

# The Integrity Of Financial Statements: Firm Size, Independent Commissioners, And Auditor Industry Specializations

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**Abstract:** This research aims to determine the effects of firm size, independent commissioners, and auditor industry specialization on the integrity of financial statements. This research was conducted in the insurance sub-sector companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. This research uses a quantitative method by obtaining 50 sample data from 10 companies. The data in this research was analyzed using descriptive statistical analysis and panel data regression analysis using Eviews 10 software. From the result of this research, it is found that company size, independent commissioner, and auditor industry specialization simultaneously affect the integrity of the financial statements. Partially, firm size affects the integrity of the financial statements, while independent commissioners and auditor industry specialization do not affect the integrity of the financial statements. The result of this research can be used by the companies to increase the integrity of the financial statements by looking at the firm size that is related to companies' total assets as well as is additional information for further researchers who conduct relevant research.

**Keywords:** The Integrity of Financial Statements; Independent Commissioner; Auditor Industry Specialization; and Firm size.

**Abstrak:** Penelitian ini bertujuan untuk mengetahui pengaruh ukuran perusahaan, komisaris independen, dan spesialisasi industri auditor terhadap integritas laporan keuangan. Penelitian ini dilakukan pada perusahaan sub sektor asuransi yang terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2016 sampai 2020. Penelitian ini menggunakan metode kuantitatif dengan memperoleh 50 data sampel dari 10 perusahaan. Data pada penelitian ini dianalisis dengan menggunakan analisis statistik deskriptif dan analisis regresi data panel dengan menggunakan *software Eviews 10*. Dari hasil penelitian ini, ditemukan bahwa ukuran perusahaan, komisaris independen, dan spesialisasi industri auditor berpengaruh secara simultan terhadap integritas laporan keuangan. Secara parsial ukuran perusahaan berpengaruh terhadap integritas laporan keuangan. Sedangkan komisaris independen dan spesialisasi industri auditor tidak berpengaruh terhadap integritas laporan keuangan. Hasil penelitian ini dapat digunakan oleh perusahaan agar terus meningkatkan integritas laporan keuangan dengan melihat ukuran perusahaan yang berkaitan dengan total aset perusahaan serta menjadi tambahan informasi bagi peneliti selanjutnya yang melakukan penelitian relevan.

**Kata Kunci:** Integritas Laporan Keuangan; Komisaris Independen; Spesialisasi Industri Auditor; Ukuran Perusahaan.

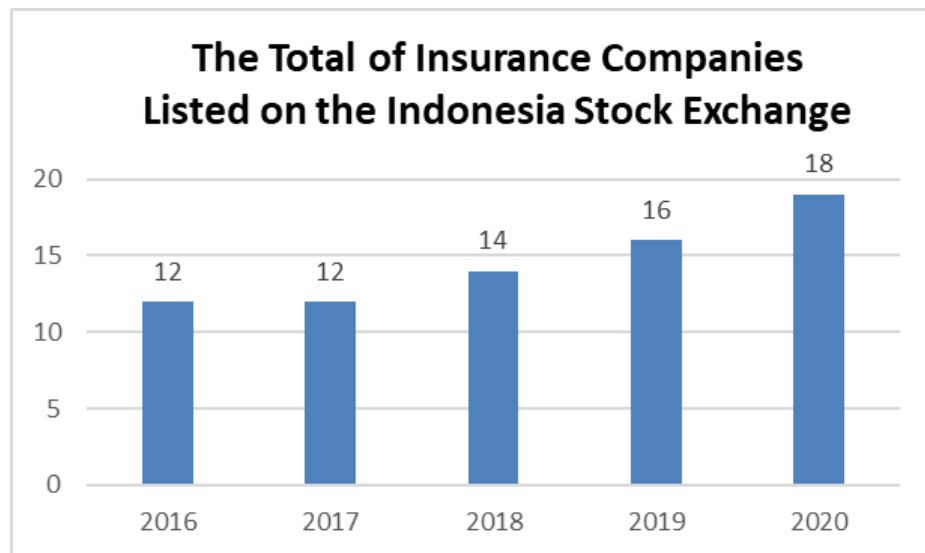
## INTRODUCTION

Various companies convey business targets to be achieved through information in financial statements so that the users of information can view and analyze the development of company performance based on financial statements (Qonitin and Yudowati, 2019). Every company is responsible for delivering financial statements to the related parties. The purpose of delivering financial statements is to provide information about the company's financial position, changes in financial position, and performance that is useful for many users to make decisions. The integrity of financial statements is financial statements that show the real company's condition so that it can show the real and accurate information



that can be used as a guideline because a real and honest display of financial statements will make users of information rely on the information, which can influence the decision making of users of information (Endi et al., 2017).

An insurance company is a company that has different features and characteristics from other businesses engaged in services because insurance bears the risk of other parties, and if not managed properly, the insurance company becomes riskier. An insurance company must be managed well and professionally because the general basis of insurance is public trust in the company's financial capabilities, especially to promptly meet insurance claims and other obligations. The insurance company's role is to collect incoming funds and put them to good use (Lestari, 2017).



