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# Corporate Governance and the Integrity of Financial Statements: Evidence from Energy Companies Listed on the Indonesia Stock Exchange

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A R T I C L E I N F O

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A B S T R A C T

This study examines the impact of corporate governance on the integrity of financial statements in energy sector companies listed on the Indonesia Stock Exchange (2021–2023). Motivated by concerns over financial statement manipulation—where ACFE (2019) reported 6.7% fraud in Indonesia—it measures corporate governance via board of directors, audit committee, managerial ownership, institutional ownership, and independent commissioners. Financial statement integrity, proxied by conservatism, is the dependent variable. Using agency theory, the research applies quantitative methods with secondary annual report data, aiming to provide theoretical and practical insights into how governance mechanisms influence the reliability of financial reporting in Indonesia's energy sector.



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## INTRODUCTION

Financial statements are an integral part of any business and constitute one of the most common means by which a company communicates its financial information to interested parties (Abbas et al., 2021). The primary objective of financial statements is to provide information regarding an entity's financial position, financial performance, and cash flows, which is highly valuable for a broad range of users in making informed decisions (Anah et al., 2023). For internal stakeholders, financial statements assist in determining strategic actions to achieve annual targets, while for investors, they provide critical insights for evaluating potential investment opportunities in the company (Purwantiningsih & Anggaeni, 2021). Consequently, financial statements must be carefully prepared to ensure the production of high-quality reports. The information presented in financial statements should be accurate, relevant, and properly disclosed, as the resulting reports form the basis for making sound economic decisions (Anah et al., 2023).

Financial statements must contain information that is both of high integrity and easily understandable by meeting the qualitative characteristics of accounting information (Purwantiningsih & Anggaeni, 2021). Accordingly, a financial statement can be considered to have integrity when it is presented in a well-structured and honest manner, with all information regarding the financial position, cash flows, and performance being accurate and factual, as it will be held accountable to stakeholders. Therefore, the information in financial statements must possess a high level of integrity to ensure it does not mislead users. The integrity of financial statements refers to the presentation of information that is truthful and reliable (Ningsih et al., 2021).

High-integrity financial statements can enhance investor confidence to invest their capital and enable stakeholders to assess a company's performance for decision-making purposes. Investors, creditors, and other parties with an interest in investing, providing loans, purchasing goods or services, or borrowing from the company must take into account the integrity of financial statements when making their evaluations(Indrasti, 2020). The integrity of financial statements means that they reflect the actual condition of a company without concealment or distortion, thereby allowing users of accounting information to rely on it without being misled (Amri, 2017).

The integrity of a company's financial statements can be assessed through the application of conservatism. Conservatism is a prudence-based approach adopted to address uncertainty and risks in the business environment. This principle requires the recognition of expenses and liabilities as soon as they are reasonably possible, even when the outcome is suboptimal, while revenues and assets are recognized only when their receipt is certain (Savitri, 2016). However, this principle may lead to practices that compromise honesty, thereby affecting the integrity of financial statements and significantly impacting investor confidence.

Financial statement manipulation undermines users' trust in the integrity of the reports (Yendrawati & Hidayat, 2021). The uncertainty felt by users regarding the validity of the information presented raises concerns about corporate governance. The issue of corporate governance has received increasing attention alongside the growing number of financial statement manipulation cases revealed, including those reported by the Indonesian Institute for Corporate Governance. Corporate governance refers to the framework of rules that defines the rights and responsibilities of shareholders, management, government, creditors, employees, and other stakeholders, both internal and external. In other words, corporate governance is the system by which companies are directed and controlled (Tamara & Kartika, 2021).

Low-quality financial statements raise questions about the effectiveness of a company's corporate governance implementation. In general, corporate governance functions to direct and control the relationship between management and the company's external stakeholders (Marpaung et al., 2021). In this study, the factors influencing the integrity of financial statements refer to the framework of Anah et al., (2023).

In their research, the first factor affecting the integrity of financial statements is the board of directors. The board of directors is considered the third most important element influencing financial success (Pramudityo & Sofie, 2023). As the highest decision-making body in a company, the board of directors has the authority and responsibility to manage the business in the best interests of shareholders and to represent the company in legal proceedings (Fauziah et al., 2023). The board is fully accountable for the management of the company in pursuit of its objectives and interests (Ningsih et al., 2021). This includes overseeing overall corporate operations, performance, resources, finances, and internal governance. The board of directors influences the integrity of financial statements by reducing agency conflicts, ensuring that decisions related to financial reporting are balanced and aligned with accounting principles (Pardede & Annisa, 2023). However, the hypothesis testing conducted by Anah et al., (2023) revealed that the board of directors does not have a significant effect on financial statement integrity.

