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The Effect of Corporate Governance Mechanism and Submission Quality of Financial Report on the Financial report Integrity Moderated with Political Connection

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Abstract

This study aims to determine the role of corporate governance mechanisms and the quality of financial report submission on financial report integrity by placing political connections as a moderating variable. The research method used is a quantitative method, with the unit of analysis being the company. The sample selection technique is purposive sampling, the selected sample is 43 manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period, so the number of observation data is 215 annual data. The data analysis used is panel data regression. The results of the study indicate that the corporate governance mechanism is not entirely able to provide a positive correlation to improving the integrity of financial statements, one of which is that independent commissioners may not be able to balance the decision-making process and to protect the rights of stakeholders, especially minority shareholders. Political connections are also very important to be a concern because they can influence existing governance, to improve reports with high integrity. This finding is very useful for investors to be careful in understanding the information contained in the financial statements because the corporate governance mechanism and the existence of political connections can affect its integrity. This political connection is often considered to weaken the mechanism of good corporate governance and the quality of the submission of financial reports which in turn can reduce the existence of the high financial report integrity.

Keywords— Corporate Governance Mechanism, Submission Quality of Financial Report, Political Connection, Financial Report Integrity.

I. INTRODUCTION

The integrated financial report shows that the information is true, honest, accurate and there are no manipulated accounting numbers which will mislead the financial report users to evaluate their firms. (Prena et al., (2020). The integrated financial statement must have the reliability and the quality as ruled in the accounting principles and they will be publicly accepted (Savitri, 2016). The study by Priharta (2017) showed that in 2013-2014, 47% and then was down to 45% of the total of 64 companies as the sample did not provide the integrated financial statement. It means that most companies fail to submit the integrated, honest and good financial reports.

The awful financial report once happened in the state-owned aviation company Garuda Indonesia Group. It manipulated the financial report on the marked-up profit by booking the net profit by USD 809,85 thousand. The manipulated amount was higher than that of in 2017, having a loss by USD 216,5 million. It happened when PT Mahata Aero Teknologi had run up debts to Garuda by USD 239 million, and Garuda recorded it as profits. Both Garuda and its public accounting office were sanctioned after breaking the standard accounting rule. The violation of the accounting principles also occurred at the insurance company Jiwasraya with its overstate case. It is possible that there are still many companies, even big-size companies, do not submit the integrated financial report. Close supervisions and well-managed companies are required to prevent the dishonest financial reports. the well-managed company is viewed as the starting point for the financial report preparation (Norwani et al., 2011). The good company management, such as the Supervision

Board of Commissioners, is to overcome the misconduct of the financial statements (Wati et al., 2020). Machdar & Nurdiniah (2018); Nurdiniah & Pradika (2017); Sauqi et al. (2017); Savitri (2016) mentioned in their study that the independent commissioners had a positive influence on the financial report integrity. On the contrary, Prena et al., (2020) explained that the independent commissioners had a negative influence on the integrity of the financial statement, whilst Ulfa and Chalen (2019); Pradika and Hoesada (2018) found that the independent commissioners had no influence towards the financial report integrity. Related to the variable of the managerial ownership, Budiharjo et al., (2020) and Ulfa and Chalen (2019) found that the managerial ownership had a positive influence on the financial report integrity. Conversely, Sauqi et al., (2017) proved that the managerial ownership had a negative influence on the financial report integrity, and the study by Savitri (2016) showed that there was no influence between the managerial ownership and the financial report integrity.

The ownership of institutions is the essential element in the company management as well. The studies by Machdar and Nurdiniah (2018), Savitri (2016), Pradika and Hoesada (2018), and Budiharjo et al., (2020) revealed that there was a positive effect between the institutional. The studies by Nurdiniah and Pradika (2017), Ulfa and Chalen (2019), Sauqi et al., (2017) found that the institutional ownership has no influence on the financial report integrity. The good corporate governance can also be achieved with the auditing committee that is responsible for the internal control process supervision, the auditing firm selection, the solution of auditor management disagreement on the financial report, for the questions to auditors, for the relevant document access, and for what auditors need (Salleh & Stewart, 2012; Oussii et al., 2019). Ulfa and Chalen (2019), Machdar and Nurdiniah (2017), Pradika and Hoesada (2018) found the auditing committee positively affect the financial report integrity. Prena et al., (2020), Machdar and Nurdiniah (2018), Nurdiniah and Pradika (2017), Savitri (2016), Sauqi et al., (2017) found that the auditing committee gave no influence to the integrity of the financial report. Their findings were in line with the studies conducted by Wati et al., (2020), Madawaki and Amran (2013), and Lin et al., (2006).

The qualified financial report is the essential requirement to meet the integrated financial statement. One of the quality financial reports is the transparency of financial statements. therefore, the transparent report is highly recommended. punctuality is closely related to transparency. According to Nelson and Shukeri (2011), the punctuality served as the qualitative attribute of the general target of the financial report. The more days it takes a company to publish its annual report, the less quality it is (Al-Ajmi, 2008; Mensah, 2018). Such bad news as the financial constraint, an adverse opinion from an auditor, and the would-be reported profit quality may postpone the financial report and it will reduce the integrity of financial statement. Results of the studies performed by Nelson and Shukeri (2011) suggested the the firms that suffered losses were expected to experience longer audit delays than firms that made profits. Mensah (2018) and Al-Ajmi (2008) concluded that the punctual financial report generated a positive effect on the financial report integrity.