**Figure 1.** The Growth of the Insurance Sub-Sectors in 2016-2020.

**Figure 1** shows that insurance companies' growth has increased yearly. In 2020, insurance companies were listed on the Indonesia Exchange Stock reached 18 companies. It indicates that with the advance in technology and the demand of the economy that keeps increasing, the level of public awareness of the importance of protecting against various risks in the future has also increased. The higher the level of public awareness involved in insurance services, it is expected that the company will continue to present financial statements under the actual situation without anything being hidden.

However, the application to realize the integrity of financial statements is still difficult because there are still some companies that do not disclose their financial statements unreasonably. Some of the cases that did not describe the integrity of financial statements that occurred in insurance companies are the case that befell Asabri Inc., which began in 2012 to 2019 in which the President Director, Director of Investment and Finance, and the Head of the Investment Division of Asabri had an agreement with parties who were not investment consultants or investment managers of Asabri Inc., namely Heru Hidayat, Benny Tjokrosaputro, and Lukman Purnomosidi. The agreement that occurred was to buy or exchange shares in Asabri's portfolio with shares of Heru Hidayat, Benny Tjokrosaputro, and Lukman Purnomosidi at prices that had been manipulated to be high.

This aims to show that the performance of Asabri's portfolio seems to reflect good conditions (Idris, 2021).

Another case related to the integrity of financial statements also occurred at Jiwasraya Insurance Inc., which became the community's spotlight in 2019. According to the record of BPK, since 2006, Jiwasraya has posted a false profit. The problem faced by Jiwasraya Inc. is very basic and is related to liquidity and solvency problems that have been going on for a long time. To solve the solvability problem, Jiwasraya emerged or manipulated financial statements through reinsurance and asset revaluation policies between 2008 and 2017. At the same time, to solve the liquidity problem, management released an investment insurance product with a guaranteed high-interest rate, which is very unfavorable for the company's future situation. The second problem is weak corporate governance. There are no portfolio guidelines governing maximum investments in high-risk assets. The third problem is the problem of liquidity pressure with Jiwasraya's savings product, which results in higher expenses and lower sales. The problem with Jiwasraya Insurance Inc. is believed to have resulted in the company's financial statements being unclear, violating the principle of prudence in investing (Makki, 2020).

The company's dishonesty in presenting the condition of the financial statements has an impact related to the decreasing level of trust of users of financial statements so that cases of data manipulation can involve the Chief Executive Officer (CEO), the board of commissioners, the audit committee, internal auditors, and external auditors. If one looks at the cases described above, the cases that occurred in the Asabri and Jiwasraya companies tend to pay less attention to the company's internal and external supervision. A large company with a large turnover due to increased sales will attract the attention of the public so that the company will be increasingly known by the public and attract investors. Asabri and Jiwasraya, which are large companies, do not reflect the high integrity of the financial statements. Instead, what they do is manipulate data to show that the company's financial condition is in good condition. This is inseparable from the lack of supervision from the independent board of commissioners, who are considered to be able to supervise and be responsible for management policies and provide input to the board of directors. In addition, specialist auditors who have more knowledge about a client entity play a role in creating the integrity of financial statements. Lack of specialization from the auditors can make the audited financial statements not produce good audit quality because specialist auditors with experience and mastering more understanding regarding client entities can make it easier for auditors to find errors or fraud.

Financial statements with integrity in the presentation are often related to the application of the precautionary principle (conservatism). According to (Lubis et al., 2019) conservatism focuses more on prudence in dealing with future uncertainties so that the information displayed in the financial statements is free from errors. Over time, accompanied by the convergence of IFRS, now the principle of conservatism has been replaced by the concept of prudence. Prudence in IFRS is that revenue recognition is allowed to be recognized even though it is still a possibility, but it still applies the precautionary principle in its recognition and meets the requirements for revenue recognition (Prayanthi and Pantow, 2018).

This research focuses on three variables that affect the integrity of financial statements: firm size, independent commissioner, and audit industry specialization. Firm size is the assessment to determine the size of the client's company that has a relationship with the company's finances. A big company can be trusted to solve financial difficulties



faced instead of a small company (Silalahi, 2021). Company size can describe the information contained in the company and the importance of this information for internal and external parties. The bigger the company, the higher the level of disclosure of the company's information (Santoso and Andarsari, 2022). Research conducted by (Damayanti and Triyanto, 2020) stated that firm size significantly and positively affects the integrity of financial statements.

According to (Qonitin and Yudowati, 2019), the independent commissioner is a commission member, not an employee or individual who has a direct relationship with the organization and does not represent shareholders. The purpose of the independent commissioner is to balance decision-making and ensure the effectiveness of the internal control system and the effect of the implementation of the duties of internal and external auditors. Independent commissioners are members of the board of commissioners who come from outside the company and meet the requirements to be appointed as independent commissioners. The effectiveness of independent commissioners can be seen from the supervisory function carried out and the high integrity of the financial reports produced (Indrasari et al., 2017). Based on the result of research conducted by (Savero et al., 2017), an independent commissioner significantly affects the integrity of financial reports.

