The Influence of Reputation of Public Accounting Firms on the Integrity of Financial Statements with Corporate Governance as the Moderating Variable

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ABSTRACT

This research aimed to determine the effect of the reputation of the public accounting firm on the integrity of financial statements by including leverage and firm size as the control variables. This research also investigated the effects of corporate governance moderation that was proxied by the independent commissioner, institutional ownership, and audit committee in strengthening or weakening the reputation of the public accounting firms on the integrity of the financial statements. The population was manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2013-2015. The sample utilized the purposive sampling method and resulted in 34 manufacturing firms, so the total observations were 102 firms in all observed years. This research performed statistical data processing with EVIEWS 8. There are two main findings of this research. First, the reputation of public accounting firm affects the integrity of the financial statement. Second, corporate governance that utilizes the independent commissioners and institutional ownership strengthen the effect of the reputation of the public accounting firm on the integrity of the financial statement. However, corporate governance using audit committee weakens the reputation of the public accounting firm on the integrity of financial statements.

Keywords: public accounting firm reputation, financial statement integrity, corporate governance

INTRODUCTION

During the current administration, Indonesia actively makes improvements in infrastructure development to support the government’s program. This also boosts the investment world. Through the Ministry of Industry, the government tries to increase investment in the manufacturing industry. The manufacturing industry is a sector with a very important role in national development and the driving force in the national economy. The media industry in 2013 presented in quarter III stated that the manufacturing sector still experienced growth in the mid of slowing growth of the national economy due to the global crisis. In that period, large and medium-sized manufacturing sector experienced a growth of 6.83% compared to the same period in the previous year. The small and micro manufacturing sector also experienced growth of 4.86% (Biro Pusat Statistik, 2013).

Some of the phenomena about fraud in the financial statements happen to Enron, American International Group Inc., WorldCom, Tyco International, and Adelphia in America; BBCI and Maxall in the United Kingdom; and Satyam (Enron-Asian). The motive is to attract investors so the company can still exist (Farrell, 2015). In Indonesia, the fraud is done by state-owned enterprises such as PT Kimia Farma Tbk and PT Kereta Api Indonesia. Those manipulate financial statements by inflating the profits (Hernawan, 2013). In mid-2015, the fraud was found back in the financial statements or known as Toshiba scandal (Du, 2015). Toshiba was suspected to enlarge the advantage until US$1.2 Billion over five years. Since
the start of the scandal around April 2015, Toshiba had experienced the decline about 20%.

The dependent variable used is the integrity of the financial statements. It, describes the extent to which the information in the financial statements are presented honestly and correctly and meet the qualitative characteristics of financial statements. Therefore, the financial statements should be audited by the auditor of the company and have strong competence and independence. This is necessary to assure that the financial statements are free of wrong material and integrity.

The integrity of the financial statements is measured by a conservative accounting used by Reyad (2012), Wistawan, Subroto, and Ghofar (2015), and Fajaryani (2015). The higher the market value than book value is, the higher levels of the conservatism of the company will be (Machdar, DRM, & Murwaningsari, 2017). The integrity of the financial statements is also measured by dividing market value of shares to book value of shares (Reyad, 2012).

The independent variable used in this research is the reputation of accounting public firm. The reputation of a proper accounting public firm is expected to increase the trust of users of the financial statements upon the integrity of the financial statements. The reputation of this public accounting firm is distinguished into two. There are four big accounting public firms and the non-big four accounting public firms. The reputation of public accounting firms is measured using dummy variables. Number 1 is provided if the company’s financial statements are audited by a public accounting firm that is a member of the big four firms. Then, it is 0 if the company’s financial statements are audited by a public accounting firm that is not a member of the big four firms (Fajaryani, 2015).

The moderating variable used in this research is corporate governance. It is measured by independent commissioners, institutional ownership, and audit committee. The independent commissioners are the member of the board of commissioner. They monitor and assess the performance of the company more extensively and comprehensively (Putra & Muid, 2012). At the same time, the independent commissioners are expected to connect the information asymmetry that occurs between the stakeholders and the management in the company. A measurement of the independent commissioners is by comparing the number of independent commissioners with the total number of the Board of Commissioners in the company (Nicolin & Sabeni, 2013).