The above findings made the authors to do the research because 1). The previous studies had various results, 2). Most companies still had less integrated financial report, and 3). The political connection with moderated variable is used in this current study. The political-connected companies do not have so good financial report as the non-political-connected companies. However, the political-connected companies can keep its stands in the capital markets as considered have low cost of debt (Chaney et al., 2011; Wati et al., 2020). It proves that the political connections affect the company's financial report. Several previous studies have stated that the earnings quality of political connection firms is worse than the earnings quality of not connected similar firms. The political-connected companies gain more profits from their connections over and above the payments they make, insiders may hide, obscure, or at least attempt to delay the benefits of accepted reporting with makes the misleading information to profit at their expense (Schipper, 1989; Leuz et al., 2003, Faccio & Parsley, 2017).

II. LITERATUR REVIEW

Agency Theory

This theory may provide information on the relationship between the company, stakeholder and its financial resource equity, such as the institutional and the private-run shareholders. The management and the other internal and external stakeholders, such as media, government and employees are not under the consideration of the principal-agency theory (Nix & Chen, 2013:13). Alignment of interests between principal and agent is important to reduce agency problems. For instance, the principal can legally involve the agent with the contracted compensation as a way to align either the principal or the agency. It shows that the company's manager as an agent, will be forced to maximize the interests of shareholders (Kusmayadi et.al., 2015). A thorough report may bring advantages to those who make use of the financial reports. the advantages cover the information quality improvement and the profit-taking management elimination

(Mohammadi et al., 2013). This current study is related to the theory of agency because the study elaborates the board of directors, director ownership, and the auditing committee whose responsibility is to oversee and to reduce agency problems. The controlling mechanism is based on the company's management implementation and is to ensure either the proper management performance or the financial report process (Nelson and Shukeri, 2011).

Signaling Theory

The signaling theory tells that why companies have incentives to voluntarily provide a report to capital markets even though they have no mandates from a regulation board. The agent uses reports that are presented with the presentation of comprehensive income which shows the completeness of the information so that the issuance of financial statements will thus give a positive signal (Prena, 2012).

Hypothesis Development

2.1 The Effect of The Corporate Governance Mechanism on The Financial Report Integrity

Several problems related to the low quality of corporate financial reporting are often associated with weak corporate governance and/or weak management philosophy (Beasley, 1996; Wati et al., 2020). Mechanisms to ensure reliable and high-quality financial reporting have largely focused on the audit committee structure. The structure of auditing committee has ruled conditions to ensure the good quality of the financial report and to enhance the financial report credibility. The role of the auditing committee is essential to prevent management opportunistic behavior although most investors do not fully realize the importance of qualified auditors (Murwaningsari, 2007). Audit committees who have high financial expertise can appreciate and care more about the importance of truthfulness and fair presentation of financial report (Salleh and Stewart, 2012). Accounting experts support the quality of the financial report because they will focus in discussing and evaluating it (Martinov et al., 2015). The audit committee's expertise related to finance can improve the handling of the possibility of material misstatements being detected and if they are found, they will be quickly communicated to the audit committee and immediately corrected (Wati et al., 2020). The above statement causes hypothesis as follows:

H1 : The auditing committee effectiveness positively affect the financial report integrity

The role of independent commissioners is to monitor company's performances so that it can create a good corporate governance. They are the key to successful financial reports with integrity as stated in the resarch finding of Machdar and Nurdiniah (2018), Nurdiniah and Pradika (2017), Savitri (2016), Mais and Nuari (2016), and Verya (2017), revealing that the independent commissioners positively affect the financial report integrity. The hypothesis for the this statement is:

H2 : The independent commissioners positively effect the financial report integrity

The managerial ownership directly impacts on the financial report integrity because its existence always interven with the financial statements prepared by management. Consequently, financial report integrity is always changing depend on the preferences of the managerial owners. The financial report integrity will be remained because will affects the company's business atmosphere and its reputation (Fauziah & Panggabean, 2019). Based on agency theory that managerial ownership becomes a mechanism to reduce agency problems by adjusting/equalizing the interests of managers with shareholders. Similar interests will reduce the act of manipulating done by managers (Jensen & Meckling, 1976). A study by Verya (2017) found that the managerial ownership had a positive effect on the financial report integrity. The hypothesis for the above statement is:

H3 : The managerial ownership positively affect the financial report integrity

The institutional investors can help reduce agency costs so that company management can stay focused on its performance and prevent fraud (Pradika & Hoesada, 2018). Institutional ownership effectively supervises management in presenting financial statements, so that the information presented is protected from material misstatement and misleading users (Nurdinah & Radika, 2018). Studies by Savitri (2016), Verya (2017), and Fajaryani (2015) show that the institutional ownership gives a positive effect on the financial report integrity. The hypothesis for this variable is:

H4 : The institutional ownership positively affect the financial report integrity

