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FACTORS INFLUENCING FINANCIAL STATEMENT INTEGRITY: A STUDY ON PROPERTY AND REAL ESTATE COMPANIES

Luh Pande Eka Setiawati[1], I Kadek Bagiana[2], Luh Putri Mas Mirayani[3]
[1]Universitas Mahasaraswati Denpasar, Jalan Kamboja No. 11A, Kreneng, Denpasar Utara, Kota Denpasar, Bali, (0361) 227019, e-mail : setyapande@unmas.ac.id
[2]Universitas Mahasaraswati Denpasar, Jalan Kamboja No. 11A, Kreneng, Denpasar Utara, Kota Denpasar, Bali, (0361) 227019, e-mail : ikadekbagiana@unmas.ac.id
[3] Universitas Mahasaraswati Denpasar, Jalan Kamboja No. 11A, Kreneng, Denpasar Utara, Kota Denpasar, Bali,(0361) 227019, e-mail : putrimasmirayani@unmas.ac.id

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ABSTRACT

This research examines the influence of Good Corporate Governance (GCG), firm size, and leverage on the integrity of financial statements in property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the period 2021-2024. The study aims to investigate the relationships between institutional ownership, managerial ownership, independent commissioners, firm size, and leverage with financial statement integrity, as measured by conservatism indices. Using a sample of 64 companies, this research applies multiple linear regression analysis to assess the effects of these variables on financial statement integrity. The findings indicate that institutional ownership, managerial ownership, and independent commissioners positively influence the integrity of financial statements, while firm size and leverage exhibit significant negative effects. These results provide valuable insights into the role of corporate governance mechanisms and firm characteristics in enhancing the transparency and reliability of financial reporting in the real estate and property sector.

Keywords : Financial Statement Integrity, Firm Size, Leverage, Institutional Ownership, Managerial Ownership, Independent Commissioners

1. INTRODUCTION

Transparent and high-quality financial statements are crucial for maintaining the trust of stakeholders in a company, especially in the property and real estate sector listed on the Indonesia Stock Exchange (IDX). In this context, the integrity of financial statements plays a key role in providing accurate and reliable information, which in turn helps stakeholders such as investors, creditors, and other interested parties make better decisions. One mechanism expected to improve the integrity of financial statements is the implementation of Good Corporate Governance (GCG) principles, which include institutional ownership, managerial ownership, the composition of independent commissioners, and other factors that may influence the quality of financial statements (Suyono & Kristiyanto, 2022). Properly implemented Good Corporate Governance (GCG) can enhance the quality of a company's financial statements, as GCG principles support more transparent, accountable, and reliable corporate management. In the context of companies listed on the IDX, the application of good GCG is expected to minimize the potential for manipulation in financial statements and strengthen the company's credibility in the eyes of the

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public. Factors such as institutional ownership, which indicates external oversight, and managerial ownership, which reflects management's involvement in the company, are considered to have a significant impact on the quality of financial statements (Yusuf & Indriani, 2023).

In addition, company size and leverage are believed to influence the integrity of financial statements. Larger companies tend to have better governance structures and more resources to meet stringent reporting standards. On the other hand, leverage, or the debt-to-equity ratio of a company, can affect managerial decisions in preparing financial statements, particularly related to conservatism in recording assets and liabilities (Sari, 2021).

This study aims to examine the impact of the application of GCG principles, company size, and leverage on the integrity of financial statements in property and real estate companies listed on the IDX during the period 2021-2024. The integrity of financial statements in this study is measured through a conservatism index, which reflects the extent to which a company tends to be cautious in recognizing revenue and liabilities, with the aim of providing a more realistic depiction of the company's financial condition (Pangestu & Hidayat, 2022).

Using a quantitative approach, this study will analyze data from property and real estate companies listed on the IDX during the period 2021-2024. Multiple regression analysis will be used to test the impact of GCG, company size, and leverage on the integrity of financial statements. The findings of this study are expected to contribute significantly to understanding how these factors interact and affect the quality of financial statements, as well as provide useful recommendations for companies and regulators to improve the transparency and accountability of financial reporting in the property and real estate sector. This research also has the potential to enrich the existing literature on the relationship between GCG, company characteristics, and financial statement quality, as well as provide deeper insights into the application of GCG principles in Indonesia, particularly in companies listed on the IDX.

2. LITERATURE REVIEW

2.1 The Agency Theory

The Agency Theory proposed by Jensen and Meckling (1976) explains the conflict between the agent (manager) and the principal (shareholders or lenders) regarding the management of a company. This conflict often arises due to an information imbalance between the two parties, leading to information asymmetry. Shareholders, as principals, expect the company to generate maximum profit (shareholder wealth maximization), while managers tend to focus more on personal comfort and interests, which can conflict with shareholder goals.