The second factor influencing the integrity of financial statements is the audit committee. Based on agency theory, the presence of an audit committee enhances oversight of potential financial statement manipulation (Anah et al., 2023). One of the primary functions of the audit committee is to thoroughly examine the financial information contained in the financial statements. The existence of the audit committee is expected to bring about positive changes, particularly in the company's internal control processes. According to Febriyanti & Wahidahwati, (2020), the audit committee is established by the board of commissioners. It serves as a valuable resource for independent commissioners by assisting in monitoring and evaluating organizational activities, as well as liaising with internal and external auditors in the execution of its duties.

Managerial ownership within a company is also expected to improve the integrity of financial statements, as management is accountable for ensuring the company's long-term sustainability. Managers with equity stakes are more likely to act in the best interests of the company, aligning managerial and shareholder objectives. This implies that a higher managerial ownership ratio may lead to better corporate performance (Andini et al., 2024). However, Santika &

Kurniawan (2023) found that managerial ownership does not significantly affect financial statement integrity, as the proportion of shares held by managers alone does not guarantee the production of high-integrity financial reports.

The fourth factor in this study that influences the integrity of financial statements is institutional ownership. Institutional ownership has the capacity to provide guidance to management through effective monitoring processes, thereby improving business performance. By exercising oversight, institutional shareholders can help prevent financial statement manipulation intended to mislead investors (Anastasia et al., 2023). The proportion of shares held by institutions may influence the process of preparing financial statements, which serve as one of the key performance measures for a company. Institutional ownership enables more intensive monitoring to reduce the likelihood of managers acting solely in their own self-interest (Indrasti, 2020).

Independent commissioners are tasked with providing greater oversight of managerial conduct to prevent manipulation of financial data and ensure the provision of accurate information. Abbas et al. (2021) found that independent commissioners have a positive effect on the integrity of financial statements, as the inclusion of commissioners from outside the company can enhance the effectiveness of board oversight in preventing financial reporting fraud. However, these results differ from those of Novianti & Isynuwardhana (2021) and Marpaung et al. (2021), who reported no significant effect of independent commissioners on financial statement integrity, arguing that the duties and functions of independent commissioners do not directly influence the elements that ensure high-integrity financial reporting.

The research problem proposed in this study seeks to determine whether corporate governance has an impact on the integrity of financial statements. Furthermore, this study is expected to make both theoretical and practical contributions. Theoretically, it aims to provide support for the future development of agency theory. Practically, it is expected to serve as a reference for stakeholders in making informed economic decisions.

## LITERATURE REVIEW

### *Agency Theory*

The theory employed in this study is Agency Theory, which explains the relationship between two parties, namely the principal and the agent. Proposed by Jensen & Meckling (1976), Agency Theory defines the relationship between investors and managers as an agency relationship, where investors act as principals and managers serve as agents. Jensen & Meckling (1976) further assert that agency conflict arises from the separation of ownership and control in a company. External investors monitor management to ensure that managers refrain from engaging in self-serving behavior. Investors, debtholders, and management have differing interests and perspectives regarding the value of the firm. Investors tend to focus on maximizing their share value, compelling managers to act in their favor, even when such actions may conflict with the interests of debtholders.

To mitigate agency conflicts, managers must be provided with appropriate compensation and subjected to effective monitoring. Such monitoring incurs costs known as agency costs, including bonding costs, which are intended to ensure that agents comply with and align their actions to meet the principals' expectations (Amri, 2017). Agency costs arise when managers' interests diverge from those of the owners, leading to decisions that can reduce shareholder wealth (Panda & Leepsa, 2017).

The integrity of financial statements is closely related to Agency Theory. Agency Theory posits that the separation between investors as principals and managers as agents responsible for running the company inevitably leads to agency problems, as each party seeks to maximize its own utility. The agency relationship perspective is also used to understand corporate governance. Corporate governance, rooted in Agency Theory, is expected to function as a mechanism to provide assurance to investors that they will receive a return on the funds they have invested. The implementation of corporate governance fosters confidence in management's ability to safeguard and manage the owners' (investors') wealth, thereby minimizing interest gaps, conflicts, and agency costs. Good corporate governance establishes a range of mechanisms designed to ensure that managerial actions are aligned with the interests of investors.

***Financial Statement Integrity***

In general, the integrity of financial statements results from an accounting process that serves as a communication tool between management and external stakeholders regarding a company's financial information and performance. High-quality financial statements provide a strong basis for stakeholders' decision-making. The quality of financial statements can be assessed by the completeness of the financial data prepared for reporting purposes (Anastasia et al., 2023).

According to Santika & Kurniawan (2023), the presentation of financial statements with integrity refers to the delivery of financial information and data that are dependable, accurate, and do not mislead users in their decision-making. Providing up-to-date explanations about the company's current economic condition, along with an accurate depiction of its actual financial position, is an indicator of integrity in financial reporting.

A high-integrity financial statement is one that is prepared and presented correctly, honestly, and accurately. This means that the report contains no manipulation of accounting figures that could mislead users in assessing the company's financial performance. Therefore, financial statement integrity can be concluded as the presentation of financial reports that are truthful, free from manipulation, and accountable (Anah et al., 2023).

