

***FINANCIAL DISTRESS, LEVERAGE, TENURE AUDITS, AND
COMPANY SIZE AGAINST REPORT INTEGRITY FINANCE IN STATE-OWNED
COMPANIES THAT LISTED ON THE INDONESIA STOCK EXCHANGE***

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ABSTRAK

Penelitian ini memiliki tujuan untuk mengetahui pengaruh financial distress, leverage, audit tenure, dan ukuran perusahaan terhadap integritas laporan keuangan. Data yang digunakan dalam penelitian ini adalah data sekunder perusahaan Badan Usaha Milik Negara (BUMN) periode 2022-2024. Teknik pengumpulan data menggunakan metode purposive sampling. Metode analisis data menggunakan regresi linear berganda. Hasil analisis menunjukkan bahwa financial distress tidak berpengaruh terhadap integritas laporan keuangan. Audit tenure tidak berpengaruh terhadap integritas laporan keuangan. Ukuran perusahaan tidak berpengaruh terhadap integritas laporan keuangan. Sedangkan leverage berpengaruh terhadap integritas laporan keuangan.

Kata Kunci : Financial Distress, Leverage, Audit Tenure, Ukuran Perusahaan, dan Integritas Laporan Keuangan

ABSTRACT

The purpose of this study is to determine the influence of financial distress, leverage, audit tenure, and company size on the integrity of financial statements. The data used in this study is secondary data on State-Owned Enterprises (SOEs) for the 2022-2024 period. The data collection technique uses the purposive sampling method. The data analysis method uses multiple linear regression. The results of the analysis show that financial distress has no effect on the integrity of financial statements. Tenure audits have no effect on the integrity of financial statements. The size of the company has no effect on the integrity of the financial statements. Meanwhile, leverage affects the integrity of financial statements.

Keywords: Financial Distress, Leverage, Audit Tenure, Company Size, and Financial Statement Integrity

INTRODUCTION

The integrity of financial statements can be achieved by financial distress. Financial distress is a term when a company is in a situation of financial difficulties which usually begins with difficulty paying short-term obligations (Nurbaiti et al., 2021). The integrity of financial statements can be assessed using the principle of conservatism. The principle of accounting conservatism aims to recognize, measure, and report lower asset and income values, and high values for liabilities and expenses (Silalahi, 2019). Agency theory is related to the integrity of financial statements because there is a difference in interests between the principal (shareholder) and the agent (manager). Company managers have more information about the company than shareholders who rely solely on financial statement information. The phenomenon of the state-owned company PT Jiwasraya indicates engineering in terms of stock price formation. As a result, Jiwasraya has difficulty fulfilling its obligation to pay claims of Rp 16 trillion. Jiwasraya's equity as of December 2019 was also recorded negative, namely Rp 28 trillion. The Audit Board's investigation of PT Asuransi Jiwasraya (Persero) in 2018 found allegations of corporate crimes in the management of the company. The practice, which allegedly involves the board of directors, managers, and other parties outside the company, results in internal and state losses (Wahyuni, 2022).

LITERATURE REVIEW

Agency Theory

In the theory of agency, this explains the interaction between agents and principals. An agent is a person who is trusted to carry out tasks for the benefit of the company, while the principal is the party who entrusts his funds in exchange for the agent to be managed in order to provide profits in the future. (Jensen & Meckling, 1976) describes the relationship between the agency and the management responsibility (*agent*) to carry out the task by delegating authority in making decisions for the benefit of the company. (Mohd Saad et al., 2020) investors are confident that management will create profits for them by controlling the management. Principals can control agents by hiring agents who have good performance (Putra et al., 2019). Where according to (Tjahjadi et al., 2021) companies can control agency problems by selecting the right agent to be able to manage and supervise all activities in the company properly so that they can provide profits. Where the principal needs to consider the effectiveness of the number of agents who will be given the responsibility to run the company (Huang, 2012).