2.2 The Effect of Submission Quality of Financial Report On The Financial Report Integrity

The quality of financial reports can be seen from whether the company received sanctions in the form of suspensions or fines for providing financial reports not on time. This delay can also be associated with bad news that occurs in the company, one of which is the inability to pay debts so the companies will be more careful in presenting financial statements which will ultimately affect the financial report integrity. Based on this description, the following hypothesis can be formulated:

H5 : The submission quality of financial report positively affect the financial report integrity

2.3 The Political Connections Weaken The influence of corporate governance mechanism on the Financial Report Integrity

The audit committee plays an important role in ensuring the quality of financial reports and corporate accountability (Garcello and Neal 2003; Wati & Momon, 2020: 62). Companies that have political relationships are prone to material misstatement. In addition, political connections are also associated with a low level of transparency in financial statements, resulting in poor quality financial reports and the risk of misstatement in financial statements. A study conducted by Bilss et al., (2011) showed a political-connected company had a positive effect of an independent auditing committee on auditing cost. The audit committees in politically related companies will demand less audit work than the amount of audit work requested by audit committees that are not political connection (Wati and Momon, 2020: 63). It can be concluded that political connection will weaken the effect of the audit committee on the financial report integrity. Based on this description, the following hypotheses can be formulated:

H6 : The political connection weakens the influence of effective auditing committee on the the financial report integrity

The board of commissioner is one of the main factors of the corporate governance mechanism (Wati & Momon, 2020: 54). The board of commissioners plays an important role in determining reports with high integrity, because it is one of the determining factors of the corporate governance mechanism (Wati & Momon, 2020: 54). In carrying out their duties, the board of commissioners is required to be independent and always put the interests of the company and stakeholders first. In practice, the inability of members of the board of commissioners to carry out their role as supervisors often occurs, their existence functions more as a rubber stamp for decisions that have been made by management (Wati & Momon, 2020: 57). The effect of political connection can cause a weak governance structure to accommodate the bureaucracy or politicians so that the political connections can weaken the effect of the independent commissioners on the financial report integrity. In addition, the closeness between business people and the government is quite high, and there is a phenomenon where the political connection in a company might create a 'political umbrella' in order to gain politically access and protection (Hidayati & Diyanti, 2018). One of the benefits that companies derive is that the political connection in a company typically benefits from their connection over and above the payment they make; insiders may conceal, obscure, or at least attempt to delay the benefits of reporting received with the intention of deliberately mislead investors and profit at their expense (eg, Schipper, 1989; Leuz et al., 2003; Faccio & Parsley, 2017). Therefore, the existence of an ownership structure in a political-connected company weakens the existence of financial statements with integrity. Based on this description, the following hypothesis can be formulated as follows:

H7 : The political connection weakens the independent commissioner's effect on the financial report integrity's

H8 : The political connection weakens the managerial ownership's effect on the financial report integrity's

H9 : The political connection weakens the institutional ownership's effect on the financial report integrity's

2.4 The Political Connection Weakens The Effect of Submission Quality of Financial Report on The Financial Report Integrity

Political connected company will take advantage of their political closeness/connection, which are more inclined for company's own interest. In making financial statements, a company usually take advantage by embezzling company funds or delaying reports such as delaying profit reporting with the aim of misleading investors so that they increase the costs they will incur so that companies are less interested in obtaining foreign funds because demands for transparency of financial statements will reduce the political impact (Leuz and Gee, 2006, Wati et al., 2020). Based on this description, the following hypothesis can be formulated as follows:

H10 : The political connection weakens the effect of financial report submission quality on the financial report integrity's

2.5 Leverage Impact, Firm Size And Profitability on The Financial Report Integrity (Control Variable)

In preventing biased results, the control variable is used to control the independent variable on the dependent variable (financial report integrity). Therefore, leverage, firm size and profitability are used as control variables. Companies that have high leverage values will tend to report higher profits, this is doing so that companies can minimize the possibility of violating debt agreements (A'Yunin et al., 2019). Control variables (firm size and profitability) is to control an independent variable towards its dependent variable (financial report integrity), and it uses leverage. the Companies with a high level of leverage will tend to report high profit to reduce the possibility of the company in debt agreement violation (A'Yunin et al., 2019).

According to the signaling theory, investors notice the information on the company's leverage due to obtain the management's signals. A big-size company tends to record the smaller profits that that of small-size company because the big ones are noticed by investors, creditors, government and people (Wati et al., 2020). The larger the company, more likely the company will choose to record decline in accrual revenue to escape from the political cost (Aini et al., 2006; Zamri et al., 2013).

III. METHODOLOGY

The research design is causality, which is the method used to determine the influence of corporate governance mechanisms and the quality of financial reports submission quality towards financial report integrity. The research sample was chosen with purposive sampling method, of 183 manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period, 43 companies were selected to produce 215 annual observation data.

