THE INFLUENCE OF GOOD CORPORATE GOVERNANCE, RETURN ON ASSETS AND FINANCIAL DISTRESS WITH FIRM SIZE AS A MODERATING VARIABLE ON THE INTEGRITY OF FINANCIAL REPORTS

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Abstract

Quality financial reports are financial reports that are equipped with complete reports. To protect the rights of stakeholders. This research aims to see which is proxied by the audit committee, Return On Assets (ROA) and Financial Distress and to find out whether Firm Size is a Moderating Variable the influence of Good Corporate Governance on the Integrity of Financial Reports partially. This research uses quantitative research known as associative research. For the population, financial report data from companies in the manufacturing industry for 2018-2020 were used and a purposive sample was used. This study are multiple regression analysis and path analysis with Eviews 10 software for data analysis tools. The results of the research show that Good Corporate Governance as proxied by the audit committee, Return On Assets (ROA), and Financial Distress does not partially result the Integrity of Financial Reports, on the contrary Companies can weaken the affect of the audit committee on the integrity of financial reports and strengthen the influence ROA and financial distress on the integrity of financial reports.

Keywords: *Firm Size, Financial Distress, Good Corporate Governance, Financial Reports, Return on Assets.*

1. INTRODUCTION

Users can use financial report information to influence decisions, either to strengthen or change decision making, so it can be said that financial information has a high level of integrity, is credible, and is expected to have no misstatements so that users can rely on this financial information (Amruloh, 2016). There are many parties, from internal to external parties who are responsible for cases that occur with the presentation of financial reports. The decline in public trust, especially in terms of economic investment, as shown by the drastic decline in share prices of companies resulted by this case, is the result of a dishonest and clean presentation of company financial reports.

The number of cases has increased recently in Indonesia regarding manipulation of financial reports involving Public Accountants in Indonesia, including PT Asuransi Jiwasraya (Persero), and PT Asabri (Persero) in 2020, PT Garuda Indonesia Tbk in 2019 which was audited in 2018 by AP Marlinna and Merliyana Syamsul from KAP Satrio, Bing, Eny, and Partners (Deloitte Indonesia), and KAP Tanubrata, Sutanto, Fahmi, Bambang, and Partners. Based on the submission of audited financial reports from the Indonesian Stock Exchange ending on 31 December 2019, it is stated that 64 companies have not submitted

financial reports on time, there are 63 listed companies and 1 KIK EBA has not submitted financial reports ending on 31 December 2019.

The emergence of questions about how corporate governance is implemented in a company, so that financial reports are not very accurate, is something that arises when there are various cases of conveying financial information that is full of manipulation (Fajaryani, 2015), and as a result doubts and distrust arise. society towards companies in terms of governance and ownership systems. This happens because it is triggered by poor corporate governance which is the main cause of abuse of power of directors and other high-ranking company officials. (Singdevh and Desai, 2016).

Previously, there have been many studies on the credibility of financial reports made by researchers. The previous paragraph describes the importance of the integrity of financial reports and the challenges that arise due to manipulation of financial reports in Indonesia. Even though credible financial information is very important for making the right decisions, there are many cases of manipulation of financial reports which cause a decline in public and investor confidence. Several large companies such as PT Asuransi Jiwasraya (Persero), PT Asabri (Persero), and PT Garuda Indonesia Tbk were involved in this scandal, showing that manipulation of financial reports is a significant and widespread problem. However, there are several research gaps that can be identified from this paragraph. The link between corporate governance and financial report manipulation needs to be explored further to understand the extent to which corporate governance affects the integrity of financial reports in Indonesia. In addition, the role of public accountants in financial statement manipulation also requires in-depth research to determine the extent of their contribution to this problem and how supervision and regulation can be improved to prevent manipulation in the future. However, there are still various problems in terms of presenting financial reporting, and contradictory resultsHowever, there are still various problems in terms of presenting financial reporting, and contradictory results. Based on this background and the many contradictory results, researchers wish to conduct a study on "The Influence of Good Corporate Governance, Return on Assets and financial distress with firm size as a moderating variable on the integrity of financial reports."