Integrity of Financial Statements

The integrity of financial statements can be interpreted as financial statements that present the actual state of the company, without anything being covered up (Santoso & Andarsari, 2022). Financial statements with integrity of information have the quality of reability which consists of 3 components, namely verifiability (producing the same opinion), representational faith fulness (sincere and honest presentation) and neutrality (impartiality). The high or low integrity of financial statements can be measured by using 2 methods, namely with the proxy of conservatism and profit management. However, corporate auditors prefer financial reporting presented with the principle of conservatism. The principle of conservatism is an action taken in the face of uncertain circumstances to avoid excessive optimism from the management and

company owners by using the principle of vigilance or prudence. The integrity of financial statements can be measured using the concept of conservatism because the integrity of financial statements is often identified with conservatism. Conservatism is measured by a model compiled by Beaver and Ryan with the calculation of Market Book Value (MBV) with the following formula:

$$MBV = \frac{\text{Stock Market Price}}{\text{Book value of shares}}$$

A market book value ratio of more than 1 indicates that the financial statements use conservative principles because the company records the company's value lower than its book value, this happens because assets purchased a few years ago are recorded based on the initial acquisition price and the value of the company's assets in the financial statements are not affected by goodwill and inflation (Palebangan & Majidah, 2021).

Financial Distress

Financial distress or financial difficulties is a company's financial condition that indicates a decline in company performance which is usually followed by bankruptcy (Nurbaiti et al., 2021). Financial distress usually arises due to the influence of internal and external parties (Idawati, 2020). Companies facing financial problems are expected to have an effect on reducing the level of conservatism and increasing the risk of investors demanding greater returns, thus causing managers to act fraudulently and possibly affecting the integrity of financial statements. The higher the financial distress experienced, the lower the level of integrity of financial statements (Nurbaiti et al., 2021). Based on agency theory, when a company experiences financial distress, the manager will hide the condition by changing its financial statements, because financial distress indicates that the agent has poor performance under the attention of the principal who demands high returns (S. Wulandari et al., 2021). The measurement of financial distress uses the Altman Z-Score formula (Aviannie et al., 2020).

Altman Z-Score is calculated by the following formula:

$$Z = 1,21X1 + 1,4X2 + 3,3X3 + 0,6X4 + 1,0X5$$

Keterangan:

X1 = Working Capital / Total Asset

X2 = Retained Earnings / Total Asset

X3 = Earning Before Interest and Taxes/Total Asset

X4 = Book Value of Equity/ Total Debt

X5 = Sales/ Total Asset

Leverage

Leverage is a description of how much of a company's assets are funded from debt. That is, how much debt burden the company must bear compared to its assets. In a broad sense, leverage is used to measure a company's ability to pay the entire obligations, both short-term and long-term (Sari et al., 2022). In the agency theory, debt (leverage) is a mechanism for stakeholders to minimize agency problems with managers. The higher

the company's leverage, the better the transfer of prosperity from creditors to the company's shareholders. Leverage is measured using the Debt Asset Ratio (DAR) formula as follows (Palebangan & Majidah, 2021).

$$\text{Debt to Assets Ratio (DAR)} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

Audit Tenure

Audit tenure is the tenure of the Public Accounting Firm (KAP) in providing audit services to its clients (Saad & Abdillah, 2019). The provisions regarding tenure audits are regulated in Government Regulation Number 20 of 2015 Article 11 which explains that the provision of audit services on the financial statements of a company is carried out by KAP for a maximum of five consecutive years. The government regulates the duration of the audit engagement, which is a maximum of 6 years of engagement for KAP and 3 years of engagement for a public accountant as written in the Decree of the Minister of Finance Number 17/PMK.01 of 2008 concerning Public Accountant Services Article 3. The auditor may re-accept another audit assignment for the client after two accounting periods without providing general audit services.

In agency theory, an auditor is an external party of the company that acts as an intermediary between the agent's relationship with the principal through financial statements. However, the long-term relationship between auditors and management can gradually accommodate various interests of agents and the independence of auditors weakens to provide opinions that make the integrity of the company's financial statements decrease (S. Wulandari et al., 2021).

Audit tenure is measured through the length of the engagement year between the auditor and the auditee (client), where the engagement is carried out by the auditor from the same KAP with a value of 1 for the year of engagement starting and so on at intervals (Wulandari et al., 2021).