Table I. Sample Selection

No	Description	Number of company
1	Number of Manufacturing Companies Listed in Indonesia Stock Exchange 2015 to 2019	183
2	Number of Manufacturing Companies inconsistently registered in Indonesia Stock Exchange during research time	(8)
3	Number of Manufacturing Companies inconsistently provide annual report during research time	(44)
4	Number of companies that do not have complete data used in the research (do not consistently have data on ownership of the board of directors, institutional ownership, managerial ownership, having no audit committees and independent commissioners).	(51)
5	Number of companies without annual report in Rupiah currency	(37)
	Number of companies as samples	43
	Number of research data (43 x 5)	215

Source : Data IDX, Processed

1. Definition of Variable Operating and Measurement

Dependent Variable: Financial report integrity is used to measure the extent to which the information is presented in accordance with "actual conditions" so that the information is of high quality, reliable in the decision-making process (Pradika and Hoesada, 2018). The financial report integrity can be measured using the principles of conservatism, and earnings management (Sauqi et al., 2017) with a formula 'book to market' (Wira at al., 2019; Sauqi et al., 2017):

$$\textit{Book to Market Ratio} = \frac{\textit{Stock Market Price}}{\textit{Value of Share Book}}$$

Independent Variables:

- Audit committee effectiveness. It is to show how much the audit committee helps the company in developing its strategic management. The effective auditing committee is measured with the auditing committee expertise. The measurement is taken from studies performed by Goddard and Masters (2000), Nuresa and Hadiprajitno (2013), Wati et al., (2020), and it is as follows: auditing committee expertise = auditing committee education proportion.
- The independent commissioner. The effectiveness of independent commissioner will encourage the role of commissioner in their independence and it is highly expected that the financial statement presented by the management has a high integrity level and it can be accounted for (Mais & Nuari, 2016). This measurement was from the studies of Evana et al., (2017), Wati and Momon (2020), Nurdiniah and Pradika (2017), it is the percentage number of the commissioners is from the number of commissioners.
- The managerial ownership. A company manager have a managerial ownership percentage tend to have greater responsibility in running the company. The calculation taken from the study of Evana et al., (2017) and Murwaningsari (2009) is that the percentage of managerial ownership of the total outstanding shareholdings
- The institutional ownership. The number of stocks owned by other institutions outside the company is 10% at minimum towards the total of company's stocks. It is measured by using the studies of Evana et al., (2017), Pradika and Hoesada (2018); it is that the percentage number of institutional stocks is from the number of circulating stock.
- The submission quality of financial report. It is viewed whether or not a company provides the punctual financial report. It uses the dummy variable (Mensah, 2018), being 1 = punctuality and 0 = unpunctuality.

- The political connection. A company which has the least main stakeholders (a person who owns at least 10 percent of the voting rights based on the number of shares owned) or one of the leaders is the parliament member, a minister, or has a close connection with a prominent figure or with a political party (facio, 2006). It is measured with the studies by Faccio (2006) and Wati et al., (2016), and it uses the dummy variable with 1 = the political-connected company and 0 = without political connection.

Control Variables:

- Size is measured with logarithm of total asset (Murwaningsari & Rachmawati, 2017; Wati et al., 2017).
- Leverage = Total of debt divided by number of capital (Zamri, et al., 2013; Malau & Murwaningsari, 2018).
- Profitability is measured with the net profit margin (NPM) = earning after tax (EAT) divided by total of sales (Wati et al., 2020).

2. Data Analysis Method

The hypothesis test uses Eviews Version 10, and moderation model uses the panel data equivalent regression as follows:

$$\mathbf{FRI_{it} = \beta_0 + \beta_1 KOMAUD_{it} + \beta_2 KOMIND_{it} + \beta_3 MGOWN_{it} + \beta_4 INST_{it} + \beta_5 SQFR_{it} + \beta_6 KOMAUD*PC_{it} + \beta_7 KOMIND*PC_{it} + \beta_8 MGOWN*PC_{it} + \beta_9 INST*PC_{it} + \beta_{10} SQFR*PC_{it} + \beta_{11} PROF_{it} + \beta_{12} LEV_{it} + \beta_{13} SIZE_{it} + \varepsilon_{it}}$$

Hypothesis test process: the best model selection are Common Effect Model, Fixed Effect Model, and Random Effect Model (Chow test, Hausman test, LM test), classical assumption test and hypothesis test.

IV. RESULT

Table II. Descriptive Statistics Analysis

Variable	Mean	Maximum	Minimum
financial sreport integrity	3,665445	100,6930	-1,137535
Audit Committee Effectiveness	0,850775	1,000000	0,333333
Independent commissioners	41,70108	80,00000	0,000000
Managerial ownership	11,44132	87,32909	0,000000
Institutional ownership	66,11315	121,0462	0,082664
Submission quality of financial report	0,995349	1,000000	0,000000
Political connection	0,116279	1,000000	0,000000
Profitability	-156,4426	23,52053	-31045,78
Leverage	508,5750	78693,13	-493,9966
Size	28,24597	33,49453	25,61948

Source: Data IDX processed, 2021

Table II, shows that the lowest score for the financial report integrity is -1,137535, experienced by Central Proteina Prima Tbk (CPRO) in 2017, and the highest score by 100,6930 falls into Alumindo Light Metal Industry Tbk (ALMI) in 2019. A ratio of more than 1 indicates the existence of conservative accounting because the company record the company's value is lower than their market value. From the average value of 3.665445, it can be concluded that some companies still perform conservative accounting, and reflecting the low financial report integrity

Hypothesis Test

a. Model choice test

Fixed effect model (FEM) was chosen as the first model which is shown on table III.