Audit industry specialization is the skill and experience owned by an auditor regarding one's understanding of a client's industry. The higher the level of competence of the auditor in providing quality audit services, the more accurate the audit results will be, likewise with the experience of an auditor related to the client's industry. The more experience they have, the more auditors can identify the specific risks that exist in the client's industry, making it easier for the auditor to examine material errors, whether those occur due to errors or fraud (Oktaviani et al., 2021). The specialization of the auditor industry is the number of similar industry clients handled by KAP auditors during the year of observation. The presence of auditor industry specialization is expected to create better audit quality because the auditor has better insight into the client's business, thus enabling the auditor to find misstatements more easily (Sipahutar, 2017). Based on the research conducted by (Kartika and Nurhayati, 2018), audit industry specialization positively and significantly affects the integrity of financial statements.

Based on the explanation above, this research analyzes the effects of firm size, independent commissioners, and auditor industry specialization on the integrity of financial statements simultaneously and partially.

## **THEORETICAL REVIEW**

**Agency Theory.** According to (Ismail, 2018), agency theory is a contact relationship that occurs between the principal and the agent. Agency theory has a view of individuals who are motivated by their interests, causing a conflict of interest between the principal and agent. The relationship that occurs between the principal and agent will cause information imbalance (information asymmetry) because the agent is considered to have more information about the company than the principal. With information asymmetry, the agent cannot disclose some information so that the principal does not know it (Siahaan, 2017). The relationship that occurs between agency theory and the integrity of financial statements is the relationship that occurs between related parties, managers, and investors. Companies must be able to account for all costs and revenues available within the company. To achieve a good relationship between the company and the investor, the





manager implements the concept of conservatism in the presentation of financial statements with integrity. The manager is responsible for properly disclosing financial statement information so that investors can trust the information, so misunderstandings between managers and investors can be avoided (Indrasti, 2020).

**The Integrity of Financial Statements.** The integrity of financial statements explained by (Santia and Afriyenti, 2019) is financial statements that publish accurately and honestly by not hiding information about the company's condition, which can increase investors' confidence in the company. Financial statements with integrity are useful for users to rely on this information in making decisions. Disclosure of the integrity of financial statements is related to the concept of conservatism which later changed to the concept of prudence. Conservatism arises from the tendency of management to report net worth at the smallest value. Conservatism is an inherent precautionary response to corporate uncertainty to ensure that uncertainties and risks in the business scope are fully considered. Conservatism has now converged into prudence. Prudence refers to the principle of prudence in recognizing income or assets and expenses to minimize the company's profits and reduce the risk of uncertainty in the future. Applying prudence will help companies to create relatively small profits, and this can increase investor confidence because they are considered to have implemented prudence in reducing information imbalances in the company (Siahaan et al., 2018).

**Firm Size.** According to (Lestari, 2017) firm size is defined as one of the references used to assess the company's ability to dominate the market and earn profits calculated based on the total assets owned. The bigger the company, the more people pay attention, so it is easier for big companies to obtain funding sources. Larger company size makes public demand for disclosure of financial statement information to be greater because the larger the company is considered to be disclosing more information than companies that have a smaller size level.

**Independent Commissioner.** (Nurbaiti et al., 2021) Explained that an independent commissioner is a member from outside of the company chosen to assess the company's performance as a whole. With the presence of the independent commissioner in a company, it is expected that the decision made is more neutral because the independent commissioner is an external party of the company. Independent commissioners can make an effective contribution to the results of quality financial reports or are likely to avoid fraud; independent commissioners can also act as arbiters in internal manager disputes and also oversee management policies and provide advice to management.

**Auditor Industry Specialization.** Achieving integrity in financial statements requires the role of auditors who have expertise and specialization so that financial statements can be presented correctly and meet the characteristics of financial statements by generally accepted accounting standards. Auditor industry specialization is the skill and expertise owned by an auditor in the industry in doing audit service by attending training and having a broader knowledge about the entity and environment, including internal controlling systems in the client's industry. With skill, broader knowledge, and more experience, the auditor will work more effectively and efficiently to produce a good quality audit result which can create integrity in the financial statements (Syura, 2018). The more providing auditor services to companies, especially those with similar industries, the auditor's ability and knowledge of the client's industry will increase so that they can produce high-quality audits because auditors can audit financial statements carefully and can detect an error or fraud if it occurs in industry clients.



**Hypothesis Development.** Firm size holds an important role in presenting financial statements with high integrity. Big company size is claimed to be able to face the increasing demands from the shareholder to give good financial statements rather than a small company. Research conducted by (Damayanti and Triyanto, 2020) shows that firm size positively affects the integrity of financial statements.