1. Value 1 = Auditor's time with the client if it has been running for 1 year
2. Value 2 = Auditor period with the client if it has been running for 2 years
3. Value 3 = Auditor's time with the client if it has been running for 3 years

Company Size

Company size is a measure that describes the size of a company which can be reviewed from total assets, sales, and market capitalization (Santoso & Andarsari, 2022). Financial statements with high integrity can be measured by the size of the company. The larger the size of the company, the more attention will usually be paid to by the public, so that the financial statements presented by large-scale companies are more integrity, while small-scale companies are considered to only show a good and stable state of the company. The size of the company can be seen from the calculation of the natural logarithm of total assets. (Fatimah et al., 2020).

Ukuran Perusah □ □ □ = *LN Total Asset*

Research Hypothesis

The Effect of Financial Distress on the Integrity of Financial Statements conducted (Wijaya (2022); Saad & Abdillah, (2019) ; Liliyany & Arisman, 2021) financial distress affects the integrity of financial statements Large financial risk will slow down management to inform company performance and increase fraud to manipulate financial statements (Pratika & Primasari, 2020). (Fatimah et al., 2020) Her research shows that leverage affects the integrity of financial statements.

Research that has been conducted by (M. Wulandari et al., 2020) tenure audits have a positive effect on the integrity of financial statements. Likewise, research conducted by (Fatimah et al., 2020) tenure audits have a positive effect on the integrity of financial statements. Meanwhile, in a study conducted by (Manuari & Devi, 2021) tenure audits have a negative effect on the integrity of financial statements.

Research that has been conducted by (Fatimah et al., 2020) has a positive effect on the integrity of financial statements. Likewise, the research conducted and (Fajar & Nurbaiti, 2020) showed that the size of the company had a positive effect on the integrity of the financial statements. Meanwhile, research conducted by (Nurbaiti et al., 2021) shows that company size has a negative effect on the integrity of financial statements.

H1: Financial Distress affects the Integrity of Financial Statements

H2: Leverage affects the Integrity of Financial Statements

H3: Tenure Audit affects the Integrity of Financial Statements

H4: Company Size Affects the Integrity of Financial Statements

RESEARCH METHODS

The object of this study is a state-owned company listed on the Indonesia Stock Exchange (IDX) with a research period of 3 years. This study collects data related to factors that affect the integrity of financial statements listed on the Indonesia Stock Exchange with independent variables consisting of financial distress, audit tenure, leverage, and company size. The type of research used in this study is quantitative research.

The population used as the object in this study is 20 state-owned companies listed on the Indonesia Stock Exchange for 3 years. Based on the criteria that have been determined, a sample of 17 state-owned companies listed on the Indonesia Stock Exchange (IDX) for 3 years was obtained, so that the total sample used was 51 financial statements.

The equation of multiple linear regression values to test the hypothesis in this study is as follows:

$$ILK = \alpha + \beta_1FD + \beta_2LE + \beta_3AT + \beta_4UP + e$$

RESULTS AND DISCUSSION

RESEARCH RESULTS

Table 1: Regression Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	51	-1,16	6,70	1,6696	1,44559
Leverage	51	,29	,89	,6627	,18126
Audit Tenure	51	1,00	3,00	1,7647	,78964
Company Size	51	27,96	35,08	31,9298	1,83291
Report Integrity Finance	51	,43	3,35	1,5365	,79212
Valid N (listwise)	51				

Source: Processed data

Table 2: Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		51
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,69655577
Most Extreme Differences	Absolute	,122
	Positive	,122
	Negative	-,079
Test Statistic		,122
Asymp. Sig. (2-tailed)		,057 ^c

Source: Processed data

Table 3 : Multiple Linear Regression Analysis Results

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,119	1,872		-,063	,950
	Financial Distress	-,045	,106	-,082	-,425	,673
	Leverage	-2,651	,952	-,607	-2,786	,008
	Audit Tenure	-,091	,133	-,091	-,687	,496
	Size Company	,114	,068	,264	1,676	,101
a. Dependent Variable: Integrity of Financial Statements						

Source: Processed data

Based on the table above, the multiple linear regression equation can be described as follows:

$$ILK = -0,119 - 0,045 - 2,651 - 0,091 + 0,114 + e$$

Based on the table above, the results of multiple linear regression can be analyzed by hypothesis testing. Hypothesis testing is carried out using the t test and the test results can be seen from the t table in the t and Sig columns.