***Corporate Governance***

Agency theory posits that corporate governance, rooted in the agency relationship, serves as a mechanism to assure investors that they will receive returns on the capital they have invested. This assurance is strengthened through monitoring mechanisms that align the diverse interests within the company. The monitoring mechanisms referred to in agency theory can be implemented through corporate governance practices. Corporate governance is a system for directing and controlling companies, designed to enhance investor confidence in management's ability to safeguard and manage shareholders' assets. In doing so, it aims to minimize conflicts of interest and reduce agency costs (Abbas et al., 2021).

To produce reliable information and prepare conservative, high-integrity financial statements that benefit a broad range of stakeholders, effective oversight is necessary to prevent managerial fraud and other adverse events (Istiantoro et al., 2017). Such oversight can be achieved by implementing a well-structured and organized corporate governance system. Increasingly, major financial institutions are incorporating corporate governance requirements into their lending and investment policies for the companies they finance.

For financial statements to achieve a high level of integrity in line with corporate governance principles, a robust governance structure—part of good corporate governance—must be in place to facilitate the implementation of these systems. Oversight functions involve the roles of independent commissioners, audit committees, institutional ownership, and managerial ownership. Over time, various corporate governance mechanisms related to financial reporting have been the focus of research, including fraudulent reporting and financial restatements (Istiantoro et al., 2017). Factors such as board size, independence, CEO duality, audit committee expertise, and other governance mechanisms have been used to assess the effectiveness of corporate governance in mitigating such issues. A widely held belief regarding corporate governance is that sound governance practices lead to the production of high-quality financial statements.

***Hypothesis***

***Board of Directors on Financial Statement Integrity***

The board of directors is one component of the corporate governance structure that is considered capable of influencing the integrity of financial statements (Fauziah et al., 2023). The board of directors consists of corporate leaders or members responsible for organizing, managing, and overseeing the company's primary interests (Febriyanti & Wahidahwati, 2020). The main duties of the board include corporate management, risk management, internal control, communication, and fulfilling corporate social responsibility (CSR), the latter being crucial for business sustainability. According to Suroya et al. (2024), the board of directors serves to provide information to the board of commissioners and respond to matters raised by the commissioners. Within a company, the board of directors plays a strategic role in determining both short-term and long-term policies. The board is also accountable for operational management and corporate administration to achieve the organization's objectives. Moreover, the board of directors plays a critical role in corporate governance mechanisms by formulating corporate policies and safeguarding investor interests (Akram et al., 2018).

The board of directors holds full responsibility for corporate management, with each member performing duties and making decisions in accordance with their designated roles and authority (Ningsih et al., 2021). Based on agency theory, which describes the relationship between agents and principals, potential conflicts of interest may arise when agents act in pursuit of their own goals rather than those of the principals. The board of directors can enhance the integrity of financial statements by mitigating agency conflicts, ensuring that decisions regarding financial reporting are balanced and aligned with accounting principles

(Febriyanti & Wahidahwati, 2020). This view is supported by the findings of Fauziah et al. (2023), Febriyanti & Wahidahwati (2020), and Ningsih et al. (2021), which indicate that the board of directors has a positive effect on financial statement integrity. Based on theoretical reasoning and prior empirical evidence, it can be concluded that a stronger and more effective board of directors contributes to higher financial statement integrity within a company.
*H1: The Board of Directors has a positive effect on the Integrity of Financial Statements.*

***Audit Committee on Financial Statement Integrity***

The audit committee is a body established by the board of commissioners with the responsibility of conducting independent oversight of the financial reporting process and external audits. In the context of financial reporting, the audit committee's role and responsibilities include monitoring and supervising the auditing of financial statements and ensuring that applicable financial standards and policies are met (Tamara & Kartika, 2021). The audit committee also serves to facilitate formal communication between the board, management, external auditors, and internal auditors. Such formal communication ensures the effectiveness of both internal and external audit processes, thereby improving the accuracy of financial statements and enhancing trust in the reported information.

The audit committee evaluates the transparency of financial information presented by management. As a result, management may feel compelled to present financial statements with integrity (Halim, 2021). The presence of an audit committee thus plays a crucial and influential role within the company, particularly in ensuring the reliability of financial statements. In fulfilling its duties and responsibilities, the audit committee can hold regular meetings scheduled at its own discretion. During these meetings, the committee can review the accuracy of financial statements to ensure a high level of integrity (Anah et al., 2023).

From the perspective of agency theory, which underpins the relationship between principals and agents, the audit committee acts on behalf of the principals, while the integrity of the financial statements prepared by management represents the actions of the agents. The audit committee's primary objective is to ensure transparency in the disclosure of information by management. Consequently, the audit committee can serve as a mechanism to reduce manipulation in the presentation of accounting information, thereby enhancing the integrity of a company's financial statements.