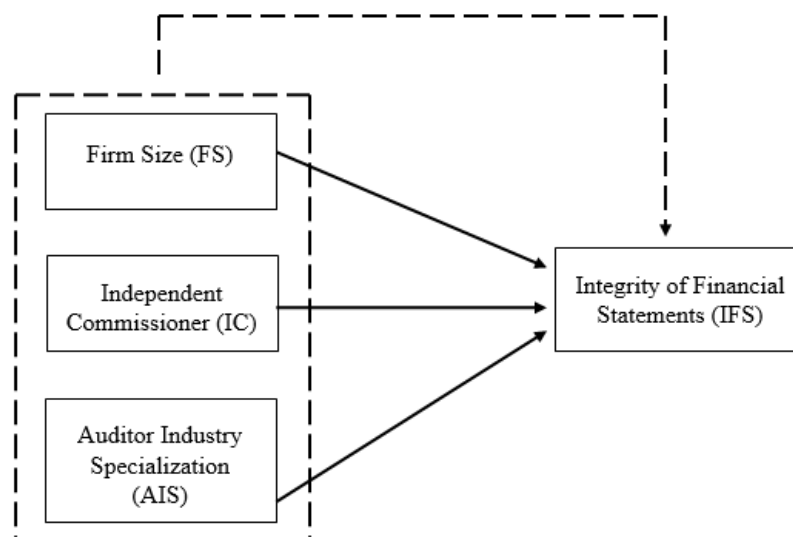
**H1:** Firm size affects the integrity of financial statements.

Independent commissioners who come from outside of the company have the function of assessing the company's overall performance, especially to protect minority shareholders and other related parties. It allows the independent commissioners within a company to mediate agency problems that may occur. Research conducted by (Syura, 2018) suggested that a relationship between independent commissioners on the integrity of financial statements has a positive influence.

**H2:** Independent commissioner affects the integrity of financial statements.

The auditor industry specialization requires not only formal education in accounting and auditing but also a deeper knowledge of the client's industry to identify errors in the presentation of financial statements that occur due to errors or fraud (Oktaviani et al., 2021). Research conducted by (Kartika and Nurhayati, 2018) shows a positive effect between auditor industry specializations on the integrity of financial statements.

**H3:** Auditor industry specialization affects the integrity of financial statements.



**Figure 2.** Research Model.

Note:

————> = Partial

-----> = Simultaneous

## METHODS

Based on the methods, qualitative research is used in this research to analyze data from a population or sample of the research. According to the research's involvement, this research is not only involving activities that commonly occur in the analyzed company; in other words, the analyzed scope is in line with the phenomena that occurred (minimal interface). The minimal interface is research that does not involve normal activities that occur in the analyzed company; in other words, the scope of the analysis is in accordance with the phenomena that occur. (Sekaran and Bougie, 2016). This research used secondary data in the form of annual statements published on the Indonesia Stock Exchange website and the company website.

To make it easier to understand the comprehension, measurement, and acquisition of data sources, operational definitions of the variables used in this study were carried out. **Table 1** shows the definition of each of the variables studied.

**Table 1.** Definitions of Variables Operational

Variable	Operational Definition	Indicator	Scale
<b>Independent Variables</b>			
Firm Size (FS)	Company size represents the size of economic activity in the companies that can be measured by the total sales or assets. (Nurbaiti et al., 2021).	Firm size = Ln (Total Assets) (Pertiwi, 2019)	Ratio
Independent Commissioner (IC)	An Independent Commissioner is a total of company boards that do not have close relationships with the company, directors, or shareholders and do not have business relationships so that they can act independently. (Sauqi et al, 2017 dalam (Sucitra et al., 2021).	IC = (Total Independent Commissioners) / (Total of Entire Commissioner Boards) (Yulinda et al., 2016)	Ratio
Auditor Industry Specialization (AIS)	Audit Industry Specialization aims to increase the ability to give audit services with high quality, resulting in a more accurate audit result. (Oktaviani et al., 2021)	$SPCL_{it} = (\sum \text{companies audited by PAF in an industry}) / (\sum \text{Companies in the industry}) \times 100 \text{ per cent}$ (Yulinda et al., 2016)  Dummy: Score 1 = audited greater than 15 per cent company Score 0 = audited less than 15 per cent company	Nominal

**Dependent Variables**

<p>The integrity of Financial Statements (IFS)</p>	<p>The integrity of Financial Statements can be seen based on how the information contained therein reflects the actual condition of the company or not (Nugraheni, 2021).</p>	<p>Ratio</p> $AC_{it} = NI_{it} - CFO_{it}$ <p>(Basuki and Siregar, 2019)</p>
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**Population and sample.** The population in this research is insurance sub-sector companies listed on the Indonesia Stock Exchange from 2016 to 2020 that regularly report financial and annual statements and are open to the public, as many as 18 companies. This research used purposive sampling for sample collection, which is the sampling technique using specific criteria. (Sugiyono, 2019). Based on the characteristics of the sample selection above, the number of companies that will be used as research samples is obtained, as presented in **Table 2**.