Moreover, institutional ownership is ownership by institutions or other institutions from outside of the company. Institutional investors are one of the mechanisms of supervision. They are expected to supervise effectively and encourage more focus on management to improve the company’s performance (Fajaryani, 2015). The measurement of institutional ownership is by comparing the number of shares owned by an institution with the number of shares outstanding (Fajaryani, 2015).

Then, the audit committee is a committee established by the Board of Commissioners to assist in surveillance against Board of Directors or management of the company. It also ensures that the company is managed well without breaking the rules that can be detrimental to the various parties. Measurement of the audit committee is done by counting the number of the members of the audit committee (Gayatri & Suputra, 2013).

The control variables consist of leverage and firm size. Leverage is a ratio used to measure the extent of the company’s assets. It is financed by debt. The higher the level of leverage causes the investors to demand a higher return over the risks it faces. It is feared to trigger the management in the company to change the financial statements. Leverage is measured by comparing the total liabilities and total asset (Hillier et al., 2013).

Firm size is the big or small company by looking at sales and total assets presented in the financial statements at the end of the period (Wahyuningsih & Mahdar, 2018). The larger the firm size is, the higher the demands against information disclosure will be. The larger company has high integrity compared to the smaller company. The firm size is calculated by using the logarithm of the total assets (Saksakotama & Cahyonowati, 2014).

In Indonesia, the research about the effect of the reputation of the public accounting firms and corporate governance on the integrity of the financial statements has been done. For example, there are Savitri (2016), Alabede (2016), Qoyyimah, Kholmi, and Harventy (2017), Fajaryani (2015), Saksakotama and Cahyonowati (2014), Gayatri and Suputra (2013), Nicolin and Sabeni (2013), and Putra and Muid (2012). Nevertheless, previous researches give different results.

Savitri (2016) used companies listed on the Indonesia Stock Exchange (IDX) as a sample. The researcher found that the independency had a full moderating influenced in institutional ownership, independent commissioners, and quality of public accounting firm on the integrity of financial statements. However, independency did not have a moderating role on managerial ownership and audit committee on the integrity of financial statements.

Alabede (2016) suggested that the proportion of outside directors, the size of the board, the board of diversity had a positive effect on operating performance of the UK FTSE 350 firms. Moreover, the board of diversity strengthened the effect of director on the operating performance. It also had a positive effect on the size of the board and the operating performance.

Qoyyimah, Kholmi, and Harventy (2017) examined 14 state-owned companies listed in IDX. They proved that the corporate governance structure proxied by Badan Pengawasan Keuangan dan Pembangunan (BPKP) - Indonesia’s National Government Internal Auditor did not affect the integrity of the financial statements. The audit tenure did not affect the integrity of the financial statements.
Then, the size of the public accounting firm had no statistically significant effect on the integrity of the financial statements.

Fajaryani (2015) investigated the extracting firms listed on IDX and showed that institutional ownership had a positive effect on the integrity of financial statements. However, managerial ownership did not affect the integrity of financial statements. Then, auditor industry specialization affected the integrity of financial statements.

Saksakotama and Cahyonowati (2014) confirmed that the reputation of public accounting firm had a positive effect on the integrity of the financial statements. Moreover, independent commissioners and audit committee had a positive effect on the integrity of financial statement. Meanwhile, managerial ownership, institutional ownership, audit tenure and auditor industry specialization did not affect the integrity of financial statement. The sample of this research was Indonesian manufacturing companies listed on IDX.

Using Indonesian manufacturing companies listed on IDX, Gayatri and Suputra (2013) said that the quality of auditors had a positive effect on the integrity of the financial statements. Furthermore, corporate governance mechanism, independent directors, and audit committees affected the integrity of financial statements positively. However, institutional ownership did not affect the integrity of financial statements.

Putra and Muid (2012) used 40 manufacturing companies listed on the Stock Exchange and indicated that institutional ownership and independent audit committee did not affect the integrity of financial statements. However, managerial ownership, independent commissioner, the size of the public accounting firm, firm size, and auditor tenure affected the integrity of financial statements.