This perspective is supported by the findings of Yuniawati (2023) and Suroya et al. (2024), which demonstrate that the audit committee has a positive effect on financial statement integrity. Based on theoretical reasoning and prior empirical evidence, it can be concluded that a stronger and more active audit committee is associated with higher integrity in financial reporting.
*H2: The Audit Committee has a positive effect on the Integrity of Financial Statements.*

***Managerial Ownership on Financial Statement Integrity***

Managerial ownership is defined as one of the mechanisms implemented to enhance the integrity of financial statements (Tamara & Kartika, 2021). It refers to the percentage of shares owned by management or members of the board of commissioners who are actively involved in decision-making. Share ownership by management is considered to align the interests of management with those of shareholders. Consequently, managerial ownership can increase a sense of responsibility in managing the company. This alignment of interests encourages management to prioritize shareholder objectives—of which management is a part—when making decisions and taking actions to operate the company (Andini et al., 2024). With this heightened sense of responsibility, management is more likely to present truthful information that accurately reflects the company's economic reality. Therefore, the greater the proportion of shares held by management, the higher the integrity of the financial statements.

From the perspective of agency theory, managerial ownership helps reduce conflicts of interest between shareholders and corporate management. When managers hold shares in the company, they play a crucial role in decreasing the likelihood of opportunistic managerial behavior. This ownership structure encourages managers to act more cautiously before making decisions, as these decisions carry risks that could directly impact them as shareholders (Andini et al., 2024).

When managers have a vested interest in the company by owning shares, they are more committed to providing accurate financial statements to stakeholders who rely on such reports for decision-making, thereby ensuring the company's performance is viewed positively (Yolandra et al., 2023). As a result, higher managerial ownership translates into greater accountability for the preparation of financial statements, leading to increased integrity. This conclusion is supported by the findings of Andini et al. (2024) and Tamara & Kartika (2021), all of which report that managerial ownership has a positive effect on financial statement integrity. Based on theoretical reasoning and prior empirical evidence, it can be concluded that greater managerial ownership is associated with higher financial statement integrity.

*H3: Managerial Ownership has a positive effect on the Integrity of Financial Statements.*

### *Institutional Ownership on Financial Statement Integrity*

Institutional ownership is defined as shareholding by external institutional entities, such as banks, insurance companies, investment firms, and other institutional investors (Anastasia et al., 2023). Institutional investors exercise oversight over management activities because they generally possess the skills and expertise needed to evaluate the reports presented by management. According to Mashuri et al. (2023), a higher proportion of institutional ownership enables more extensive monitoring by institutional investors, thereby preventing financial statement manipulation intended to attract investors and deterring opportunistic behavior by company managers.

Experienced institutional owners are less susceptible to managerial actions aimed at manipulating financial reporting, which could undermine the integrity of financial statements. Therefore, the greater the proportion of shares held by institutional investors, the higher the expected level of financial statement integrity. Companies with substantial institutional ownership tend to produce more reliable and high-integrity financial reports.

From the perspective of agency theory, which underpins the relationship between principals and agents, institutional investors act as principals, while management—responsible for preparing the financial statements—acts as the agent. Institutional ownership plays a critical role in minimizing agency conflicts between managers and shareholders. Institutional investors are considered capable of effectively monitoring managerial decision-making. As a result, they are directly involved in strategic decisions and are less likely to be misled by earnings manipulation.

This perspective is supported by the findings of Anastasia et al. (2023), Suzan & Nasution (2023), and Tamara & Kartika (2021), which demonstrate that institutional ownership has a positive effect on financial statement integrity. Based on theoretical reasoning and prior empirical evidence, it can be concluded that higher institutional ownership is associated with greater financial statement integrity.

*H4: Institutional Ownership has a positive effect on the Integrity of Financial Statements.*

***Independent Commissioners on Financial Statement Integrity***

Independent commissioners influence the integrity of financial statements produced by management within a company. Therefore, a company must have bodies in place to oversee and protect the organization from external parties involved in its management. An independent commissioner is a member of the board of commissioners who has no affiliation with other commissioners, directors, or shareholders and is free from any business or other relationships that could affect their ability to act independently (Santika & Kurniawan, 2023). The primary function of independent commissioners is to evaluate company performance comprehensively, ensure balanced decision-making, and protect the interests of minority shareholders and other related parties (Yendrawati & Hidayat, 2021). The presence of independent commissioners is considered one of the most effective measures to reduce manipulation of financial statement integrity often perpetrated by company management.

When a company has independent commissioners, the financial statements presented by management are more likely to exhibit high integrity, as there is an independent body directly monitoring management and protecting the rights of external stakeholders (Indrasti, 2020).

From the perspective of agency theory, when there is a separation between shareholders as principals and managers as agents in operating the company, related agency problems can arise. Independent commissioners act as a balancing force in economic decision-making. The inclusion of commissioners from outside the company enhances the board's effectiveness in supervising management to prevent financial statement fraud. Lower levels of fraud or manipulation in financial reporting are associated with higher financial statement integrity.