Table III. Model 1 Choice Test

Model choice test	Prob.	Chi-square
Chow test	0,0000	756,325323
Hausman test	0,0003	29,415005

Source: Data IDX processed, 2021

Because from the Chow test and the Hausman test, FEM was chosen, where the Hausman test showed the cross-section F value was 0.0003 < 0.05, then the test was not continued to the LM test, and FEM with weight-crossection was used (the model is better than non-weight) in model 1. Considering that the chosen one is FEM, there is no need for classical assumptions, but it is enough to test for normality using jarque-fall (sign. 0.2600 > 0.05).

On model 2 (table IV, Panel B), using LM-Test, a p-value is 0.3281 > 0,05 so that the common effects model is chosen, with weight cross-section (model is better than non-weight). The classical assumption test is with the normality test, showing the result by 0,0098 < 0,05. However, Gujarati and Porter (2012) suggested that the normality test is not deemed as the essential element for large data (more than 30 data), whilst Sekaran and Bougie (2010) perceived that the rule of thumb determining the number of samples was 30 to 500 samples (Putera, 2017). Therefore the model can be accepted and continued in the next test.

b. Hypothesis Test Model

Table IV, Panel A shows that the coefficient of the effective auditing committee variable (KOMAUD) is 4,6054 with sign. 0,0000 < 0,05. The calculated-t is 6,2129 > 1,9715, meaning that each rise of one digit allows the auditing committee to improve the financial report integrity by 4,6054 and it statistically reveals that the auditing committee positively influence the financial report integrity. This result supports the first hypothesis which says that the auditing committee has a significant, positive effect to the financial report integrity.

Table IV. Hypothesis Test Result

Panel A

FRI = 18,2854 + 4,6054KOMAUD - 0,0027KOMIND - 0,0193MGOWN - 0,0221INST – 4,5285SQFR + 2,87PROF + 0,0127LEV – 0,456SIZE……………………………………..(1)

Variable	Prediksi	Coeff.	T-Statistic	p-value	Result
Intercept		18.2854	3.9812	0.0001	
KOMAUD	+	4.6054	6.2129	0.0000*	*Supported*
KOMIND	+	-0.0027	-1.3719	0.0859	*Unsupported*
MGOWN	+	-0.0193	-5.3627	0.0000*	*Unsupported*
INST	+	-0.0221	-5.8917	0.0000*	*Unsupported*
SQFR	+	-4.5284	-1.5716	0.0590	*Unsupported*
PROF	- / +	2.87	0.6713	0.2515	*Unsupported*
LEV	- / +	0.0012	116.40	0.0000*	*Supported*
SIZE	- / +	-0.4560	-3.5799	0.0005*	*Supported*
R-Square	0,9925				
Adj-Square	0,9902				
Total Obs.	215				

Variabel	Prediksi	Coef.	t-statistic	p-value	Result
Intercept		5.7900	8.0074	0,0000	
KOMAUD	+	-1.7216	-6.1668	0,0000*	
KOMIND	+	-0.0011	-0.1886	0,8506	
MGOWN	+	-0.0058	-7.6639	0,0000*	
INST	+	-0.0006	-0.4029	0,6874	
SQFR	+	-5.1722	-60.383	0,0000*	
KOMAUD*PC	-	14.755	4.6779	0,0000*	Unsupported
KOMIND*PC	-	0.6665	4.8892	0,0000*	Unsupported
MGOWN*PC	-	-22.6220	-2.1466	0,0330*	Supported
INST*PC	-	0.8540	3.3612	0,0009*	Unsupported
SQFR*PC	-	-78.7505	-11.9421	0,0000*	Supported
PROF	- /+	2.27	5.3566	0,0000*	Supported
LEV	-/ +	0.0013	749.5845	0,0000*	Supported
SIZE	-/+	0.0781	3.3604	0,0009*	Supported
R Square		0,9600			
Adj Square		0,9575			
Total Obs.		215			

Panel B

FRI = 5,7900 - 1,7216KOMAUD + 0,001KOMIND - 0,0058MGOWN - 0,0006INST – 5,1722SQFR + 14,755KOMAUD*PC + 0,6665KOMIND*PC – 22,6219MGOWN*PC + 0,854INST*PC - 78,7505SQFR*PC + 2,27PROF + 0,0013LEV + 0,0781SIZE……………….……………………(2)

Notes :

Dependent variable: FRI = financial report integrity calculated by stock market price divided by the value of share book.

Independent variable : KOMAUD = The audit committee effectiveness calculated by the proportion of audit committee education; KOMIND = The independent ownership, calculated by the number of independent commissioners divided by the number of commissioners; MGOWN = The managerial ownership, calculated by the number of managerial shares divided by the number of outstanding shares; INST = The institutional ownership, calculated by the number of institutional shares divided by the number of outstanding shares; SQFR = The submission quality of the financial report is figured with the dummy variable 1 = punctual and 0 = unpunctual.