The previous researchers sought to find the influence of the reputation of public accounting firm and corporate governance on the integrity of the financial statements. However, to the best of the knowledge, there is a little research directly examine the role of corporate governance as the moderating variable. Based on the evidence of the occurrence of a financial scandal involving the public accountant’s “big four”, it causes some researchers to define governance from the perspective of corporate affairs. The phenomenon of scandalous fraud committed by many large-scale companies encourages researchers to conduct research, but the results are inconsistent.

Subramanyam (2014) explained that external auditors were important mechanisms to help the quality and reliability of financial statements. Then, Lennox (2000) stated that reputation theory predicted a positive relationship between firm size and audit quality. Similarly, Putra and Muid (2012) and Saksakotama and Cahyonowati (2014) proved that the quality of auditors affected the integrity of financial statements positively. The argument underlying this research is that the financial statements should be audited by auditors from outside the company having strong competence and independence. This is necessary to provide assurance that the financial statements are free of misstatement and have integrity. Based on the explanation, the first hypothesis (H1) proposed is the reputation of public accounting firm affects the integrity of financial statements positively.

Independent commissioners must have strong integrity and independence, so their supervisory duties can be run effectively and efficiently. This is in line with findings by Gayatri and Suputra (2013), Nicolin and Sabeni (2013), and Saksakotama and Cahyonowati (2014). They agreed that independent commissioners influenced the integrity of the financial statements positively. Moreover, institutional ownership is expected to reduce the management to commit fraud and ignore the interests of outsiders (Alabede, 2016). This is in line with findings by Fajaryani (2015) that institutional ownership affected the integrity of financial statements positively.

Similarly, the existence of an audit committee is one way to reduce and prevent management to conduct fraud in the financial statements. This is in line with findings by Putra and Muid (2012) that audit committees had a positive effect on the integrity of financial statements. Based on the explanation, the second hypothesis (H2) is corporate governance as measured by independent commissioners, institutional ownership, and audit committees strengthens the reputation of public accountant firm on the integrity of financial statements.

This research tries to fill that gap and add the existing literature by investigating the influence of the reputation of public accounting firm on the integrity of the financial statements. This research also investigates the role of corporate governance as a moderating variable to strengthen or weaken the influence of the reputation of public accounting firm on the integrity of the financial statements. As shown by Johnson, Boone, Breach, and Friedman (2000), the poor quality of corporate governance within a country negatively impacted the capital markets and the exchange rate of the currency of the country.

There are two research questions. (1) Does the reputation of public accounting firm influence the integrity of the financial statements? (2) Does corporate governance as a moderating variable strengthen or weaken the influence of the reputation of public accounting firm on the integrity of the financial statements?

This research is essential for several reasons. First, this provides insights regarding the field of the reputation of public accounting firm and the role of corporate governance as a moderating variable. Second, the empirical results of previous researches that examine the information on the reputation of public accounting firm and the integrity of the financial statements are mixed and inconclusive.

This research also provides a broad overview. First, it is the impact of the reputation of public accounting firms on the integrity of the financial statements. Second, it is the role of corporate governance
as a moderating variable to strengthen or weaken the impact of the reputation of public accounting firm on the integrity of the financial statements.

Then, this research contributes to the companies in the implementation of corporate governance as the fulfillment of the regulation only so companies can improve the integrity of financial statements. The role of regulators is also needed for monitoring financial reporting by limiting the flexibility of accounting policies. It can narrow the opportunity for management so the integrity of financial statements can be maintained.

METHODS

The data used in this research are secondary data. Those are the annual report and audited financial report in all the manufacturing companies listed on the IDX with a period of observation in 2013-2015. The population in this research is the manufacturing companies listed in the IDX period 2013-2015.

In this research, samples are selected by using purposive sampling with several criteria. First, the manufacturing companies are listed on IDX from 2013 to 2015. Second, the companies publish financial statements and audited annual report with the fiscal year on 31st December at the latest on April 30th after the fiscal year in the IDX. Third, manufacturing companies use Rp in the financial statements. Fourth, manufacturing companies have not experienced a capital deficiency for the period of 2013-2015. This is to avoid using variables so that the value of equity is not biased. Fifth, the manufacturing companies do not experience a loss from 2013 to 2015. From these criteria, the total sample consists of 34 companies with 102 firm in all observed years. The data are obtained from the OSIRIS database, Indonesian Capital Market Directory (ICMD), and IDX websites (www.idx.co.id).