2. RESEARCH METHOD

This research uses hypothesis testing. In this case, they tested the hypothesis whether there was a very significant influence between the independent variables, Good Corporate Governance, Return on Assets and financial distress, on the dependent variable, namely Financial Report Integrity, and this was strengthened by the moderating variable, namely firm size.

For this research, we used the Indonesian Stock Exchange and also other sites that are relevant to this research. To collect data about manufacturing companies listed on the Indonesian Stock Exchange from 2017 to 2020.

This research uses secondary data, namely Annual Financial Reports uploaded by companies listed on the Indonesia Stock Exchange, namely the manufacturing sector in 2017 - 2020. Apart from that, additional secondary data to support the conclusions is research and literature that will support the analysis obtained.

Data was collected through literature study and documentation. Literature studies include articles, journals and other literature relevant to the research topic, and documentation includes annual financial reports of sample companies.

The general area consists of objects or subjects that researchers have certain qualities and attributes that are defined as a population. This research covers all manufacturing

companies listed on the Indonesia Stock Exchange from 2017 to 2020. In this research there were 194 issuers with a research period of 4 years so the total data obtained was 776 issuers. The purposive sampling criteria in this research are as follows: Manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2020. These companies have a corporate financial year that ends on December 31. Companies that present complete financial reports and use the rupiah currency. With certain qualities and characteristics determined by the researcher to be studied and then drawn conclusions. This research covers all manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2020. The purposive sampling criteria in this research are as follows.

3. RESULT AND DISCUSSION

The Relationship of Good Corporate Governance to the Integrity of Financial Reports

Based on the results of the analysis of the Good Corporate Governance variable projected through the audit committee, it has a t-statistic of -0.018327 with a probability value of 0.9854 > 0.05, which means that Good Corporate Governance does not result the credibility of financial reports. With Thus H1 is rejected. This is due to the fact that the audit committee is ineffective because many audit committees cannot maximize their function in accounting practice. The audit committee is not directly involved in resolving the company's financial problems; they only review the financial and accounting information that will be released. A large number of audit committees can result the assessment of a company's financial and accounting information because more people are involved, so the results obtained

Research by (Ulfa & Challen, 2020) reveals that although managerial ownership has a positive effect on the integrity of financial reports, the audit committee actually has a negative effect. This research uses secondary data from manufacturing companies listed on the Indonesia Stock Exchange (BEI) for the 2012-2016 period and finds that audit committees do not maximize their function in accounting practices, which is in line with the finding that a large number of audit committees can influence the assessment of financial information because it is too many people are involved. In addition, this research cannot measure the impact of audit committees on the integrity of financial reports because it only counts the number of audit committees in the companies studied.

The Effect of Return on Assets on the Integrity of Financial Reports

Based on the results of the Return on Asset analysis, it has a t-statistic of -0.385211 with a probability value of 0.7003 > 0.05, which means that ROA has no effect on the integrity of the financial reports. Thus H2 is rejected. This is not in line with previous research, namely research by Rahmanti (2013) which shows that the more assets a company owns, the greater the possibility that the company is a large company with a good reputation. Management will definitely try to show that they are able to arrange their assets well to make the company look good. Relevant previous research supports or refutes these findings. For example, research by (Cherian & Jacob, 2012) shows that corporate governance and products positively influence ROA, but not all variables show a significant influence on financial performance. This research highlights that CSR (Corporate Social Responsibility) and corporate governance can increase profitability and overall company performance, but do not always directly affect the integrity of financial reports (Cherian et al., 2019). Another study by Rahi et al. (2021) in the Nordic financial industry show that there is a positive relationship between corporate governance practices and ROA, but this relationship may vary depending on the industry and regional context. These results indicate that good

governance can support financial performance, but may not always be directly reflected in the integrity of financial reports (Rahi et al., 2021).