**Table 2.** Sample Collection Criteria

No	Criteria	Total
1	Insurance sub-sector companies listed on the Indonesia Stock Exchange from 2016 to 2020.	18
2	Insurance sub-sector companies listed on the Indonesia Stock Exchange did not consistently report annual reports from 2016 to 2020.	(5)
	Total sample	13
	The total sample for five years (13 x 5)	65

Based on the determined criteria, the total sample used in this research is as many as 65 samples consisting of 13 companies.

**Data analysis technique.** This research used descriptive statistical analysis measured using a ratio scale by looking at the maximum, minimum, average, and standard deviation values as well as the nominal scale grouped categorically.

**Panel data regression analysis.** This research was conducted in more than one company or can be called a cross-section, namely the insurance sub-sector companies listed on the Indonesia Stock Exchange (IDX) as many as 13 companies and in a time series of more than one year, which is 2016 to 2020. Panel data is a combination that occurs between cross-sectional data and time series data which aims to get better estimation results with an increase in the number of observations which implies an increase in degrees of freedom. The cross-section is data collected from observations of several objects without paying attention to time differences, while time series data is data obtained from an object with a certain time series (Nuryanto and Pambuko, 2018).

The panel data regression analysis equation model used in this study is as follows:

$$IFS = \alpha + \beta_1 FS_{it} + \beta_2 IC_{it} + \beta_3 AIS_{it} + e \dots \dots \dots (1)$$

Note:  
 IFS : Integrity of Financial Statements  
 α : Constant  
 β1-β3 : Regression coefficient of each independent variable





FSit : Firm Size  
ICit : Independent Commissioner  
AISit : Auditor Industry Specialization  
 $e$  : Error term

According to (Basuki and Pratowo, 2016), there are three approaches to the panel data regression model estimation method: Common Effect Model, the Fixed Effect Model, and Random Effect Model. The common effect model is the simplest approach to the panel data model by combining time series and cross-section data and not paying attention to time or individual dimensions. Ordinary Least Square (OLS) can be used in this model. The fixed Effect Model assumes that the differences between individuals can be accommodated from the difference in the intercept and uses the dummy variable technique to estimate the panel data in this model. The random Effect Model is the estimation of panel data where disturbance variables are likely to be interrelated between time and individuals. This model also has an advantage if used, which can eliminate heteroscedasticity. This model is often called the Error Component Model (ECM) or Generalized Least Square (GLS) technique.

Some tests can be done to implement the most appropriate model in the panel data. The tests were explained in (Nuryanto and Pambuko, 2018) as follows: The Chow Test is used in estimating panel data to determine the correct fixed effect or common effect model to use. The Hausman test is carried out if the chow-fixed effect model is accepted, and then it will be compared with the random effect model. The Lagrange Multiplier (LM) test was carried out to determine between the common effects model and the right random effect model to use.

Determination Coefficient Test ( $R^2$ ). The regression line can be said to be perfect if all the data is in the regression line, or in other words, all residual values are zero. The closer to 1, the better the regression line because it can explain the actual data. This means that the independent variable in this study can describe the dependent variable. Conversely, if it is close to zero, the regression line is said to be poor so that the independent variable is limited to explaining the dependent variable (Basuki and Pratowo, 2016).

Simultaneous Hypothesis Test (F Test). According to (Basuki and Pratowo, 2016), this test is used with the aim of testing and determining whether all independent variables simultaneously have a significant effect on the dependent variables. A simultaneous test was carried out by comparing the calculated F value with the F table at a degree of error of 5 per cent in a sense ( $\alpha$  equals 0.050). If the significance value is greater than 0.050, then the independent variables together affect the dependent variable. On the other hand, if the significance value is less than 0.050, the independent variables together do not affect the dependent variable.

Partial Hypothesis Test (T-Test). According to (Basuki and Pratowo, 2016), this test is used to determine the effect of each independent variable on dependent variables, whether meaningful or not. A partial test is done by comparing the t-value of each independent variable with the t-table value with a degree of error of 5 per cent in a sense ( $\alpha$  equals 0.050). If the significance value is greater than 0.050, then the independent variable affects the dependent variable. On the other hand, if the significance value is less than 0.050, the independent variable does not affect the dependent variable.



## RESULT

Outlier. Observation data is used in this research, as many as 65 were obtained from 13 samples of companies, and then after processing the observation data, there are some extreme data so that the results of the statistical test cannot be used as a basis for decision making. Thus, the outlier is done, and the researcher obtains the latest observation data as many as 50 from 10 samples of companies. Panel data is divided into 2, namely balanced panels and unbalanced panels. A balanced panel is a condition where the cross-section unit has the same number of time series observations, while the unbalanced panel has a different number of time series observations (Basuki and Prato, 2016). This study eliminates outlier data from one detected company because it refers to the results of balanced panels which are better to use than unbalanced panels or simply eliminating outlier data. Issuing observations is one way to balance the results of panel data.

**Descriptive Statistical Analysis.** The variables in this study consist of independent variables, namely company size, independent commissioners, and auditor industry specialization while the dependent variable in this study is the integrity of financial statements. Descriptive statistical analysis in this research is divided into two scales: ratio scale by using mean, minimum value, maximum value, and standard deviation, and nominal scale by using frequency and presentation.