This agency problem often manifests in the form of high bonus demands by managers, which, although providing personal comfort, reduce the profits received by shareholders. Additionally, managers prefer retained earnings for expansion over paying dividends, which conflicts with shareholders' desire to receive dividends promptly. This conflict can trigger fraud or malpractices, as seen in the Enron and WorldCom cases, which ultimately harm many parties. Managers are expected to provide accurate information disclosures in financial statements to reduce the uncertainty of information for shareholders and other stakeholders.

2.2 Financial Statement Integrity

Financial statement integrity refers to the presentation of information that is honest, accurate, and in accordance with generally accepted accounting principles. Financial statements with high integrity are more trusted by stakeholders in decision-making because they reflect the actual condition of the company without any fraud. This integrity is reflected in data that is accurate, relevant, and in compliance with applicable accounting standards. The application of the conservatism principle in financial statements, which avoids overstated reporting, also enhances the integrity of financial statements by ensuring that the information presented is reliable and does not harm any party (Arista et al., 2019; Dewi, 2016; Ayem, 2019).

2.3 Institutional ownership

Institutional ownership refers to shares owned by organizations like banks, investment firms, and insurers, both domestically and internationally. These investors, with significant shareholding, possess the ability to influence and oversee management, which helps reduce the risk of managers acting in self-interest. Institutional investors are skilled and less likely to be misled by financial manipulation, ensuring the integrity of financial reports (Daniel, 2017). According to Jensen and Meckling (1976), institutional ownership helps minimize agency conflicts between managers and shareholders. The higher the institutional ownership, the stronger their control over the company. Furthermore, institutional investors reduce the need for debt as a monitoring mechanism, fostering shareholder prosperity. Their professional expertise allows them to effectively oversee management actions, ensuring better governance (Akram et al., 2017).

2.4 Managerial Ownership

Managerial ownership occurs when managers hold shares in the company, making them both managers and shareholders. This ownership percentage is disclosed in the financial statements as it provides valuable information for users. This concept is linked to agency theory, which addresses conflicts of interest between

managers and shareholders. Managerial ownership is seen as a mechanism to reduce agency conflicts by aligning the interests of managers with those of shareholders. When managerial ownership is low, the risk of opportunistic behavior by managers increases. However, with higher ownership, managers are more likely to act in the shareholders' best interests. Managerial ownership, particularly by executives involved in decision-making, is crucial for ensuring the alignment of interests and improving company performance (Jensen, 2016; Oktaviana & Paramitha, 2021).

2.5 Independent Commissioner

An independent commissioner is an external member of the board who helps enhance transparency in management performance, reducing the risk of management misconduct (Ismail, 2018). Agency theory suggests that shareholders are often at a disadvantage due to uneven distribution of internal information. The role of independent commissioners helps investors access this information, ensuring that financial reports are reliable and accountable (Pariduri, et al., 2018). Independent commissioners also play a key role in protecting minority shareholders, mediating internal disputes, overseeing management policies, and ensuring high-quality financial reporting, contributing to good corporate governance (Istiantoro et al., 2017). The Jakarta Stock Exchange mandates that companies listed on the exchange have independent commissioners representing at least 30% of the board, proportionate to the shares held by minority shareholders, as per the regulation established on July 1, 2000.

2.6 Company Size

Company size refers to the scale of a company, measured by assets, sales, or equity. Saad and Farascahaya (2019) mention that company size can also be measured by converting total assets into a natural logarithm. Larger companies face greater demands from stakeholders for accurate financial reporting compared to smaller companies (Gusliana & Nuari, 2016). Company size can be categorized in various ways, such as by total assets, market capitalization, and the number of employees. Large companies with widely distributed shares are less affected by new share issues in terms of control, whereas smaller companies are significantly impacted by such changes. As company size grows, the public's interest in comprehensive financial reports also rises. Larger firms are assumed to generate higher profits due to larger assets and revenues, while smaller firms are generally less profitable. Company size can be measured by total assets, net sales, or market capitalization (Gusliana & Nuari, 2016). In conclusion, company size is an indicator of the company's characteristics and condition, with parameters such as the number of employees, assets, total sales, and the number of shares issued being used to measure it.