1. The variable of independent financial distress with a negative direction has no effect on the dependent variable of financial statement integrity. This can be seen from the significant values of $0.673 > 0.05$ and $\beta -0.045$. This test shows that H_1 is rejected, so it can be concluded that the financial distress variable has no effect and is not significant to the integrity of the financial statements.
2. The variable of independent leverage affects the integrity of financial statements in a negative direction. This can be seen from the significance value of $0.008 < 0.05$ and $\beta -2.651$. This test shows that H_2 is acceptable, so it can be concluded that the leverage variable has an effect and is significant on the integrity of the financial statements.
3. The variable of independent audit tenure with a negative direction has no effect on the integrity of financial statements. This can be seen from the significance value of $0.496 > 0.05$ and $\beta - 0.091$. This test shows that H_3 is rejected, so it can be concluded that the audit tenure variable has no effect and is not significant to the integrity of the financial statements.

4. The independent variable of company size with a positive direction has no effect on the integrity of financial statements. This can be seen from the significance value of $0.101 > 0.05$ and $\beta 0.114$. This test shows that H_4 is rejected, so it can be concluded that the variable of company size has no effect and is not significant to the integrity of the financial statements.

Discussion

Financial distress has no effect on the integrity of financial statements, because every company is obliged to report its financial statements reliably and relevant in accordance with the qualitative characteristics that have been regulated in PSAK No. 1, so that even though the company is experiencing financial distress, the company is required to present good financial statements in accordance with regulations. These results are in line with research conducted by (Nurbaiti et al., 2021) with the results of financial distress research having no effect on the integrity of financial statements.

Leverage affects the integrity of financial statements means that the lower the level of leverage, the more integrity of the financial statements will increase. Companies that have a low amount of debt have a lower risk compared to companies that have high leverage. Low risk can be interpreted as management can manage their company effectively and efficiently. If the company has run effectively and efficiently, it can reduce the possibility of management to manipulate financial statements to satisfy investors and owners, so that the integrity of financial statements will increase. These results are in line with research conducted by (Danuta & Wijaya, 2020) and (Saad & Abdillah, 2019) with the results of leverage research affecting the integrity of reports.

Tenure audits have no effect on the integrity of financial statements. Tenure audits have no effect on the integrity of financial statements because tenure audits are not the basis for the presentation of non-conservative financial statements, the conservative presentation itself is determined from the company's considerations to avoid fraud by investors or other users of financial statements. Therefore, the integrity of financial statements is not disturbed by the existence of tenure audits. These results are in line with the research conducted (Sucitra et al., 2020) and (Palebangan & Majidah, 2021) with the results of the tenure audit research having no effect on the integrity of financial statements.

The size of the company has no effect on the integrity of financial statements because not all large companies have better experience in preparing financial statements and it is also possible for small companies to have better experience in reporting the integrity of financial statements. The larger the size of the company does not mean that the company is more conservative in preparing financial statements, so it does not reflect the actual financial condition. The large demands from investors to large companies are a burden that results in the management manipulating the financial statements so that the financial statements do not have integrity and cannot be accounted for. These results are in line with research conducted by (Santoso & Andarsari, 2022) and (Suzan & Wulan, 2022) with the results of the study company size having no effect on the integrity of financial statements.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results of data analysis and discussion that have been described in the previous chapter, the following conclusions can be drawn:

1. Financial distress has no effect on the integrity of financial statements.
2. Leverage affects the integrity of financial statements.
3. Tenure audits have no effect on the integrity of financial statements.
4. The size of the company has no effect on the integrity of the financial statements.

Suggestion

Based on the results of the research and the conclusions that have been outlined earlier, here are some suggestions for the next researcher that can be considered and considered, namely:

1. Further research is expected to expand the observation period, so that it will provide more possibilities in obtaining the actual conditions.
2. Further research is expected to use more other variables to find a new standard model related to the integrity of financial statements.

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