The Effect of Public Accounting Firm Size, Managerial Ownership, and Company Size on Financial Statement Integrity (Case Study of Food and Beverage Companies Listed on the Indonesian Stock Exchange in 2020-2022)

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ABSTRACT

Financial statements must be presented accurately and unbiasedly so that they can be used as a basis for decision making by stakeholders. Therefore, financial statements must have high integrity. Based on the global context and differences in the results of previous studies, this study aims to replicate previous research using the latest data. This study has a specific objective to determine whether the size of the Public Accounting Firm, managerial ownership and company size, can affect the integrity of financial statements in consumer goods companies during 2020-2022. This study uses multiple regression analysis, with descriptive statistical testing. Based on empirical evidence, the results show that the size of the public accounting firm and company size have a positive effect on the integrity of financial statements. Meanwhile, managerial ownership has a negative effect on the integrity of financial statements.

Keywords: Public accounting firm size, managerial ownership, company size, financial statement integrity

Introduction

In the midst of dynamic world developments and many cases of accounting manipulation, companies are required to present accurate and transparent financial reports. Financial reports are a form of corporate accountability to stakeholders, such as shareholders and investors and aim to provide information that can be used by users to make decisions (SAK-PSAK 1, 2016: 3). Financial statements are like a mirror for the company, reflecting its financial performance and condition. Its preparation is mandatory to provide important information to various parties, such as investors, creditors, and internal management, and must be presented accurately and unbiased so that it can be used by stakeholders to make decisions. Thus, financial statements must have high integrity.

PT Tiga Pilar Sejahtera Food, Tbk (AISA) has been proven to have manipulated its 2017 financial statements. The manipulation was aimed at increasing net income and boosting share prices, which resulted in losses for investors and other stakeholders. Analysis showed the inflation of fixed assets, trade receivables, and inventories worth more than Rp 5 trillion. Debt and deposit proceeds were recorded as trade receivables to cover the transfer of funds to companies owned by old management. AISA recognised fictitious income and recorded borrowed funds as trade receivables, violating
accounting principles and misleading stakeholders. This case demonstrates the importance of strong governance and external oversight to prevent similar frauds from recurring. (Santoso & Andarsari, 2022).

The capacity and resources owned by public accounting firm can be an indicator of the quality of audit services provided. This is because auditors from large public accounting firm have wider competence and experience, so they can provide more accurate and independent assessments of financial statements, Panggabean (in Lubis et al., 2019). Research conducted by (MR Pramesta, 2019) and (Cintia & Khairani, 2022) revealed that public accounting firm size affects the integrity of financial statements.

Meanwhile, research conducted by (Lubis et al., 2019) and (Selviana & Wenny, 2021) shows that the size of public accounting firm does not affect the integrity of financial statements. Managerial ownership is shares owned by management who are involved in making company decisions. When managers own company shares, they tend to improve performance and be more careful in making decisions, including maintaining the honesty of financial statements. Based on research (Pritharta, 2017) and (Arista et al., 2019) get empirical evidence that there is an effect of managerial ownership on the integrity of financial statements. Meanwhile, a study conducted by (Santoso & Andarsari, 2022) found that it had no effect on the integrity of financial statements.

The assessment of a company can be based on its size. When a company gets bigger, public attention to it also increases, accompanied by an increase in the amount of information received by the public. As a result, management involvement in preparing financial reports increases, this has the potential to reduce the integrity of a financial report, Muliyanto and Budiono (2014). Meanwhile, research conducted by (Luthfiah Fathin & Abubakar Arief, 2023) and (Rahayu, 2023) shows that company size has no significant effect on the quality of financial statements.

The integrity of a financial report is considered to have failed with accounting fraud cases that occur in conveying crucial information for stakeholders. The audit process of financial statements can improve the quality of information submitted, because the auditor as an independent entity is tasked with providing reliable financial information for users of financial statements. Therefore, the public expects the assessment to be carried out in accordance with accounting standards, without inclination towards the information presented by management in the financial statements. Earnings manipulation actions can result in accounting reporting scandals, such as what happened to PT Kimia Farma, PT Indofarma, PT Ades Alfindo, better known as PT Akhasa Wira International, as well as other companies, which are involved in the practice of earnings manipulation in their financial statements.(Lubis et al., 2019).

Based on the global context and differences in the results of previous studies, this study aims to replicate previous research using the latest data. This study has a specific objective to determine whether the size of the Public Accounting Firm, managerial ownership and company size, can affect the integrity of financial statements in consumer goods companies during 2020-2022.

Methods
The population used in this study are consumer goods companies listed on the Indonesia Stock Exchange during 2020-2022. The sample collection technique is using purposive sampling method with the following selected criteria:
1. The company is listed on the IDX during 2020-2022.
2. Companies submit audited annual financial statements consistently during 2020-2022.
3. Out of the 30 companies consumer goods during 2020-2022 there are 25 samples that meet the predetermined criteria so that the number of observations in this study is 75 companies.