Statistical methods are used to test the hypothesis in this research. The researchers use Moderated Regression Analysis (MRA). Moreover, this research adopts software of EVIEW 8.0 by Ghozali and Ratmono (2013) to do the estimation. It aims to test whether there is the influence of independent variables on more than one dependent variable. EVIEW 8.0 has an advantage over SPSS for testing and correcting classical assumptions. In addition, the program has an advantage in panel data analysis (Ghozali & Ratmono, 2013). Then, this research uses the pure moderator. The moderator variable does not function as the independent variables. To test the hypothesis, the regression equation uses the formula as follows.

\[
\ln(y) = \beta + \beta_1 \text{RKAP}_i + \beta_2 \text{LEV}_i + \beta_3 \text{SIZE}_i + \beta_4 \text{RKAP}_i \times \text{KIND}_i + \beta_5 \text{RKAP}_i \times \text{KINS}_i + \beta_6 \text{RKAP}_i \times \text{LogAUDC}_i + \beta_7 \text{LEV}_i \times \text{KIND}_i + \beta_8 \text{LEV}_i \times \text{KINS}_i + \beta_9 \text{LEV}_i \times \text{LogAUDC}_i + \beta_10 \text{SIZE}_i \times \text{KIND}_i + \beta_11 \text{SIZE}_i \times \text{KINS}_i + \beta_12 \text{SIZE}_i \times \text{LogAUDC}_i + \epsilon_i
\]

Description:

- \(\text{INLK}_i\): The integrity of company financial statements in period of \(t\)
- \(\beta\): Constant
- \(\beta_1 - \beta_{12}\): Coefficients regression
- \(\text{RKAP}_i\): The reputation of public accounting firm in period of \(t\)
- \(\text{LEV}_i\): Leverage the company in period of \(t\)
- \(\text{SIZE}_i\): Firm size in period of \(t\)
- \(\text{KIND}_i\): Independent commissioner of the company in period of \(t\)
- \(\text{KINS}_i\): Institutional ownership of company in period of \(t\)
- \(\text{LogAUDC}_i\): The audit committee of the company in period of \(t\)
- \(\epsilon_i\): The standard error of the company in period of \(t\)

RESULTS AND DISCUSSIONS

Descriptive statistics in Table 1 regarding the present variables are used in this research. The integrity of financial statements has an outlier. This research treats outlier data by winsorizing data. It replaces the extreme high and low number with the next highest and next lowest number (Bacon, 2012). The integrity of financial statements has higher value of standard deviation than the average value. This indicates that the integrity of company financial statements in the sample has positive values and the existence of a reasonably high variation.

Moreover, reputation of public accounting firm has higher average value compared to the value of standard deviation. This means that the reputation of public accounting firm in most samples is not reliable. Meanwhile, leverage and firm size have a significant distinction for average value compared to the value of the standard deviation. It shows that the leverage and the firm size of the sample are worth.

This research tests a classic assumption test covering multicollinearity, heteroscedasticity, and autocorrelation. Multicollinearity reflects the existence of a linear relationship between the independent variables in multiple regressions. Multicollinearity test results can be seen in Table 2. Based on the results of the correlation matrix output, there is no correlation between independent variables that are higher than 0.90. Thus, it can be concluded there is no multicollinearity between independent variables.

Heteroscedasticity or also known as unequal variance tests whether there is an interruption/error or not (Ghozali, 2013). Based on Figure 1, the points are spread randomly. It spreads on the top or below 0 on the Y-axis. It can be inferred that the regression model of heteroscedasticity does not occur. Thus, the decent regression model is used in this research.

Normality test is done with statistical tests of nonparametric Kolmogorov Smirnov (K-S). The results of the normality can be seen in Table 3.
The statistic test results have a value of 0.074 with the significance of 0.192. This suggests that the significance of value is higher than 0.05 (Asymp. Sig > 0.05). It can be concluded that the residual data in this research is normally distributed.