This view is supported by Yendrawati & Hidayat (2021), Purwantiningsih & Anggaeni (2021), and Abbas et al. (2021), who found that independent commissioners positively affect financial statement integrity. Based on theoretical reasoning and prior empirical evidence, it can be concluded that higher representation of independent commissioners is associated with greater integrity of financial statements.

*H5: Independent Commissioners have a positive effect on the Integrity of Financial Statements.*

## METHODOLOGY

This study employs a quantitative research method. Quantitative research is a method used to examine a specific population or sample, where data analysis is conducted using quantitative or statistical techniques. The primary objective of this approach is to test predetermined hypotheses (Sugiyono, 2017). The study uses secondary data, specifically annual reports of energy companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. The population consists of all energy companies listed on the IDX during this period. The sample was selected using a non-probability sampling technique, namely purposive sampling, which involves selecting samples based on specific criteria to ensure representativeness.

### *Variable Measurement*

In this study, financial statement integrity is proxied by conservatism. Conservatism refers to the principle of prudence in financial reporting. The measurement follows the Beaver and Ryan model using the Market-to-Book Ratio. The board of directors consists of a group of directors led by a president director, with the function of providing information to the board of commissioners and responding to matters raised by them. This variable is proxied by the total number of board members. The audit committee is accountable to the board of commissioners and assists in carrying out its duties and functions. The audit committee variable is proxied by the number of audit committee meetings held annually. Managerial ownership refers to shareholding by company managers who actively participate in decision-making processes. It is calculated as the percentage of shares owned by management members—such as directors and commissioners—divided by the total number of outstanding shares. Institutional ownership represents the proportion of shares held by institutional investors at year-end, calculated as the percentage of institutional investors' shareholdings relative to the total outstanding shares. Independent commissioners are members of the board who are external to the company and tasked with assessing overall corporate performance. This variable is measured as the percentage of independent commissioners to the total number of commissioners. The study includes firm size, profitability, and leverage as control variables.

## RESEARCH RESULTS

To determine the feasibility of a regression model, it is necessary to conduct a model feasibility test. The F-test is used to assess whether all independent variables in the model simultaneously have a significant effect on the dependent variable. The decision is made based on the probability value (Ghozali, 2018). The results of the F-test are presented as follows:

Tabel 1. Anova Test

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| | Regression | 727410004059365.500 | 7 | 103915714865623.640 | 3.840 | .002b |
| | Residual | 1488402059474 | 55 | 2706185562680 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | 395.500 | | 7.190 | | |
| | Total | 2215812063533 761.000 | 62 | | | |

a. Dependent Variable: Y1
b. Predictors: (Constant), K2, X4, X5, X2, X3, X1, K1

*Sources: SPSS*

Based on the results of the F-test, the calculated F-value is 3.840 with a significance value of 0.002. At a 5% significance level and with a degree of freedom ($df_2$) of n – k = 63 – 7 = 56, the F-table value is 2.27. Since the calculated F-value (3.840) is greater than the F-table value (2.27) and the significance value (0.002) is less than 0.005, the regression model in this study is considered to be in the "good" category and meets the requirements of the goodness-of-fit test (Ghozali, 2018). Therefore, the model is deemed appropriate for proceeding to hypothesis testing.

The adjusted coefficient of determination (Adj $R^2$) test aims to measure the extent to which the model is able to explain the variation in the dependent variable. The value of the coefficient of determination ranges from zero to one (Ghozali, 2018). The results of the adjusted R-squared calculation in this study are presented as follows:

Tabel 2. Coefficient of Determination Test

| **Model Summary** | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| | .573a | .328 | .243 | 5202101.07810 |

Predictors: (Constant), K2, X4, X5, X2, X3, X1, K1

*Sources: SPSS*

Based on Table 2, the results of the test indicate that the coefficient of determination is 32.8%. This means that the independent variables in the model are able to explain 32.8% of the variation in the dependent variable, while the remaining variation is influenced by other factors not examined in this study.

***Hypothesis Testing***

This test is conducted to determine the extent to which each independent variable individually influences the dependent variable (Ghozali, 2018). The t-test is performed by examining the significance value of t in the regression results, with a significance level set at 0.05 (α = 5%). The results of the statistical test are presented as follows:

Tabel 3. Hypothesis Test

| **Coefficients[a]** | | | | | | |
|---|---|---|---|---|---|---|
| Unstandardized Coefficients | | | | Standardized Coefficients | T | Sig. |
| Model | | B | Std. Error | Beta | | |
| | (Constant) | -3606429.604 | 3988.594 | | -904.186 | .000 |
| | Dewan Direksi (X1) | 1041341.695 | 370.529 | .360 | 2810.421 | .000 |
| | Komite Audit (X2) | -2.000 | .000 | -.820 | -7664.995 | .000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Kepemilikan Manajerial (X3) | -2738741.017 | 3067.877 | -.105 | -892.715 | .000 |
| | Kepemilikan Institusional (X4) | 3318471.568 | 2422.797 | .152 | 1369.686 | .000 |
| | Komisaris Independen (X5) | -9801978.460 | 5661.924 | -.204 | -1731.210 | .000 |
| | Profitabilitas (K1) | 8201727.739 | 5487.777 | .201 | 1494.545 | .000 |
| | Leverage (K2) | 1572915.628 | 430.598 | .441 | 3652.861 | .000 |

a. Dependent Variable: Y1

*Sources: SPSS*

**Hypothesis 1:** Board of Directors → Financial Statement Integrity

The results in Table 3 show that the t-statistic for the Board of Directors variable is 2,810.421 with a significance value of 0.000, which is less than the 0.05 threshold. With α = 5% (0.05) and t-table = n – k – 1 = (63 – 7 – 1), the t-table value is 1.67303. Since the t-statistic (2,810.421) exceeds the t-table value (1.67303) and the significance level is below 0.05, $H_0$ is rejected and $H_a$ is accepted. The coefficient is positive, indicating that the Board of Directors has a positive and significant effect on financial statement integrity. This means that an increase in the number or effectiveness of board members is associated with an increase in financial statement integrity. Therefore, H1 is accepted.

**Hypothesis 2:** Audit Committee → Financial Statement Integrity

The t-statistic for the Audit Committee is –7,664.995 with a significance value of 0.000 < 0.05. The t-statistic exceeds the t-table value (–7,664.995 > 1.67303), indicating a significant effect. However, the coefficient is negative, meaning that the Audit Committee has a negative relationship with financial statement integrity. This suggests that a higher frequency or activity level of the audit committee is associated with lower integrity in financial reporting, potentially due to inefficiency or symbolic compliance rather than substantive oversight. Thus, H2 is rejected.

**Hypothesis 3**: Managerial Ownership → Financial Statement Integrity

The t-statistic for Managerial Ownership is –892.715 with a significance value of 0.000 < 0.05. The t-statistic exceeds the t-table value (–892.715 > 1.67303), indicating a significant effect. However, the coefficient is negative, showing that higher managerial ownership is associated with lower financial statement integrity. This finding contradicts the expectation from agency theory that managerial ownership aligns interests between managers and shareholders. Therefore, H3 is rejected.

**Hypothesis 4:** Institutional Ownership → Financial Statement Integrity

The t-statistic for Institutional Ownership is 1,369.686 with a significance value of 0.000 < 0.05. Since the t-statistic exceeds the t-table value (1,369.686 > 1.67303) and the coefficient is positive, institutional ownership has a positive and significant effect on financial statement integrity. This means that higher institutional ownership improves monitoring effectiveness, which in turn enhances the reliability of financial statements. Therefore, H4 is accepted.

**Hypothesis 5:** Independent Commissioners → Financial Statement Integrity

The t-statistic for Independent Commissioners is –1,731.210 with a significance value of 0.018 < 0.05. The t-statistic exceeds the t-table value (–1,731.210 > 1.67303), indicating a significant effect. However, the coefficient is negative, meaning that a higher proportion of independent commissioners is associated with lower financial statement integrity. This may imply that the presence of independent commissioners does not necessarily translate into effective oversight in the studied sample. Therefore, H5 is rejected.

Multiple regression analysis is used to measure the partial effect of each independent variable on the dependent variable. The multiple linear regression model involves more than one independent variable and helps determine both the direction and the magnitude of the effect of these variables on the dependent variable. Through this analysis, the level of significance of each variable in the study can be identified.

Based on the results of the multiple linear regression analysis, the regression model developed in this study is as follows:

$$Y = -3606429{,}604 - 2810{,}421\ X1 - 7664{,}995\ X2 - 892{,}715\ X3 - 1369{,}686\ X4 - 1731{,}210\ X5 - 1494{,}545\ K1 + 3652{,}861\ K2 + e$$

## DISCUSSION

### *The Effect of the Board of Directors on Financial Statement Integrity*

A larger board of directors in these companies indicates a more optimal internal oversight function and a more active management structure. Such a structure tends to result in a financial reporting process that is more transparent, accountable, and compliant with generally accepted accounting principles. The role of the board of directors encompasses oversight of company operations, resource management, and investor fund control. Consequently, having an active and competent board of directors is a crucial factor in ensuring the quality and integrity of the information disclosed in financial statements (Akram et al., 2018; Pardede & Annisa, 2023). These results support agency theory, which posits that conflicts of interest between management and owners can be minimized through strong oversight by the board of directors. The findings are also consistent with the work of Pardede & Annisa (2023), who found that competent boards help reduce financial statement manipulation and encourage transparency in corporate financial disclosures. Overall, this study corroborates prior research such as Fauziah et al. (2023), which assert that the board of directors plays a vital role in safeguarding the integrity of financial statements. This role includes guiding sound decision-making in accordance with accounting standards and regulatory requirements to ensure that reported financial information fairly and accurately reflects the company’s condition.