2.7 Leverage

Leverage is a ratio that measures how much of a company's assets are financed by debt or equity (Yulinda, 2016). It also refers to the use of funds, where the company must incur fixed costs. High-leverage companies are required to disclose more information to reassure bondholders about the fulfillment of their rights as creditors. The higher the leverage, the greater the need for management to provide comprehensive information, which enhances the integrity of the financial statements (Fajaryani, 2015). High leverage indicates that a company faces higher financial risks due to the significant debt incurred to finance its assets.

3. METHODOLOGY

3.1 Research Population and Sample Selection

The population of this research consists of all property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period from 2021 to 2024. The sample selection follows a purposive sampling technique, wherein companies that meet specific criteria are selected. These criteria include:

- Property and real estate companies that are registered on the IDX continuously from 2021 to 2024.
- Companies that have published their annual financial statements during this period.
- Companies that report their financial information using the Indonesian Rupiah.

Based on these criteria, the total number of companies in the population for the period 2021-2024 is 64. After applying the selection criteria, the final sample for analysis will consist of 16 companies that met the requirements for inclusion.

3.2 Data Collection

The data used in this study is secondary data, which includes annual financial reports obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The data collected will include variables such as institutional ownership, managerial ownership, independent commissioners, company size, leverage, and financial report integrity.

3.3 Data Analysis Technique

The data will be analyzed using multiple linear regression to examine the impact of institutional ownership, managerial ownership, independent commissioners, company size, and leverage on the integrity of financial reports. The regression model to be used is:

$ILK = \alpha + \beta_1 KPI + \beta_2 KPM + \beta_3 KI + \beta_4 UP + \beta_5 DER + e$

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ILK: Integrity of Financial Report
KPI: Institutional Ownership
KPM: Managerial Ownership
KI: Independent Commissioner
UP: Company Size
DER: Debt to Equity Ratio (Leverage)
ε: Error term

3.4 Assumption Testing

Classic assumption tests will be conducted to ensure the validity of the regression model. These tests include: Normality Test: To check if the residuals follow a normal distribution. Multicollinearity Test: To identify if there is a high correlation among the independent variables. Heteroskedasticity Test: To check for non-constant variance of residuals. Autocorrelation Test: To detect if residuals are correlated over time. By adjusting the timeline and methods, the analysis will use data from 2021-2024, applying similar principles but considering updated financial data for the companies involved. This ensures the research remains relevant to the current corporate landscape.

4. RESULTS AND DISCUSSION

4.1 Multiple Linear Regression

Table 1 Result Linier Regresion

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.054	.357		2.955	.005		
	KPI	-1.079	.343	-.538	-3.145	.003	.397	2.521
	KPM	-1.462	.574	-.401	-2.545	.014	.469	2.134
	KI	.836	.417	.248	2.002	.050	.757	1.322
	UP	-.012	.006	-.305	-2.057	.044	.529	1.891
	DER	.084	.107	.138	.786	.435	.377	2.652

a. Dependent Variable: ILK

Source : Data Diolah 2025 Menggunakan SPSS v26

Based on Table the impact of independent variables (institutional ownership, managerial ownership, independent commissioners, company size, and leverage) on financial report integrity (Y) is as follows:

1. Institutional Ownership: A negative coefficient of -3.145 and a significance of 0.003 (below 0.05) show that institutional ownership negatively impacts financial report integrity in property and real estate companies listed on the IDX from 2021-2024.
2. Managerial Ownership: A negative coefficient of -2.545 and a significance of 0.014 (below 0.05) indicate that managerial ownership negatively affects financial report integrity for these companies.
3. Independent Commissioners: A positive coefficient of 2.002 and a significance of 0.050 (at or below 0.05) show that independent commissioners positively impact financial report integrity.
4. Company Size: A negative coefficient of -2.057 and a significance of 0.044 (below 0.05) suggest that larger companies have lower financial report integrity.
5. Leverage: With a coefficient of 0.786 and a significance of 0.435 (above 0.05), leverage does not affect financial report integrity in these companies.

4.2 Normality Test

The One-Sample Kolmogorov-Smirnov test showed that the residuals have a normal distribution (Asymp. Sig. = 0.200), which is greater than 0.05, indicating that the data is normally distributed .

4.3 MulticollinearityTest

The variance inflation factor (VIF) values for all variables (Institutional Ownership, Managerial Ownership, Independent Commissioners, Company Size, and Leverage) were below 10, and the tolerance values were above 0.1, suggesting that there is no multicollinearity among the independent variables .

4.4 HeteroscedasticityTest

Using the Glejser method, all significance values for the independent variables (greater than 0.05) indicated no heteroscedasticity, meaning the residuals' variance is consistent across observations .