Autocorrelation is the correlation between the variables observed (Widarjono, 2010). To test the presence of autocorrelation, the researchers use Durbin-Watson (DW) test. The numbers required are dL, dU, 4-4, and dL-dU. If the value of the DW approaches 2 or is between dU and 4-dU, there is no autocorrelation. Meanwhile, if it approaches 0, it means positive. If it approaches 4, it is negative autocorrelation. Moreover, if the number of DW is located between dL and dU, it means there is no positive autocorrelation and no decision area or zone of indecision.

Similarly, if the number is between 4 DW-dU and dL-4, it is in the area a no-negative correlation and alleged no-decision area or zone of indecision. If the number is located on DW or zone of indecision, the researchers should verify whether DW is auto or non-autocorrelation. Autocorrelation test results can be seen in Table 4. Moreover, the result of the DW statistic is 0.7284. DW numbers are between dU and dU-4. Thus, it can be said that there is no autocorrelation.

Coefficients determination of test results and significance of simultaneous test (F statistic test) can be seen in Table 4. Based on Table 4, the value of adjusted R square is 0.4585 or 45.85%. This indicates that variables the reputation of public accounting firm, leverage, firm size, the independent commissioner, institutional holdings, and the audit committee are only able to explain 45.85% of the integrity of the financial statements. This indicates the presence of other variables about 54.15% which can explain the integrity of financial statements is not included in the regression model in this research.

Table 1 Descriptive of Statistics

<table>
<thead>
<tr>
<th></th>
<th>INLK</th>
<th>RKAP</th>
<th>LEV</th>
<th>SIZE</th>
<th>KIND</th>
<th>KINS</th>
<th>LOGAUDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>4.731</td>
<td>0.529</td>
<td>0.353</td>
<td>28.803</td>
<td>0.404</td>
<td>0.686</td>
<td>0.502</td>
</tr>
<tr>
<td>Median</td>
<td>2.505</td>
<td>1.000</td>
<td>0.340</td>
<td>28.660</td>
<td>0.330</td>
<td>0.755</td>
<td>0.477</td>
</tr>
<tr>
<td>Maximum</td>
<td>58.480</td>
<td>1.000</td>
<td>0.880</td>
<td>33.130</td>
<td>0.800</td>
<td>0.980</td>
<td>0.699</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.320</td>
<td>0.000</td>
<td>0.070</td>
<td>25.630</td>
<td>0.250</td>
<td>0.000</td>
<td>0.477</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>9.120</td>
<td>0.502</td>
<td>0.176</td>
<td>1.767</td>
<td>0.119</td>
<td>0.241</td>
<td>0.058</td>
</tr>
<tr>
<td>Skewness</td>
<td>4.628</td>
<td>-0.118</td>
<td>0.565</td>
<td>0.332</td>
<td>1.730</td>
<td>-1.381</td>
<td>2.187</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>24.895</td>
<td>1.014</td>
<td>3.096</td>
<td>2.380</td>
<td>5.546</td>
<td>4.712</td>
<td>6.609</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>2.401</td>
<td>17.001</td>
<td>5.459</td>
<td>3.504</td>
<td>78.421</td>
<td>44.874</td>
<td>136.652</td>
</tr>
<tr>
<td>Probability</td>
<td>0.000</td>
<td>0.000</td>
<td>0.065</td>
<td>0.173</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Sum</td>
<td>482.540</td>
<td>54.000</td>
<td>36.000</td>
<td>2.937.940</td>
<td>41.210</td>
<td>69.960</td>
<td>51.178</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>8.400.177</td>
<td>25.412</td>
<td>3.139</td>
<td>315.222</td>
<td>1,440</td>
<td>5,846</td>
<td>0.338</td>
</tr>
<tr>
<td>Observations</td>
<td>102</td>
<td>102</td>
<td>102</td>
<td>102</td>
<td>102</td>
<td>102</td>
<td>102</td>
</tr>
</tbody>
</table>

(Source: Data processed using EVIEWS 8 by researchers)

Description: INLK= integrity of the financial statements, RKAP= reputation of public accounting firm, LEV= leverage, SIZE= firm size, KIND= independent commissioner, KINS= institutional ownership, and LogAUDC= audit committee.
Table 4 serves the F value of 13,4055 with a level of significance (0,000). This indicates that the regression model is used because it is less than the significance level 0,05. In other words, the reputation of the public accounting firm, firm size, leverage, institutional ownership, independent commissioner, and audit committee have a simultaneous effect on the integrity of the financial statements.