### *The Effect of the Audit Committee on Financial Statement Integrity*

This study also evaluates the frequency of audit committee meetings as an indicator of its effectiveness. It was found that most companies in the sample held relatively few meetings—typically between three and five times per year. Such a low meeting frequency can weaken the audit committee’s role in routinely monitoring the preparation and presentation of financial statements. This aligns with the argument of Istiantoro et al. (2017), who emphasize that audit committee effectiveness depends heavily on independence, professional competence, and the intensity of engagement. When meetings are infrequent and members lack specialized expertise, the oversight function is unlikely to operate optimally.

These findings are further supported by Maychandra & Nelvirita (2023), who report that many corporate audit committees perform only formal functions and are not directly involved in the internal control process. As a result, their role becomes symbolic and fails to produce a meaningful impact on improving financial statement integrity.

The negative coefficient in the regression results suggests that increasing the number of audit committee members or formalizing their existence does not guarantee higher-quality financial reporting—particularly when performance and function execution are suboptimal. In some cases, audit committees merely conduct final reviews of reports already prepared by management, without having full authority over the quality and completeness of the information disclosed.

From the perspective of agency theory, these results appear inconsistent with the assumption that the audit committee should serve as an oversight mechanism that reduces potential conflicts of interest and information asymmetry between managers and owners. In practice, the findings of this study indicate that when the audit committee does not fulfill its role effectively, it may inadvertently create opportunities for irregular reporting—especially when its oversight function is carried out only as a formality. Overall, this study underscores that the significance of the audit committee lies not merely in its structural presence but in the active, competent, and continuous execution of its duties. An effective audit committee requires a synergy of professional expertise, intensive monitoring, and the integrity of its members, rather than simply meeting quantitative or formal governance requirements.

***The Effect of Managerial Ownership on Financial Statement Integrity***

The low level of shareholding among managers suggests that they may lack sufficient ownership incentives to take direct responsibility for financial outcomes, thereby weakening their commitment to reporting integrity. This finding is consistent with Santika & Kurniawan (2023), who argue that low managerial ownership tends to encourage opportunistic behavior, such as manipulating financial statements for short-term incentives. Theoretically, managerial ownership is often viewed as a mechanism to reduce agency conflicts between managers and owners. According to agency theory, when managers hold shares in the company, they are motivated to act in line with shareholder interests. However, when ownership proportions are small, the monitoring effect may be too weak to influence behavior and may even generate new conflicts.

The empirical results of this study show that managerial ownership can have a detrimental impact on financial statement integrity, contradicting the core assumption of agency theory. In some cases, managers who also hold shares may exploit their position and access to internal information to strategically manage reporting, inflating share values for personal short-term gain. This finding aligns with Santika & Kurniawan (2023), who conclude that higher managerial shareholding may increase the potential for conflicts of interest in financial reporting. Moreover, Santika & Kurniawan (2023) report that managerial ownership has no significant effect on financial statement integrity when measured through accounting conservatism. Overall, these findings reinforce the conclusion that managerial shareholding does not necessarily ensure the quality and accuracy of financial statements—especially when not supported by robust oversight mechanisms and sound corporate governance. Strong internal controls remain essential, even when managers are also shareholders.

***The Effect of Institutional Ownership on Financial Statement Integrity***

The positive association between institutional ownership and financial statement integrity suggests that a higher proportion of institutional shareholding strengthens oversight and promotes reliable reporting. Institutional investors are well-positioned to guide management through effective monitoring processes, reducing the likelihood of financial statement manipulation aimed at attracting investors(Anastasia et al., 2023). This heightened oversight compels management to maintain long-term corporate sustainability by producing financial reports that are credible and in compliance with applicable accounting standards.

These findings are consistent with Fitriyana & Nazar (2022) and Suzan & Nasution (2023), who report that institutional ownership positively influences financial statement reliability. Their results indicate that greater institutional shareholding improves managerial accountability, enhances fraud detection, and strengthens the trustworthiness of financial reporting. From the perspective of agency theory, when managers operate a company using resources that are not their own, there is an inherent risk that they may act in their own interests rather than those of shareholders. The presence of institutional investors with substantial ownership stakes imposes greater pressure and oversight on management, encouraging the preparation of financial statements that are both accurate and reliable. Institutional investors tend to possess the expertise, resources, and long-term commitment necessary to safeguard corporate reputation and performance, making them active participants in monitoring managerial decisions, including those related to financial reporting. This enhanced oversight reduces the risk of opportunistic behavior by management, ensuring that financial statements reflect the company's true condition. Anastasia et al. (2023) reinforce this conclusion, noting that high institutional ownership improves the quality of financial reporting due to the strong external control exerted by institutional investors.

***The Influence of Independent Commissioners on Financial Statement Integrity***

This suggests that the relationship between independent commissioners and financial statement integrity is inverse, meaning that an increase in the proportion of independent commissioners is associated with a decline in the integrity of financial statements. In several cases, companies with a higher proportion of independent commissioners were found to have lower levels of financial statement integrity, supporting this negative relationship. These companies also exhibited relatively low Price-to-Book Value (PBV) ratios, despite meeting or exceeding the minimum regulatory requirement for independent commissioner composition.