**Descriptive Ratio-Scaled Statistics.** The research variables that use the ratio scale are company size, independent commissioners, and the integrity of financial statements, so the descriptive analysis of this variable will be explained using the average value, minimum value, maximum value, and standard deviation. The results of the ratio-scaled statistical analysis are presented in the following table.

**Table 3.** Results of the Ratio-Scaled Descriptive Statistics

	The integrity of Financial Statements (Expressed in millions of Rupiah)	Firm Size	Independent Commissioner
<b>Mean</b>	150.023	28.810	0.570
<b>Max</b>	1.203.693	34.074	0.750
<b>Min</b>	-109.055	26.178	0.333
<b>Std. Dev.</b>	272.374	2.161	0.114
<b>Observation</b>	50	50	50

**Table 3** shows that the results of the financial statement integrity variable have a mean value of 150.023 and a standard deviation of 272.374. It shows that the mean value is smaller than the standard deviation value, so it can be concluded that the variable of financial statement integrity varies or is spread out. The maximum value of integrity of financial statements is 1.203.693, owned by PT. Asuransi Tugu Pratama Indonesia Tbk. (TUGU) in 2016. The minimum value is -109.055, owned by PT. Asuransi Dayin Mitra Tbk. (ASDM) in 2020.

The firm size variable has a mean value of 28.810 and a standard deviation of 2.161. It shows that the mean value is greater than the standard deviation value, so it can be concluded that the firm size variable does not vary or is grouped. The maximum value



of firm size is 34.074, owned by PT. Asuransi Harta Aman Pratama Tbk. (AHAP) in 2018. The minimum value is 26.178, owned by PT. Victoria Insurance Tbk. (VINS) in 2016.

The independent commissioner variable has a mean value of 0.570 and a standard deviation of 0.114. It shows that the mean value is greater than the standard deviation value, so it can be concluded that the independent commissioner variable does not vary or is grouped. The maximum value of independent commissioner is 0.750, owned by PT. Asuransi Ramayana Tbk. (ASRM) in 2017, 2018, and 2019, PT. Asuransi Bina Dana Arta Tbk. (ABDA) in 2018, 2019, and 2020, and PT. Asuransi Harta Aman Pratama Tbk. (AHAP) in 2019 and 2020. The minimum value is 0.333, owned by PT. Asuransi Jasa Tania Tbk. (ASJT) in 2018 and PT. Victoria Insurance Tbk. (VINS) in 2020.

**Descriptive Nominal-Scaled Statistics.** The research variable that uses the nominal scale is auditor industry specialization, so a descriptive analysis of this variable will be explained using frequency and per centage. The results of the nominal scale statistical analysis are presented in the following table.

**Table 4.** The result of the Nominal-scaled Descriptive Statistics

Description	Frequency	Per cent
Non Spesialis (less than 15 per cent)	10	20
Spesialis (greater than 15 per cent)	40	80
<b>Total</b>	<b>50</b>	<b>100</b>

**Table 4** shows that the majority of insurance sub-sector companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020 were audited by auditors who specialize in related industries by 80 per cent with a frequency of 40 companies owned by PT. Asuransi Bina Dana Arta Tbk. (ABDA) in 2016-2020, PT. Asuransi Bintang Tbk. (ASBI) in 2016-2020, PT. Asuransi Dayin Mitra Tbk. (ASDM) in 2016-2020, PT. Asuransi Jasa Tania Tbk. (ASJT) in 2019 and 2020, PT. Asuransi Ramayana Tbk. (ASRM) in 2016-2020, PT. Lippo General Insurance Tbk. (LPGI) in 2016-2020, PT. Asuransi Tugu Pratama Indonesia Tbk. (TUGU) in 2016-2020, PT. Victoria Insurance Tbk. (VINS) in 2017-2019, and PT. Asuransi Jiwa Sinarmas MSIG Tbk. (LIFE) in 2016-2020. Companies that use specialist auditors have a high value of auditor industry specialization because they are audited by the same KAP, namely PKF, Mirawati Sensi Idris, and Purwantono and colleagues. While companies that are not audited by specialist auditors have a per centage of 20 per cent, as many as ten companies are owned by PT. Asuransi Harta Aman Pratama Tbk. (AHAP) in 2016-2020, PT. Asuransi Jasa Tania Tbk. (ASJT) in 2016-2018, and PT. Victoria Insurance Tbk. (VINS) in 2016 and 2020.

**Classical Assumption Test.** A classical assumption test is a test technique used to detect whether there are symptoms of multicollinearity and symptoms of heteroscedasticity or not. The multicollinearity test was carried out to know whether or not there was a correlation between the independent variables. A good regression model is that there is no correlation between the independent variables. The regression model that is free from multicollinearity is a model that has a correlation coefficient between independent variables below 0.800. In contrast, the regression model with multicollinearity has a correlation coefficient between the independent variables above 0.800. The results of the multicollinearity test in this study are as follows:

**Table 5.** The result of the Multicollinearity Test

	UP	KI	SIA
UP	1.000	-0.058	-0.341
KI	-0.058	1.000	0,015
SIA	-0.341	0.015	1.000

**Table 5** shows, the result of the multicollinearity test shows that the correlation coefficient between the independent variables is below 0.800, so is no data indicating the existence of multicollinearity symptoms in this study.

