, on average, corporations do not avail themselves of the services of professional PAFs for auditing purposes. As a firm grows in size, it attracts a greater number of stakeholders, including the government, society, investors, and potential investors.

One limitation of this research is that it only measures the integrity of financial reporting based on the amount of accounting conservatism. The analysis indicates that the average level of conservatism is negative, indicating a low average level of accounting conservatism in business financial reporting. Another limitation of this study is the relatively small sample size, which may have undermined the validity of some hypotheses. Subsequent studies can employ alternative metrics to assess the degree of accounting conservatism or evaluate the reliability of financial statements using metrics other than the level of accounting conservatism. It is also recommended that the sample size be increased and that variables not included in this model be analyzed.

REFERENCES

- Amalia, N. A., Wawo, A., & Jannah, R. 2024. Factors Affecting the Integrity of Financial Statements with Company Size as a Moderation Variable. *Journal of Business Management and Economic Development*, 2(02), 635–649. <https://doi.org/10.59653/jbmed.v2i02.682>
- Nurbaiti, A., & Elisabet, C. 2023. The Integrity Of Financial Statements: Firm Size, Independent Commissioners, and Auditor Industry Specializations. *Jurnal Akuntansi*, 27(1), 1–18. <https://doi.org/10.24912/ja.v27i1.1086>
- Dewi, I. G. A. R. P., Suartana, W., Yasa, G., & Budiarta, K. 2024. Determinants and Consequences of Financial Reporting Quality: a Systematic Literature Review. *JRAK*, 16(1), 9–22. <https://doi.org/10.23969/jrak.v16i1.9752>
- Fenitra, R. M., Praptapa, A., Suyono, E., Kusuma, P. D. I., & Usman, I. 2021. Factors Influencing Preventive Intention Behavior Towards COVID-19 in Indonesia. *Journal of Behavioral Science*, 16(1), 14–27.
- He, L.J. 2021. Does Industry Specialist Auditor Provide More Insights in Their audit report? An Empirical Study of Key Audit Matters Section. *Journal of Applied Finance & Banking*, 11(5), 69–94. <https://doi.org/10.47260/jafb/1154>
- Jensen, M.C. & Meckling, W. H. 1976. Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3, 305–360.
- Jufita, T., & Meini, Z. 2022. Pengaruh Corporate Governance dan Pandemi Covid 19 terhadap Integritas Laporan Keuangan. 181–184.
- Kusumaningrum, P., & Rohman, A. 2025. The Influence of Audit Committees, Independent Commissioners, Company Size and Audit Quality on Report Integrity. *Eduvest – Journal of Universal Studies*, 5(9), 11138–11147.
- Mais, R. G., & Nuari, F. 2016. Pengaruh Good Corporate Governance, Ukuran Perusahaan, dan Leverage terhadap Integritas Laporan Keuangan. *JRAK*, 6(2), 907–912.
- Mayangsari, S., & Santoso, F. M. 2025. The Factors That Influence The Integrity of Financial Statement: Indonesia Case. *New Applied Studies in Management, Economics & Accounting*, 8, 57-69.
- Meiryani, Fahlevi, M., Robbani, A. I., Winoto, A., Salim, G., Purnomo, A., & Lusianah. 2023. Factors Affecting the Integrity of Financial Statements. *Corporate Governance and Organizational Behavior Review*, 7(3), 211–227. <https://doi.org/10.22495/cgobrv7i3p17>
- Nicolin, O., & Sabeni, A. 2013. Pengaruh Struktur Corporate Governance, Audit Tenure, dan Spesialisasi Industri Auditor Terhadap Integritas Laporan Keuangan. *Diponegoro Journal of Accounting*, 2(3), 1–12.