Moderating variable : PC = political connected, calculated with a dummy variable, 1 = politically connected and 0 = politically disconnected, where political connection moderates the effectiveness of the audit committee (KOMAUD*PC), political connection moderates the independent commissioner (KOMIND*PC), political connection moderates managerial ownership (MGOWN*PC), political connection moderates institutional ownership (INST*PC), political connection moderates the submission quality of the financial report (SQFR*PC);

Control variable: PROF = profitability using net profit margin proxy, calculated by earning after interest and tax divided by sales; LEV = leverage with proxy debt to equity ratio, calculated by total of debt divided by number of capital; SIZE = company size, calculated by log total assets

Source: Data IDX processed, 2021

The coefficient of the independent commissioners (KOMIND) is -0,0027, negatively correlated, and is not significant on a sign. by 0,0859 > 0,05. and The calculated-t is 1,3719 < 1,9715. The negative correlation of -0,0027, meaning that every each rise of one point the independent commissioner can downgrade the integrity of the financial statements by 0.0027. Because the results are not significant, the KOMIND variable cannot explain the influence on the financial report integrity. Based on these results, the independent commissioner has no significant effect with a negative correlation, so that H2 is not supported/rejected.

The coefficient of the managerial ownership (MGOWN) is -0,0193, having a negative correlation and is significant on a sign. by 0,0000 < 0,05. The calculated-t is 5,3627 > 1,972. The negative correlation explains that each rise of one point can reduce the financial report integrity by 0.0193. It statistically shows that the MGOWN variable has a negative, significant effect on the financial report integrity. Based on these results, H3 is not supported/rejected, because although the test results are significant, the correlation shows the opposite direction to the prediction.

The coefficient of the institutional ownership (INST) is -0,0221, posing a negative correlation and is significant on a sign. by 0,0000 > 0,05 and the calculated-t is 5,8917 > 1,972. The negative correlation is that each increase of one point can have the INST lower the financial report integrity by 0,0221. Statistically shows that the institutional ownership variable has a negative, significant effect on the financial report integrity. The results show that although the variable of institutional ownership has a significant influence, it has a negative correlation, so it denies the fourth hypothesis.

The coefficient of submission quality of the financial report (SQFR) is -4,5284, being a negative correlation and it is not significant on a sign. by 0,0590 > 0,05. The calculated-t is 1,5716 < 1,652. The negative correlation shows that each rise of one point the quality of financial report submission can reduce the financial report integrity by 4,5284. Because the results are not significant, the variable quality of financial report submission cannot explain the influence on the financial report integrity. Based on these results, the quality of the submission of financial reports does not affect the financial report integrity with a negative correlation so that H5 is not supported/rejected.

For the control variables used, shows that the leverage and size are significant with sign. 0,0000, and on sign 5% (0,05) it is 0,0000 < 0,05. While profitability is not significant with sign. 0,2515 > 0,05.

Based on table IV, Panel B. The Political connection variable in moderating the effect of audit committee effectiveness on the financial report integrity has a coefficient of 14.7550; significant positive at 5%, which is 0.0001 < 0.05, It is that the political connection is essential to investors. The political connection variable as the moderating variable can strengthen the influence of the audit committee's effectiveness towards the financial report integrity. Based on these results, this rejects the sixth hypothesis because even though it has a significant effect, the correlation is negative.

The Political connection variable in moderating the effect of the independent commissioners on the financial report integrity is 0,6665. The positive, significant correlation on a sign. is 0,0000 < 0,05, It is that the political connection is the important element for investors. Based on the test results, the political connection variable as the moderating variable can strengthen the effect of independent commissioners on the financial report integrity. Based on these results, H7 is not supported/rejected, because although it has a significant effect, the correlation is opposite to the prediction.

The Political connection variable in moderating the effect of managerial ownership on the financial report integrity is -22,62195. It has a negatively and significantly correlated with on sign. 0,0330 < 0,05, proving that the political connection is important/valuable for investors. The test result showed that the variable of political connection serving as the moderating variable can weaken the effect of managerial ownership on the financial report integrity. Based on these results, H8 is supported/accepted..

The Political connection variable in moderating the effect of the institutional ownership on the financial report integrity is 0,8540, having a positive and significant correlation on a sign. 0,0009 < 0,05, it states that the political connection is vital for investors. Based on the test results, the political connection variable as a moderating variable can strengthen the effect of institutional ownership on the financial report integrity. H9 is not supported/rejected because although it has a significant effect, the correlation is opposite to the prediction.

The Political connection variable in moderating the effect of the submission quality of financial reports on the integrity of financial statements is -78,75045, being a negative and significant correlation on a sign. 0,0000 < 0,05. Based on the test results, the political connection variable as a moderating variable can weaken the effect of the quality of financial report submission on the financial report integrity. So, H10 is supported/accepted.

For the control variables used, it is evident that the profitability, leverage, and size are significant with a sign. < 0,05, and each coefficient value is 2,27; 0,0013; 0,0781. The Function of the control variable is to prevent biased calculation results. Based on the regression results, show that the regression results before and after the control variables have a constant correlation and significance value.

V. DISCUSSION

1. The Effect of the Effectiveness of the Audit Committee on the Financial Report Integrity

The audit committee is used to increase the credibility of the financial statements. Although investors are less aware of the importance of auditor quality in carrying out the audit process, auditors can be considered as one of the mechanisms that can be used to limit opportunistic behavior by managers (Murwaningsari, 2007). By increasing the audit committee (the number of experts in finance and auditing) does not have a direct correlation in increasing the functionality of the audit committee in a company, so that the ineffectiveness of this audit committee will have an impact on decreasing the financial report integrity (Ulfa & Chalen (2019).