The heteroscedasticity test is a test carried out to determine whether there is an inequality of variance and residuals for all observations of the regression model. This study uses the white test method to detect symptoms of heteroscedasticity. The criteria used in the heteroscedasticity test are seen from the probability value above 0.050 to indicate that there are no symptoms of heteroscedasticity. Following are the results of the heteroscedasticity test using the white test method:

**Table 6.** The result of the Heteroscedasticity Test

F-statistic	1.314	Prob. F(3,46)	0.281
Obs*R-squared	3.947	Prob. Chi-Square(3)	0.267
Scaled explained SS	11.692	Prob. Chi-Square(3)	0.008

**Table 6** shows, the result of the heteroscedasticity test shows that the value of Prob. Chi-Square (Obs\*R-squared) is 0.267, indicating that the value is greater than 0.050, so there is no symptom of heteroscedasticity in this research.

**Panel data model selection.** The Chow test is conducted to determine the most appropriate fixed effect model or common effect model used in estimating panel data. If the probability value (Cross-section Chi-Square) is less than 0.050, then  $H_0$  is rejected, meaning that the model used is a fixed effect model. If the probability value (Cross-section Chi-Square) is greater than 0.050, then  $H_0$  is accepted, meaning that the model used is the common effect model. Following are the results of the chow test that has been carried out:

**Table 7.** The result of the Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.349	(9.370)	0.000
Cross-section Chi-square	41.674	9	0.000

**Table 7** shows that the probability result of the Chi-square Cross-section of 0.000 is less than 0.050. The result means that  $H_0$  is rejected, so the model chosen is the fixed effect model. Furthermore, to determine whether the fixed effect model or random effect model is right, the Hausman test is carried out.

The Hausman test is a test carried out to determine the most appropriate fixed effect model or random effect model. This test is carried out because the selected Chow test is a fixed effect model. If the probability value (Cross-section Chi-Square) is less than 0.050, then  $H_0$  is rejected, meaning that the model used is a fixed effect model. If the probability value (Cross-section Chi-Square) is greater than 0.050, then  $H_0$  is accepted, meaning that

the model used is a random effect model. The following are the results of the Hausman test that has been carried out:

**Table 8.** The result of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.190	3	0.017

**Table 8** shows that the probability result of Cross-section Chi-square is 0.017 is less than 0.050. The result means that  $H_0$  is rejected, so the model chosen is the fixed effect model. From these results, it can be concluded that the fixed effect model is the most appropriate model to be used in this research.

**Panel Data Regression Equation.** Based on the panel data model test that had been carried out, the results obtained indicate that the fixed effect model is the most appropriate regression model used in this research. Following are the results of the fixed effect model test that has been carried out:

**Table 9.** The result of the Fixed Effect Model Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	137.000	612.000	2.237	0.031
FS	-468.000	212.000	-2.202	0.033
IC	-753.000	281.000	-0.267	0.790
AIS	-211.000	116.000	-0.182	0.856

**Table 9** shows, the equation of the panel data regression model that is used to explain the effect of company size, independent commissioner, and auditor industry specialization on the integrity of financial statements in insurance sub-sector companies listed on the Indonesia Stock Exchange in 2016-2020 can be formulated as follows:

$$IFS = 137.000 - 468.000(FS) - 753.000(IC) - 211.000(AIS) \dots\dots\dots (2)$$

The explanation of the panel data regression equation above is that the constant value of 137.000 indicates a positive direction, meaning that if the variables of firm size, independent commissioner, and auditor industry specialization are zero, the amount of integrity of the financial statements carried out is 137.000. The regression coefficient of the firm size of -468.000 indicates a negative direction, meaning that if the company size variable increases per unit and other variables are constant, the integrity of the financial statements will decrease by 468.000. The independent commissioner's regression coefficient of -753.000 indicates a negative direction, meaning that if the independent commissioner's variable increases per unit and other variables are constant, the integrity of the financial statements will decrease by 753.000. The regression coefficient of auditor industry specialization of -211.000 indicates a negative direction, meaning that if the auditor's industry specialization variable increases per unit and other variables are constant, the integrity of financial statements will decrease by 211.000.





**Determination Coefficient ( $R^2$ ).** The determination coefficient in this research aims to determine the ability of an independent variable to explain the dependent variable. Following are the results of testing the coefficient of determination ( $R^2$ )

**Table 10.** The Result of the Determination Coefficient Test

R-squared	0.685
Adjusted R-squared	0.584
S.E. of regression	176.000
F-statistic	6.734
Prob(F-statistic)	0.000

**Table 10** shows produces an Adjusted R-squared value of 0.584 or (58.410 per cent). This value indicates that the variables of firm size, independent commissioner, and auditor industry specialization have an effect of 58.410 per cent on the integrity of financial statements, and other factors outside the research influence the remaining 41.59 per cent.