The researchers analyze the influence reputation of public accounting firms on the integrity of the financial statements. Individual parameters required in the significant test result (t-statistic test) can be seen in Table 5. The reputation of public accounting firms has t-statistics of 1,803155 (positive direction) with the highest significance of 0,0748. It means that the reputation of public accounting firms has a positive effect on the integrity of the financial statements. Based on these tests, H1 about the reputation of public accounting firms has a positive effect on the integrity of the financial statements is accepted. The results of this research are in line with Putra and Muid (2012), Saksakotama and Cahyonowati (2014), and Lennox (2000). They proved that the reputation of public accounting firms had a positive effect on the integrity of the financial statements.

Next, the researchers test the control variable on the integrity of the financial statement. Leverage has a value of the t-statistic of -1,574892 (expectations of positive direction) with the level of significance 0,1189. It shows that leverage does not affect the integrity of the financial statements. The results contradict Gayatri and Suputra (2013). They agreed that there was a positive effect of leverage on the integrity of the financial statements.

The firm size has a value of the t-statistic of -1,595101 (expectations of positive direction) with the level of significance 0,1143. It implies that the firm size does not affect the integrity of the financial statements. The results contradict Gayatri and Suputra (2013), Saksakotama and Cahyonowati (2014), and Fajaryani (2015). They suggested that firm size affected the integrity of the financial statements positively.

Based on these tests, then it can be inferred that the leverage and firm size do not affect the integrity of financial statements. Therefore, these variables cannot control the integrity of the financial statements and reputation of public accounting firms firm.

Figure 1 Heteroscedasticity Test

Tabel 3 Normality Test Result of Kolmogorov-Smirnov (K-S)

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>102</td>
</tr>
<tr>
<td>Normal Parameters</td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0,0000000</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>0,80175049</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td></td>
</tr>
<tr>
<td>Absolute</td>
<td>0,074</td>
</tr>
<tr>
<td>Positive</td>
<td>0,047</td>
</tr>
<tr>
<td>Negative</td>
<td>-0,074</td>
</tr>
<tr>
<td>Test Statistic</td>
<td>0,074</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>0,192</td>
</tr>
</tbody>
</table>

(Source: Data processed using EVIEWS 8 by researchers)
Dependent Variable: INLK  
Method: Panel Least Squares  
Date: 12/14/17  Time: 10:21  
Sample: 2013 - 2015  
Periods included: 3  
Cross-sections included: 34  
Total panel (balanced) observations: 102

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>4,484279</td>
<td>15,23125</td>
<td>0,294413</td>
<td>0,7691</td>
</tr>
<tr>
<td>RKAP</td>
<td>7,826867</td>
<td>4,435777</td>
<td>2,53101</td>
<td>0,0130</td>
</tr>
<tr>
<td>LEV</td>
<td>-0,249659</td>
<td>0,529138</td>
<td>-0,471822</td>
<td>0,6381</td>
</tr>
<tr>
<td>SIZE</td>
<td>40,39924</td>
<td>6,416828</td>
<td>6,295827</td>
<td>0,0000</td>
</tr>
<tr>
<td>KIND</td>
<td>-6,054607</td>
<td>3,402598</td>
<td>-1,779407</td>
<td>0,0784</td>
</tr>
<tr>
<td>KINS</td>
<td>-25,58265</td>
<td>13,40081</td>
<td>-1,909037</td>
<td>0,0593</td>
</tr>
<tr>
<td>LOGAUDC</td>
<td>0,458483</td>
<td>0,424281</td>
<td>6,919722</td>
<td>6,45734</td>
</tr>
<tr>
<td>R-squared</td>
<td>4,730784</td>
<td>9,119763</td>
<td>6,77287</td>
<td>6,845734</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0,458483</td>
<td>Mean dependent var</td>
<td>9,119763</td>
<td>Durbin-Watson stat</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>6,458482</td>
<td>S.D. dependent var</td>
<td>6,919722</td>
<td>Schwarz criterion</td>
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<tr>
<td>Sum squared resid</td>
<td>-338,4121</td>
<td>Akaike info criterion</td>
<td>6,3845734</td>
<td>Hannan-Quinn criter.</td>
</tr>
<tr>
<td>Log-likelihood</td>
<td>13,40549</td>
<td>F-statistic</td>
<td>0,0593</td>
<td></td>
</tr>
<tr>
<td>Prob. (F-statistic)</td>
<td>0,0593</td>
<td></td>
<td></td>
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</tbody>
</table>