Audit committees who have high financial expertise can appreciate and care more about the importance of financial statements that are present correctly and fairly (Salleh & Stewart, 2012). The audit committee's accounting and finance expertise has also received widespread attention from the media and regulators. The audit committee's financial expertise increases the detection of possible material misstatements and will be communicated to be corrected immediately (Wati et al., 2020).

2. The Influence of Independent Commissioners on the Financial Report Integrity

The results of hypothesis testing 2 (H2) indicate that independent commissioners have no significant effect on the financial report integrity. These results are by following the findings of Ulfa & Chalen (2019); Pradika & Hoesada (2018). It can be said that the board of commissioners may not be able to balance the decision-making process and protect the rights of stakeholders, especially minority shareholders. It also feared that the low proportion of independent commissioners have will make them less able to contribute to providing independent oversight of the actions taken by management. In addition, independent commissioners also often serve as audit committees and remuneration committees. So that in practice the independent commissioner becomes unfocused and cannot carry out his duties and functions to the fullest. The presence of an independent commissioner can also be one of the obstacles that can reduce the trust of stakeholders so that the information in the financial statements cannot be guaranteed to have high integrity and can be a responsibility (Pradika & Hoesada, 2018).

3. The Effect of Managerial Ownership on The Financial Report Integrity

The results of hypothesis testing 3 (H3) indicate that managerial ownership has a significant negative effect on the financial report integrity. This study is in line with the research of Sauqi et al. (2017) and contrary to research by Ulfa & Chalen (2019); Budiharjo et al. (2020); Fauziah & Panggabean (2019) which states that managerial ownership has a positive effect on the integrity of financial statements.

This indicates that when management ownership increases, the integrity of financial statements will decrease. This can happen if the interests of company managers will be more focused on prioritizing the interests of their own so that the motivation and need for monitoring the board are also lower. Often some companies that have a high percentage of managerial ownership show a more conservative pattern in reporting their financial statements so that the level of report quality and financial report integrity will be lower.

4. The Effect of Institutional Ownership on the Financial Report Integrity

The results of hypothesis testing 4 (H4) indicate that institutional ownership has a significant negative effect on the financial report integrity. The results of this study contradict the research of Nurdiniah & Pradika (2017) which states that institutional ownership does not affect the integrity of financial statements. Institutional ownership is sometimes unable to limit the occurrence of fraudulent practices on financial statements. This is because institutional investors do not play a role in *supporting* management to provide correct information. Institutional ownership often only focuses on its short-term interests for their benefit so that even though they have a lot of capabilities and opportunities in monitoring and regulating managers to focus more on increasing the value of the company and limiting management decisions in carrying out profit manipulation practices, this is not the case. more effective and cause the financial report integrity to continue to decline.

5. Effect of Quality of Financial Report Submission on Financial Report Integrity

The results of the research on hypothesis 5 (H5) indicate that the quality of financial report submission does not affect the financial report integrity. Timely information can reduce the occurrence of information asymmetry and can also provide relevant information because if the information provided is outdated/not timely, the financial statements will no longer be useful information for decision making. In this regard, In this regard, that found that the quality of the submission of financial reports does not affect the financial report integrity. This integrity is not only related to when the information is needed but also related to how the manager or company's performance in managing the company's wealth sources during an accounting period. When reports are made in a hurry and carelessly, to meet the accuracy of the report and to be trusted by other outside parties, sometimes there are certain actions taken by management to be able to make how the report looks quality and informative to users by manipulating some financial statement posts, and vice versa, late/too careful financial statements can also indicate manipulation of financial statements. So, the timely submission of financial reports is not able to show the existence of a report with high integrity.

6. The Role of Political Connections in Moderating The Influence of The Effectiveness of the Audit Committee on the Financial Report Integrity

The results of hypothesis 6 (H6) indicate that political connections strengthen the effect of the effectiveness of the audit committee on the financial report integrity. It means that the audit committee functions to ensure the quality of financial reports, in this case when the company is politically connected, it does not weaken the control exercised by them because political connections are more focused on how the company will be able to increase its revenue from links politically owned. In this case, the audit committee effectively plays a good role in improving the integrity of the firm's financial statement. Contrary to what Bliss et al. (2011), states that the effectiveness of the independent audit committee is found to be weaker in politically connected companies.

7. The Role of Political Connections in Moderating The Influence of Independent Commissioners on The Financial Report Integrity

The results of hypothesis 7 (H7) indicate that political connections strengthen the influence of independent commissioners on the financial report integrity. Independent commissioners can mediate for managers in resolving disputes between managers, supervising all management policies, and providing input or advice to management regarding the management of the company. Even though the company has political connections, independent commissioners will still be able to carry out their functions as supervisors and will create good corporate governance. The more independent commissioners, the better the quality of financial reports (Wati & Momon, 2020: 58), this also supports the research findings that connected companies can moderate by strengthening the influence of independent commissioners on the financial report integrity.