This finding aligns with studies by Novianti & Isynuwardhana (2021) and Marpaung et al. (2021), which suggest that independent commissioners do not have a direct impact on financial statement integrity. Their supervisory role does not necessarily extend to the detailed processes that ensure the integrity of financial reporting. Often, independent commissioners are not directly involved in operational activities or the control of financial reporting processes. Moreover, many lack accounting or auditing backgrounds, limiting their ability to detect irregularities effectively. Consequently, the presence of independent commissioners tends to be more of a formality than a substantive oversight mechanism. Without adequate competence and intensive supervision, their role in enhancing financial statement integrity becomes weak. From an agency theory perspective, this outcome can be seen as a failure of corporate governance mechanisms. Although, in theory, independent commissioners should act as neutral overseers, in practice they frequently lack sufficient information, time, or deep understanding of company operations—particularly regarding the technical aspects of preparing financial statements. This reduces their monitoring effectiveness and renders their presence largely symbolic. As noted by Pardede & Annisa (2023), in the Indonesian context, many independent commissioners do not possess an accounting or auditing background, which limits their ability to optimally oversee financial reporting quality. This highlights a limitation of agency theory, wherein governance mechanisms intended to reduce information asymmetry fail to function effectively if their implementation is weak.

The results indicate that independent commissioners have a negative influence on financial statement integrity, suggesting that increasing their number does not guarantee improved reporting quality. This may be attributed to insufficient technical competence, limited experience, or a lack of deep understanding of the financial reporting process, which weakens their supervisory function and renders it more symbolic than substantive. In this context, the failure of independent commissioners to perform effective oversight reflects the weak implementation of corporate governance and the limitations of agency theory in ensuring the integrity of financial information without adequate qualifications and substantive supervision. This conclusion is further supported by Indrasti (2020), who examined the effect of independent commissioners, audit committees, and financial distress on the integrity of financial statements. Their results showed that, partially, only independent commissioners had an effect on financial statement integrity, while the audit committee and financial distress had no effect. However, the effect of independent commissioners was not consistently positive, indicating that their presence does not necessarily improve financial statement integrity, particularly if they lack the necessary competence and understanding of the financial reporting process.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis and testing conducted to determine the effect of Corporate Governance on the Integrity of Financial Statements, the conclusion is as follows: The board of directors and institutional ownership have an impact on the integrity of financial statements, whereas the audit committee, managerial ownership, and independent commissioners do not have an impact on the integrity of financial statements. Overall findings in this study concludes that the tested corporate governance mechanisms have mixed effects on the integrity of financial statements. The board of directors and institutional ownership both show a positive and significant influence, suggesting that a strong, competent board and a higher proportion of institutional shareholders can enhance transparency, accountability, and adherence to accounting standards, in line with agency theory. Conversely, the audit committee and managerial ownership, despite being significant, display negative coefficients, indicating that their presence or increase is associated with reduced reporting integrity—likely due to low meeting frequency, limited expertise, or opportunistic behavior when managers hold shares. Independent commissioners also demonstrate a significant but negative effect, highlighting that a higher proportion does not necessarily improve reporting quality; their oversight role is often more formal than substantive, hindered by insufficient technical competence and limited engagement in financial reporting processes. Overall, the results emphasize that formal governance structures alone do not guarantee improved financial statement integrity—effective outcomes depend on the active, skilled, and consistent execution of oversight functions, supported by strong internal controls and genuine commitment to reducing agency conflicts.

## LIMITATIONS

The limitations of this study include its focus solely on energy sector companies listed on the Indonesia Stock Exchange for the period 2021–2023, which may limit the generalizability of the findings to other industries or timeframes. Future research could expand the sample to include companies from multiple sectors and extend the observation period to capture long-term trends. Additionally, incorporating moderating or mediating variables—such as audit quality, regulatory pressure, or operational complexity—could provide deeper insights into the mechanisms linking corporate governance and financial statement integrity. Employing mixed-method approaches could also enrich the analysis by combining quantitative evidence with qualitative perspectives.

## ADVANCED RESEARCH

Based on the results of this study, it is recommended that future research expand the sample coverage by involving companies from various industrial sectors to ensure the findings are more representative across sectors. Future studies may also consider a longer observation period to capture the long-term dynamics between corporate governance mechanisms and the integrity of financial statements. In addition, the research model can be further developed by including moderating or mediating variables, such as audit quality, regulatory pressure, or the complexity level of company operations, to identify factors that may strengthen or weaken the relationship. A more diverse research methodology, such as a mixed methods approach, could also be employed to obtain a more comprehensive understanding from both quantitative and qualitative perspectives, thereby allowing the findings to provide deeper contributions to corporate governance theory and practice.

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