- Ofori, A., Arthur, B., Asiedu, M., & Opoku, P. 2024. The Impact of COVID-19 Pandemic on Financial Reporting Delay. Evidence from Ghana. *Cogent Business & Management*, 11(1). 2318019. <https://doi.org/10.1080/23311975.2024.2318019>
- Ogiriki, T. &, & Pabraebiwei, Z. 2024. Audit Industry Specialisation And Quality Of Financial Report Of Listed Firms In Nigeria. 12(2), 110–119. www.seahipaj.org
- Prayoga, M. H., & Purwanti, D. 2020. Case Analysis Of Revenue Recognition Fraud Of Pt Garuda Indonesia (Persero) Tbk In 2018. *Riset*, 2(2), 289–306. <https://doi.org/10.35212/riset.v2i2.63>
- Raj, S. K., & Azam, M. R. 2023. the International Accounting Standards Board’S 2018 Conceptual Framework on User Perspective: an Application of Stakeholder Theory. *Corporate Governance and Sustainability Review*, 7(4), 28–36. <https://doi.org/10.22495/cgsrv7i4p3>
- Rijal, S., Bakri, A. A., & Arjang. 2023. Effect of Auditor Specialization, Auditor Characteristics, Board Independence on Audit Quality through Intellectual Capital : Study on Service Companies. *The ES Accounting and Finance*, 1(02), 95–103. <https://doi.org/10.58812/esaf.v1i02.66>
- Safitri, A. Z., Andriani, W., & Herman, L. A. 2023. Financial Statement Integrity : What Are Things That Influence It? *Jurnal Ilmiah Raflesia Akuntansi*, 9(1), 22–31. <https://doi.org/10.53494/jira.v9i1.198>
- Saksakotama, P. H., & Cahyonowati, N. 2014. Determinan Integritas Laporan Keuangan. *Diponegoro Journal of Accounting*, 3(2), 1–13.
- Sawaya, C., Jabbour Al Maalouf, N., Hanoun, R., & Rakwi, M. 2025. Impact of Auditor Independence, Expertise, and Industry Experience on Financial Reporting Quality. *Asia Pacific Management Review*, 30(1), 100357. <https://doi.org/10.1016/j.apmr.2025.100357>
- Sayekti, F., & Reschiwati. 2024. The Integrity of SOES Financial Statements: Can GCG, DER, and KAP Reputation Affect It? *Revista de Gestão Social e Ambiental*, 18(8), e06925. <https://doi.org/10.24857/rgsa.v18n8-141>
- Setiawati, L.P.E., Bagiana, I.K., & Mirayani, L. P. 2025. Factors Influencing Financial Statement Integrity : a Study on Property and Real Estate Companies. *Jurnal Akuntansi dan Bisnis*, 5(1), 296–301.
- Smith, M., Ren, Y., & Dong, Y. 2011. The Predictive Ability of “Conservatism” and “Governance” Variables In Corporate Financial Disclosures. *Asian Review of Accounting*, 19(2), 171–185. <https://doi.org/10.1108/13217341111181096>
- Sriyono, S., Supardi, S., Prapanca, D., & Sofi, H. N. 2022. Creating Integrated Financial Statements Through Good Corporate Governance: The Active Role of Earning Management as An Intervening Variable. *Integrated Journal of Business and Economics*, 6(3), 255. <https://doi.org/10.33019/ijbe.v6i3.555>
- Suyono, E., & Farooque, O.A. 2018. Do governance mechanisms deter earnings management and promote corporate social responsibility? *Accounting Research Journal*, 31(3), 479–495. <https://doi.org/10.1108/ARJ-09-2015-0117>
- Suzan, L., & Mutiah, N. F. 2024. Integrity of Financial Statement Factors: Intellectual Capital, Independent Commissioner, and Company Size. *Atestasi : Jurnal Ilmiah Akuntansi*, 7(1), 604–622. <https://doi.org/10.57178/atestasi.v7i1.825>
- Wati, Y., Inrawan, A., Mara Kesuma, I., Yusrizal, & Eka Putri, D. 2024. Factors Influencing Financial Reporting Integrity Moderated by Audit Quality. *Jurnal Ilmu Keuangan Dan Perbankan (JIKA)*, 14(1), 169–182. <https://ojs.unikom.ac.id/index.php/jika/article/view/14125>
- Yuniawati, R. A. 2023. Analysis Of Factors That Affecting The Integrity Of Financial Statements. *Jurnal Ekonomi*, 12(03), 1073–1083. <http://ejournal.seaninstitute.or.id/index.php/Ekonomi>