The data collection method in this study was obtained from the annual reports of food and beverage companies listed on the Indonesia Stock Exchange during 2020-2022, and by accessing the financial report site on the IDX, namely www.idx.co.id.
Data Analysis Technique

This study uses multiple regression analysis, with descriptive statistical testing. Furthermore, hypothesis testing is carried out by simultaneous test (F), partial hypothesis test (t test), multiple regression analysis, and the coefficient of determination. Multiple linear regression analysis expressed in the equation:

\[ Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e \]

Description:
- \( Y \): Integrity of financial statements
- \( X_1 \): Public Accounting Firm Size
- \( X_2 \): Managerial Ownership
- \( X_3 \): Company Size
- \( E \): Standard Error
- \( \beta_1-\beta_3 \): Regression Coefficient
- \( \alpha \): Constant

Result and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis describes the variables by revealing the minimum, maximum, average, and standard deviation values. The variables used in this study include public accounting firm size, managerial ownership, and company size. The table below displays the results of descriptive statistical analysis for each variable in the study:

### Table 1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Source: processed data SPSS, 2024.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Sum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Financial Statements</td>
<td>75</td>
<td>-12.15</td>
<td>28</td>
<td>-21.98</td>
<td>-2.924</td>
<td>1.55497</td>
</tr>
<tr>
<td>Public Accounting Firm Size</td>
<td>75</td>
<td>0.00</td>
<td>15.00</td>
<td>2000</td>
<td>0.00</td>
<td>0.40365</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>75</td>
<td>0.00</td>
<td>12.00</td>
<td>18.07</td>
<td>0.2410</td>
<td>0.49695</td>
</tr>
<tr>
<td>Company Size</td>
<td>75</td>
<td>20.24</td>
<td>82.85</td>
<td>211.94</td>
<td>28.1992</td>
<td>2.19064</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>75</td>
<td>0.00</td>
<td>15.00</td>
<td>2000</td>
<td>0.00</td>
<td>0.40365</td>
</tr>
</tbody>
</table>

The table above shows that the variables of financial statement quality, public accounting firm size, and management ownership have a wide distribution of data, because the standard deviation value is higher than the average.

Meanwhile, the company size variable has a data distribution that is not so wide, because the standard deviation value is lower than the average.

Determination Coefficient Test

### Table 2. Descriptive Statistics

| Source: processed data SPSS, 2024. |

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.583²</td>
<td>.340</td>
<td>.312</td>
<td>1.28977</td>
</tr>
</tbody>
</table>

Based on the table above, it is known that the Adjusted R Square value is 0.312. Therefore it can be concluded that the effect of public accounting firm size, managerial ownership, and company size on the integrity of financial statements simultaneously (together) is
31.2%, while the remaining 68.8% is influenced by other variables not examined in this study.

F Test Analysis (Simultaneous)

Table 3. Descriptive Statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>60.818</td>
<td>3</td>
<td>20.273</td>
<td>12.187</td>
<td>0.001</td>
</tr>
<tr>
<td>Residuals</td>
<td>118.110</td>
<td>71</td>
<td>1.664</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>178.927</td>
<td>74</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: processed data SPSS, 2024.

The regression model is declared FIT if the significance value is <0.05. From the table above, it is known that the Sig. value is 0.000 which is smaller than 0.05 so it can be concluded that the independent variables in this study have a significant effect simultaneously (together) on the independent variables.

T-test Analysis (Hypothesis Test)

Table 4. Descriptive Statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-13.812</td>
<td>2.275</td>
<td>-6.071</td>
</tr>
<tr>
<td></td>
<td>Size</td>
<td>.484</td>
<td>.082</td>
<td>.666</td>
</tr>
<tr>
<td></td>
<td>KM</td>
<td>.332</td>
<td>.303</td>
<td>.106</td>
</tr>
<tr>
<td></td>
<td>KAP</td>
<td>-.990</td>
<td>.437</td>
<td>-.256</td>
</tr>
</tbody>
</table>

Source: processed data SPSS, 2024.

The significance value of company size from the test results is more than 0.05, which is 0.000 or smaller than the significance level (0.000 <0.05), which means that there is a significant effect on the integrity of financial statements. It can be said that company size has an effect on the integrity of financial statements. This is in line with research conducted by (Damayanti et al., 2023). The larger the size of the company, the higher the integrity of its financial statements. Company size is positively related to the integrity of financial statements. Large companies have a wider stakeholder base, so policies taken by large companies will have a greater impact on the public interest when compared to small companies.

The significance value of managerial ownership from the test results is less than 0.05, which is 0.276 or greater than the significance level (0.276> 0.05), which means that there is no significant effect on the integrity of financial statements. It can be said that managerial ownership has no effect on the integrity of financial statements. This is because share ownership by
management does not guarantee reports with integrity, although it can improve management performance in preparing financial reports. Basically, all shareholders have an equal position. The results of the study are supported by research (Santoso & Andarsari, 2022) which shows that the managerial ownership variable has no effect on the integrity of financial statements.

The significance value of public accounting firm size from the test results is more than 0.05, which is 0.027 or smaller than the significance level (0.027 < 0.05), which means that there is a significant influence on the integrity of financial statements. This is supported by research conducted by (Juliana and Radita, 2019). Thus, the better the audit quality of a company, as measured by the proxy of the size of the big four or non big four public accounting firm, the more conservative the company will be in preparing financial statements.

Conclusion

Based on empirical evidence, the results show that public accounting firm size and company size have a positive effect on the integrity of financial statements. Meanwhile, managerial ownership has a negative effect on the integrity of financial statements. The population in this study were only companies in the food and beverage sector, it is hoped that further research can add sectors or replace research sectors. It is hoped that further research can use other independent variables that affect the integrity of financial statements.

References