The effect of financial distress on the integrity of financial statements

Based on the results of the financial distress analysis, it has a t-statistic of - 0.354871 with a probability value of 0.7229 > 0.05, which means that financial distress has no effect on the integrity of financial reports. Thus H3 is rejected. This can happen because in PSAK No. 1 (2014) it has been stated that the qualitative feature of financialreports is one that is credible and relevant. So that users can use their financial reports, good financial reports always implement this. Research by (Halim, 2024) shows that financial distress has a negative influence on the integrity of financial reports. This research uses data from 32 companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (BEI) during the 2013-2017 period. The results show that financial distress is negatively correlated with financial report integrity, while audit committee and company size have a positive effect (Halim, 2021). Another study by Nurullah and Wahyudi (2022) found that financial distress did not have a significant influence on the integrity of financial reports before the pandemic, but had a significant negative effect during the COVID-19 pandemic. This research highlights the differences in the impact of financial distress on the integrity of financial reports before and during the pandemic, showing that crisis situations can exacerbate the effect of financial distress on the quality of financial reports (Nurullah et al., 2022).

Firm Size Moderates the Effect of Good Corporate Governance on the Integrity of Financial Reports

Based on the results of the analysis of the interaction between the audit committee and firm size on the integrity of financial reports, it has a t-statistic of 1.020953 with a probability value of 0.3081 > 0.05, which means that firm size weakens the impact of Good Corporate Governance on the veracity of Financial Reports. Thus H4 is rejected.

The quality of financial reports can be influenced by business size. Because they have more information to disclose, larger companies tend to disclose more items in their financial reports. Small companies have the resources necessary to produce products in limited quantities. As a result, larger companies will disclose more financial reports.

Thus H4 is rejected. Research by (Halim, 2024) shows that financial distress has a negative effect on the integrity of financial reports, while the audit committee and company size have a positive effect. However, the interaction between the audit committee and company size is not always significant in improving the integrity of financial reports, indicating that company size can weaken the positive influence of an effective audit committee (Halim, 2021). Putra, Yahya, and Fachrudin (2022) found that company size can moderate the influence of the audit committee on the integrity of financial reports. This research uses data from banking companies listed on the Indonesia Stock Exchange for the 2015-2019 period and shows that company size can strengthen the relationship between audit quality and financial report integrity, but does not moderate the relationship between leverage and financial report integrity (Putra et al., 2022). The quality of financial reports can be influenced by company size. Because they have more information to disclose, larger companies tend to disclose more items in their financial statements. Small companies have the resources necessary to produce a limited number of products. As a result, larger companies will disclose more financial reports.

Firm Size Moderates the Effect of Return on Assets on the Integrity of Financial Reports

Based on the results of the interaction analysis of firm size and return on assets, it has a t-statistic of 3.979174 with a probability value of 0.0001 < 0.05, which means that firm size strengthens the influence of ROA on the integrity of financial reports. Thus H5 is accepted. It is likely that companies will increase monitoring of financial performance and reporting, resulting in more consistent and consistent financial reporting. The results of this research are supported by research found by Akram, et al., (2017) and Kurnianto, et al., (2019).

Firm Size Moderates the Effect of Financial Distress on the Integrity of Financial Reports. Based on the results of the interaction analysis of firm size and financial distress, it has a t-statistic of -2.682394 with a probability value of 0.0077 < 0.05, which means that firm size strengthens the influence of financial distress on the integrity of financial reports. Thus H6 is accepted. Research by Halim (2021) shows that financial distress has a negative influence on the integrity of financial reports. This study also found that company size has a positive effect on the integrity of financial statements. However, when company size interacts with financial distress, the negative effect of financial distress on the integrity of financial reports becomes stronger (Halim, 2021). Research by Ramadani and Ratmono (2023) found that company size can moderate the effect of financial distress on company performance. This study shows that larger companies experiencing financial distress tend to face greater pressure to manipulate their financial reports, because they try to attract investors by showing better performance than reality (Ramadani & Ratmono, 2023).

This is due to the fact that investors will not be interested in investing capital when the company has a high level of debt. Because it will encourage company management to manipulate financial reports. Because this will impact future losses, investors will consider whether the company has high debt.

4. CONCLUSION

The study above shows that company size does not result the influence of Good Corporate Governance on the integrity of financial reports; conversely, company measurements influence the influence of the audit committee on the integrity of financial report. Because company size influences the effect of Return on Assets on the integrity of financial reports, Return on Assets does not respect the integrity of financial reports. In addition, financial uncertainty as measured by the DER indicator does not threaten the credibility of financial reports, whereas stressful financial factors result the credibility of financial reports.

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