(Source: Data processed using EVIEW 8 by researchers)

Description: INLK = integrity of the financial statements, RKAP = reputation of public accounting firm, LEV = leverage, SIZE = firm size, KIND = independent commissioner, KINS = institutional ownership, and LogAUDC = audit committee.

Then, the researchers analyze the corporate governance as a moderating variable to strengthen the effect of the reputation of public accounting firms on the integrity of the financial statements. From Table 5, it shows that the reputation of the public accounting firms and independent committee (RKAP*KIND) have t-statistics of 8,684429 (positive direction) with the value significance of 0,0000. It has a significance level of 1%. The independent committee as the proxy of corporate governance strengthens the influence of the reputation of public accounting firms on the integrity of the financial statements. It is in line with Gayatri and Suputra (2013), Nicolin and Sabeni (2013), and Saksakotama and Cahyonowati (2014). They indicated the positive effect of the independent commissioners on the integrity of the financial statements. The independent commissioners have strong integrity and independence. They are not easy to be influenced by the management and supervisory duties. Thus, they make the financial statements effectively and efficiently. Then, their oversight leads to high integrity of the financial statements and not to mislead the users in the decision-making process.

Moreover, the reputation of the public accounting firms and institutional ownership (RKAP*KINS) have t-statistics of 2,178189 (positive direction) with the highest significance 0,0321 (p ≤ 0,05). It is the significance level of 5%. It means that institutional ownership as a proxy of corporate governance strengthens the influence of the reputation of public accounting firms on the integrity of the financial statements. It is in line with Fajaryani (2015). The researcher stated that there was a positive effect of institutional ownership on the integrity of the financial statements. There is an argument of this result that the higher level of institutional ownership is, the more powerful control carried out by the institutional ownership to the company will be. Thus, the cost of the company can be diminished more, and the value of the company increases. It indicates that the integrity of the financial statements also gets better (Jensen & Meckling, 1976).
Then, the reputation of the public accounting firms and audit committee (RKAP*logAUDC) have t-statistics of -2.098783 (negative direction) with the highest significance of 0.0387. It is with the significance level of 5%. Statistically, the impact is not significant since the result is expected to be positive. It means that the audit committee weakens the influence of the reputation of public accounting firms on the integrity of the financial statements. The results of this research are not in line with Okpala (2012). According to Okpala (2012), there is a significant relationship between the audit committee and the integrity of the financial statements. It improves the quality of the good corporate governance and prevents the failure in the company.

Based on these tests, H2 regarding corporate governance strengthens the influence of the reputation of public accounting firms on the integrity of the financial statements is accepted. Corporate governance which is proxied by independent commissioners and institutional ownership strengthens the reputation of public accounting firms on the integrity of the financial statements. If the company has an independent commissioner and the institutional ownership, the financial statements presented by the management tends to be better. It is because, in a company, there are people that oversee and protect the rights of the parties outside the management of the company.