8. The Role of Political Connections in Moderating the Effect of Managerial Ownership on The Financial Report Integrity

The results of hypothesis 8 (H8) indicate that political connections can moderate by weakening the effect of managerial ownership on the financial report integrity. Political connections are very beneficial for companies, one of which is that politically connected companies usually profitability from their connections over and above the payments they make, in which case insiders may hide, omit, obscure, or at least try to slow down/delay the benefits of reporting that will be received by stakeholders, especially investors with the aim of deliberately misleading them to get a profit for the costs they have incurred (eg, Schipper, 1989; Leuz, Nanda and Wysocki, 2003; Faccio & Parsley, 2017). So that the existence of a managerial ownership structure in politically connected companies weakens the existence of financial report integrity.

9. The Role of Political Connections in Moderating The Effect of Institutional Ownership on The Financial Report Integrity

The results of hypothesis 9 (H9) have a significant positive correlation indicating that political connections can moderate by strengthening the effect of institutional ownership on the financial report integrity. With political connections, the closeness between business people and the government is quite high, there is a political umbrella phenomenon where business people deliberately build political connections to 'overshadow' or secure and facilitate their business access (Hidayati & Diyanti, 2018). So that the trusted by many parties, especially the government, institutional ownership tries to optimally supervise the company's operations to take more benefits that can be obtained so that it has an impact on the quality of good financial reports and the financial report integrity is maintained and improved.

10. The Role of Political Connections in Moderating the Effect of The Quality of Financial Report Submission on The Financial Report Integrity

The results of hypothesis 10 (H10) show that political connections can moderate by weakening the effect of the quality of financial report submission on the financial report integrity. Politically connected companies will take advantage of their political closeness/connections, which are more inclined to the company's internal interests. These benefits include ease of access to obtain loans from banks and ease of obtaining contracts or winning project tenders from the government, and others. With these activities the company is faced with high risk, so to make financial reports, management is more likely to need more time in reporting. To be trusted by investors, companies tend to be more careful in reporting their financial report, so that apart from delays, the financial report integrity tends to below. Therefore, political connections play a role in weakening the influence of the quality of financial reporting on reports with integrity.

VI. CONCLUSION

The test results show that the effectiveness of the audit committee has a positive effect on the financial report integrity. In line with research findings from Ulfa & Chalen (2019); Machdar & Nurdiniah (2017); Pradika and Hoesada (2018). It means that the audit committee with high financial expertise can appreciate and care about the importance of the truth and fairness of financial report (Salleh & Stewart, 2012) so that with their supervision, they can produce financial reports with high integrity. Independent commissioners have no significant effect on the financial report integrity. In line with the findings of Ulfa & Chalen (2019); Pradika & Hoesada (2018). Apart from having a low percentage rate, independent commissioners often serve as audit committees and remuneration committees so that in practice independent commissioners become unfocused and cannot carry out their duties and functions optimally.

Managerial ownership has a significant negative effect on the financial report integrity. It means that when management ownership increases, the financial report integrity will decrease. This can happen if the interests of company managers will be more focused on prioritizing the interests of their own rather than for the interests of the company and other interested parties. These results are in line with the findings of Sauqi et al. (2017). Institutional ownership has a significant negative effect on the financial report integrity. Contras to his research by Machdar & Nurdiniah (2018), said that the higher the level of institutional ownership, the higher and the stronger the control on the company. So, that the firm's cost can be reduced more, and the value of the company is increased, this shows that the integrity of financial statements is also getting better. The result of the next research is that high and low financial report integrity cannot be depicted from the timeliness of the submission of financial statements.

Political connections strengthen the influence of the effectiveness of the audit committee on the financial report integrity. In this case, although the company is politically connected, the audit committee plays a good role in improving the integrity of the firm's financial statements. The ability and experience of the audit committee can avoid political pressure and cannot be compromised by the company to support its political agenda. Political connections can significantly strengthen the influence of independent commissioners on the financial report integrity. This result means that, even though the company has political connections, independent commissioners will still be able to carry out the monitoring function to create good corporate governance. The more independent commissioners, the better the quality of the financial statements produced.

Political connections can weaken the influence of managerial ownership on the financial report integrity. Meaning that managerial ownership allows people to take actions that are detrimental to the company such as may hide, omit, obscure, or at least try to slow down/delay the benefits of reporting that will be received by stakeholders, especially investors. So that with political connections, managerial ownership positions can weaken the existence of financial report integrity.

Political connections can strengthen the effect of institutional ownership on financial report integrity. The existence of institutional ownership has proven able to encourage the board and management to maintain the financial report integrity. Political connections can weaken the influence of the quality of financial report submission on financial report integrity. It means that to be trusted by investors, companies tend to be more careful in reporting their financial statements so that apart from delays, the financial report integrity tends to be below. Therefore, political connections will weaken the influence of the quality of financial report submission on reports with integrity.

IMPLICATIONS AND SUGGESTIONS

Companies or policymakers must pay attention to political connections that can influence the creation of good corporate governance. With good governance, the integrity of financial statements will also be high. And for the next researcher, it is expected to use a complete audit committee effectiveness proxy such as with audit committee authority, audit committee size, audit committee persistence, then take samples not only manufacturing but can use all sectors listed on the Indonesia Stock Exchange because this allows producing good findings, different and broader results.

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