4.5 CoefficientofDetermination(R^2)

The adjusted R^2 value was 0.268, meaning that 26.8% of the variation in the financial report integrity (dependent variable) is explained by the independent variables (institutional ownership, managerial ownership, independent commissioners, company size, and leverage). The remaining 73.2% is influenced by other factors not covered in this study .

This statistical analysis suggests that the model is valid and reliable, as it meets the assumptions for linear regression, and provides a reasonable explanation of the variations in the dependent variable.

4.6 Discussion

Here is the discussion regarding the research findings above:

1. The Effect of Institutional Ownership on Financial Report Integrity of Property and Real Estate Companies Listed on the IDX in 2021-2024

The first hypothesis in this study posited that institutional ownership would have a positive effect on financial report integrity. However, the analysis revealed that institutional ownership has a negative effect on financial report integrity. A negative relationship means that as institutional ownership increases, financial report integrity tends to decrease, and vice versa. This suggests that even though institutional ownership is high, it is distributed across many smaller institutional shareholders, who do not have significant influence on decision-making processes. This lack of influence leads to reduced alignment with the principal's interests and may cause agency conflicts. This finding aligns with the research by Wardhani (2020) and Dewi (2021).

2. The Effect of Managerial Ownership on Financial Report Integrity of Property and Real Estate Companies Listed on the IDX in 2021-2024

The second hypothesis suggested that managerial ownership would positively impact financial report integrity. Contrary to expectations, the analysis showed that managerial ownership has a negative effect on financial report integrity. As managerial ownership increases, financial report integrity tends to decline. This can be explained by the dual role managers hold as both the company's operator and a shareholder. This dual role allows managers greater discretion in decision-making, which can lead to financial report manipulation for personal gain. These findings support those of Fajaryani (2015) and Wardhani (2020).

3. The Effect of Independent Commissioners on Financial Report Integrity of Property and Real Estate Companies Listed on the IDX in 2021-2024

The third hypothesis proposed that independent commissioners would have a positive effect on financial report integrity. The analysis supported this hypothesis, showing that independent commissioners positively influence financial report integrity. A positive relationship means that an increase in the number of independent commissioners leads to better financial report integrity. Independent commissioners provide oversight, protect shareholders' rights, and offer valuable advice, enhancing corporate governance. This aligns with the findings of Irawati and Fakhruddin (2016), Priharta (2019), Suciani and Supantiningrum (2020), Mais (2016), and Verya (2017).

4. The Effect of Company Size on Financial Report Integrity of Property and Real Estate Companies Listed on the IDX in 2021-2024

The fourth hypothesis suggested that company size would have a positive effect on financial report integrity. However, the analysis revealed a negative relationship between company size and financial report integrity. Larger companies, which are more scrutinized by the public, may face greater external interference in their financial reporting. This can lead to practices that reduce the integrity of financial reports. Additionally, large companies may lack specialized employees who are proficient in ensuring high-quality financial reporting. This finding aligns with the research by Paulina (2018).

5. The Effect of Leverage on Financial Report Integrity of Property and Real Estate Companies Listed on the IDX in 2021-2024

The fifth hypothesis stated that leverage would negatively influence financial report integrity. However, the analysis found no significant effect of leverage on financial report integrity. Despite the high leverage of some companies, it does not appear to directly affect the integrity of their financial reports. High leverage, often associated with higher debt levels, may cause investor concerns but does not seem to lead to financial manipulation. This finding is consistent with Wardhani (2020), Verya (2017), and Pratika (2020).

5. CONCLUSION AND SUGGESTIONS

5.1 Conclusion

Based on the analysis, the conclusions of this research are as follows:

1. **Institutional Ownership** negatively affects the integrity of financial reports for property and real estate companies listed on the IDX in 2021-2024.
2. **Managerial Ownership** also negatively affects the integrity of financial reports.

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3. **Independent Commissioners** have a positive impact on the integrity of financial reports.
4. **Company Size** negatively impacts the integrity of financial reports.
5. **Leverage** has no significant effect on the integrity of financial reports.

5.2 Limitations and Suggestions

Given the findings and limitations of this research, the following suggestions are made:

1. **For Companies**:
   Companies should aim to maintain high financial reporting integrity. To attract institutional investors, they should disclose comprehensive information that reflects the current capital market conditions, such as corporate actions like dividends, stock splits, and bonus shares.
2. **For Future Research**:
   This study's adjusted R^2 is 26.8%, meaning 73.2% of the variance remains unexplained. Future research should consider extending the study period to five or six years, adding variables such as liquidity, audit tenure, independence, and industry specialization, and expanding the sample to include other sectors, such as banking, industry, and mining.

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