**Tabel 5 The Results of T-Statistic Test**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.980856</td>
<td>11.74635</td>
<td>0.16863</td>
<td>0.86650</td>
</tr>
</tbody>
</table>
| RKAP              | 194.50280   | 107.86800  | 1.80315     | 0.07480*)
| LEV               | -75.97648   | 48.24235   | -1.57489    | 0.11890|
| SIZE              | -6.573141   | 4.120831   | -1.59510    | 0.11430|
| RKAP_KIND         | 75.50662    | 8.694484   | 8.68442     | 0.00000***)
| RKAP_KINS         | 13.72967    | 6.303248   | 2.17818     | 0.03210**
| RKAP_LOGAUDC      | -480.97450  | 229.1683   | -2.09878    | 0.03870**
| LEV_KIND          | 62.57321    | 22.42289   | 2.79059     | 0.00650**
| LEV_KINS          | -5.997968   | 14.32947   | -0.41857    | 0.67660|
| LEV_LOGAUDC       | 114.3345    | 92.85691   | 1.23129     | 0.22150|
| SIZE_KIND         | -0.94955    | 0.412706   | 2.30081     | 0.02380**
| SIZE_KINS         | 0.09149     | 0.159762   | 0.57271     | 0.56830|
| SIZE_LOGAUDC      | 14.44829    | 8.15828    | 1.77099     | 0.08010 *)

**Effects Specification**

<table>
<thead>
<tr>
<th>Period fixed (dummy variables)</th>
<th>R-squared</th>
<th>Adjusted R-squared</th>
<th>S.E. of regression</th>
<th>Sum squared resid</th>
<th>Log likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.77764</td>
<td>0.74185</td>
<td>4.63353</td>
<td>1.867,85700</td>
<td>-293.01800</td>
</tr>
<tr>
<td></td>
<td>Mean dependent var</td>
<td>S.D. dependent var</td>
<td>Akaike info criteri</td>
<td>Schwarz criteri</td>
<td>Hannan-Quinn criter.</td>
</tr>
<tr>
<td></td>
<td>4,73078</td>
<td>9,11976</td>
<td>6.03956</td>
<td>6.42559</td>
<td>6.19588</td>
</tr>
<tr>
<td></td>
<td>F-statistic</td>
<td>Probi(F-statistic)</td>
<td>Durbin-Watson stat</td>
<td>1.02511</td>
<td>0.00000</td>
</tr>
</tbody>
</table>

(Source: Data processed using EVIWES 8 by researchers)

Description: INLK= integrity of the financial statements, RKAP= reputation of public accounting firm, LEV= leverage, SIZE= firm size, KIND= independent commissioner, KINS= institutional ownership, and LogAUDC= audit committee.* Significance level at 10%, **) Significance level at 5%, ***) the significance at the 1%.
CONCLUSIONS

Based on the analysis, there are two conclusions. First, the reputation of public accounting firm affects the integrity of the financial statements. Second, the corporate governance strengthens the influence of the reputation of public accounting firms on the integrity of the financial statements by using a proxy of the independent commissioners or institutional ownership. However, corporate governance that is proxied by the audit committee weakens the influence of the reputation of public accounting firms on the integrity of the financial statements.

As the implications, this research is expected to contribute regarding the implementing corporate governance. It is not merely as the fulfillment by the company. However, it can improve the integrity of the financial statements. The role of the regulator is also necessary for supervising financial statement by limiting the flexibility of accounting policy. It can narrow the management opportunities so that the integrity of the financial statements can be maintained.

This research has some limitations. First, this research only uses 34 manufacturing companies as the object of research. Further research can use mining companies, real estate and property company, financial services, and other kind of companies. Second, this research only uses period of observation research for three years (2013-2015). Further research may add research period and does not restrict to the reporting up to 30th April of the year after the financial statement. Thus, the company’s observation years are more. Third, an assessment of the independent commissioners and the audit committee is limited to the information contained in the annual report. Probably, many aspects of other assessment have been made. However, because the company does not disclose it in the annual report, the company considers it does not meet this aspect of the assessment.

For further research, the researchers may use another assessment score of Asian Corporate Governance Scorecards, press release, notice of shareholders meetings, board manual charter, code of conduct, corporate social responsibility report, and the entire publications or data done by the company. Fourth, this research only uses the audit committee as one of the variables of moderating. Further research may use external factors such as industry auditors, auditing specialization tenure, independence, and others. Fifth, the research only uses the liability structure size of leverage, so further research is recommended to use the Debt to Equity Ratio (DER), Long Term Debt Ratio (LTER), and others.

REFERENCES