**Simultaneous Test (F Test).** The test is conducted to see the simultaneous effect between independent variables on dependent variables. If the probability value is less than 0.050, then  $H_0$  is rejected, and  $H_a$  is accepted, which means that the independent variable affects the dependent variable simultaneously. **Table 10** shows, the Prob value (F-statistic) shows a value of 0.000 or less than 0.050. This value shows that the variables of firm size, independent commissioner, and auditor industry specialization simultaneously affect the integrity of financial statements.

**Partial Test (T-Test).** The partial test is carried out to see the effect of each independent variable on the dependent variable. If the probability value is less than 0.050, then  $H_0$  is rejected, and  $H_a$  is accepted, which means that the independent variable affects the dependent variable. Based on table 9, the Prob value (t-Statistic) of the size of the company is 0.033. The value indicates that 0.033 is smaller than 0.050 with a coefficient of -468.000, so it can be concluded that  $H_{01}$  is rejected, which means that firm size partially affects the integrity of financial statements in a negative direction. Prob value (t-Statistic) of the independent commissioner is 0.790. The value indicates that 0.790 is greater than 0.050 with a coefficient of -753.000, so it can be concluded that  $H_{02}$  is accepted, which means that the independent commissioner partially does not affect the integrity of the financial statements. Prob value (t-Statistic) of auditor industry specialization is 0.856. The value indicates that 0.856 is greater than 0.050 with a coefficient of -211.000, so it can be concluded that  $H_{03}$  is accepted, which means that auditor industry specialization partially does not affect the integrity of financial statements.

## DISCUSSION

**The Effect of Firm Size on the Integrity of Financial Statements.** Based on the test result carried out, the firm size is partially affected by the integrity of financial statements. Thus, it can be said that the larger the size of the company, the more information related to financial statements is presented to external parties, and the company will get a lot of attention from the public. Companies also tend to be more careful in presenting financial statements by increasing supervision of financial performance and reporting. Thus, the integrity of financial statements will be better and more stable.

Meanwhile, small-scale companies tend to pay attention to the condition of the company so that it can run well to attract investors and still present financial reports with integrity. The result of this research is in line with other research conducted by (Lubis et al., 2019) and (Nurbaiti et al., 2021), which stated that firm size negatively affects the integrity of financial statements.

**The Effect of an Independent Commissioner on the Integrity of Financial Statements.** Based on the test result carried out, an independent commissioner partially does not affect the integrity of financial statements. Thus, it can be said that a higher level of independent commissioners in a company does not guarantee the integrity of a financial report. It is because the board of commissioners who come from outside the company tends to have diverse expertise and experience, which allows the ability of the board of commissioners to supervise corporate governance to weaken due to communication, coordination, and decision-making problems. In addition, independent commissioners have the duties and functions to supervise management policies and the course of management and provide advice to the board of directors. Thus, when viewed from the side of the duties and functions of the independent commissioner, it does not directly affect the part in measuring the integrity of a financial report. This research is in line with other research conducted by (Indrasti, 2020) and (Damayanti and Triyanto, 2020), which stated that the independent commissioner does not affect the integrity of the financial statements.

**The Effect of Auditor Industry Specialization on the Integrity of Financial Statements.** Based on the test result carried out, auditor industry specialization partially does not affect the integrity of financial statements. Thus, it can be said that the companies that use the services of specialist auditors with more skills and knowledge related to the client's industry do not guarantee to create good financial reports; instead, they tend to reduce the integrity of financial statements. This could be because if the company often uses the services of a specialist auditor, which makes the auditor better understand the industry, it makes the auditor commit fraud when auditing by not reporting the findings of the violation. This research is in line with other research conducted by (Ramadani and Triyanto, 2020) and (Tussiana and Lastanti, 2018) which stated that the auditor industry specialization does not affect the integrity of financial statements.

## CONCLUSION

Based on the result and discussion of this research, then it can be concluded that variables of company size, independent commissioner, and auditor industry specialization simultaneously affect the integrity of financial statements with a coefficient determination of 0.584 or (58.410 per cent). Partially, company size has effects on the integrity of financial statements, while other independent variables, independent commissioner and auditor industry specialization, do not affect the integrity of financial statements.

Suggestions for the next researchers are expected to add information related to the integrity of financial statements, and also to add independent variables other than company size, independent commissioner, and auditor industry specialization, as well as conduct research with objects other than insurance sub-sector companies listed on the Indonesia Stock Exchange.

For the companies, this research is expected to be a consideration for companies in the insurance sub-sector to continue to improve the integrity of financial statements by looking at the size of the company related to the company's total assets by the results of



this research because external parties such as the public or stakeholders observe the company's performance. Therefore, financial statements must be presented with high integrity. As for auditors, this research is expected to make auditors pay more attention to the size of the client's company in examining financial statements to produce good financial statements.

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