

GOOD CORPORATE GOVERNANCE AND INTEGRITY OF FINANCIAL STATEMENT

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KEYWORDS

audit quality, industry specialized auditors, audit fee, integrity of financial statement, good corporate governance.

ABSTRACT

This research aims to find out any influences of Audit Quality, Industry Specialized Auditors, and Audit Fee toward Financial Statement Integrity as well as Good Corporate Governance as an intervening variable. Populations used on this research are companies in mining sectors that have been listed in Bursa Efek Indonesia (BEI) from 2018-2021. This research has 36 companies with a total of 144 samples, all of them already eligible for purposive sampling. This research is analyzed using Structural Equation Model (SEM) powered by Analysis of Moment Structures (AMOS). This research's hypothetical results suggest that audit qualities affect good corporate, audit fee, and good corporate governance. Hence, it also affects the financial statement integrity overall. This research also suggests audit quality and industry specialized auditor do not affect the financial statement integrity. Industry specialized auditor and audit fee also do not affect good corporate governance.

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1. Introduction

Financial report is a primary medium that is used by companies to provide information regarding their financial conditions for any outside parties. These information provide a glimpse of images, or the conditions of the companies that can be measured by money. There are numerous information that is contained in the financial report, hence, it is essential for users inside, or outside of the company, such as but not limited to investors, creditors, suppliers, employees, customers, governments, and people for their decision-making factors. That would be the reason why any information that is included in the financial report has to be highly integrated, so it is imperative not to make any single mistakes while making the report. Integrity of the financial report can be used as a parameter to find out the eligibility of the financial report itself.

Statement of Financial Accounting Concepts (SFAC) No.1 states that financial report is integrated if the report has fulfilled one of the characteristics that has been issued by IFRS, such as faithful representation and it is also has to be free from error. Faithful representation is a quality that

makes an accounting information is usable in order to be used as a factor of decision-making. Free from error can be defined to be a financial information that is flawless without any single mistakes, and it can depict economical phenomena that is happening, accurately, without any error in implementation.

There are some companies issued non-integrated financial reports (Fajaryani, 2015), in which the information presented by the companies are false and only beneficial to some other parties only. This phenomenon boomed in early 2000s, with big companies crumbled due to legal cases of earning management, making it a famous scandal of accounting report. Some of the big companies in the United States of America (U.S.) were caught to commit this fraud, such as Enron, Tyco, Xerox, and Global Crossing. One of the case of a mining company occurred in 2016, in which Board of Directors of PT Cakra Mineral, Tbk. is reported to Otoritas Jasa Keuangan and Polda Kalimantan Tengah, suspected for embezzlement and accounting manipulation, with millions of losses and misguided investors in the process. Moreover, low rates of integrity of financial statement also occurred in other mining companies in Indonesia, such as PT Arutmin Indonesia, PT Kaltim Prima Coal, and PT Bumi Resources, Tbk. Those companies were allegedly manipulated their reports, making fatal losses (Wijaya, 2010). In their operations, mining companies process their resources and transactions vastly, as well as involving a lot of parties such as the stakeholders (supplier, creditor, customers, investors, etc). Mining companies have big chances to score higher profits, so they are expected to have highly integrated financial reports.

Researches regarding integration of financial reports has been committed by previous researchers, such as Fajaryani (2015), Dewi & Putra (2016), Akram et al., (2018), Atiningsih & Suparwati (2018), Rosliana et al., (2019), Tussiana & Lastanti (2018), Ulfa & Challen (2020), Putri (2021), Abbas et al., (2021). This research is going to fill the literature void many researchers have not explored yet regarding roles of good corporate governance as a mediating relationship among audit qualities, audit fee, specialization of auditor industry towards financial report. According to Susiana & Herawati (2007) in cases of accounting manipulation fairly does not only involve parties inside of the companies, but also outside heavily affected such as external auditors, who also have to be held responsible for making these cases went viral. In order to achieve highly integrated financial reports, the companies also have to implement a well maintained system. Audit quality also affects the integrity of the reports. Public accountants have to show that audit service they provide has to be of decent quality and trusty by providing dependable information, so they can provide any necessities needed.

Research Questions

This research will try to answer research questions as follows:

1. Do audit quality, specialization of auditor industry, and audit fee affect good corporate governance?
2. Do audit quality, specialization of auditor industry, and audit fee affect integrity of financial statement?
3. Does good corporate governance affect financial report?

Research Purpose

This research has set to test factors affecting integrity of financial statement by good corporate governance empirically as the purpose.

THEORITICAL FRAMEWORK

Literature Review

Agency Theory

Agency theory defines that relations between two parties of principals and agents (Jensen & Meckling, 1976). Principals can give tasks and mandates to the other party, agents, as the one who

receives the tasks and mandates. This theory argues that it is difficult to trust managements (agents) that will always do according to interests of the principals. That is why a controlling mechanism is required to settle any gaps between interests of principals and agents. With the mechanism of “corporate governance”, it is expected to decrease any agency problems (Akram et al., 2018).

There are several frameworks made to be baselines for this theory. These frameworks are categorized into three assumptions, such as nature of people, organizational, and information assumptions (Citra, 2023). Assumption of nature of people has a tendency to prioritize oneself, which is to be risk-averse as well. Assumption of organizational defines any existence of conflicts among members of their organizations as well as information gap between principals and agents. Meanwhile, assumption of information is defined as information as a commodity and can be sold and bought like an object (Oktapiyana, P., & Putri, 2018). An authorization given from principals to agents based on interests from owners is a vocal point for this particular theory (Sofia, 2018). This theory is also implementable to analyze any conflicting interests between managers and owners (Rahardjo, 2007).

The integrity of financial statement refers to dependability, accuracy, and transparency of information presented in the report. It is imperative for financial reports to accurately depicts financial situations and performance of the company to produce a well-informed decision by decision-makers.

Relations between research, a theory about problems occurred regarding relations between agents and principals in order to achieve their goals are called agency problems. One prime example of an agency problem would be asymmetrical information sharing between agents and principals. This could happen when managers has more and faster flow of information regarding their internals, compared with their externals counterparts such as creditors and investors. This condition could present an opportunity for managers to manipulate their own financial report, utilizing the information in their possession. Conflicts between agents and principals do not always come in line. Agents has incentives to manipulate the report to gain their personal interests or influence perceptions of decision-makers. Agency theory shows that effective monitoring and controlling mechanisms may be able to decrease the amount of agency problems (Al-Kahfi, Kirana, & Nugraheni, 2021). In context of financial reports, this mechanism relies on internal controlling, external audit, and regulation monitoring. Decent monitoring and controlling mechanisms could help to make sure financial report to be issued in-line with a proper and relevant accounting standards to decrease any manipulations based on any ill-intent. This theory also has a point in etiquette of principal-agent relationships. Keeping the integrity of financial statements means agents has to surpass their etiquette standards as well as their professional codes and ethics by promoting an accurate report that can be trusted. A high integrated financial report can be made with a well-maintained company.

Stakeholder Theory

Stakeholders are a group or individuals that can affect or be affected by goals of companies (Freeman & Phillips, 2002). Stakeholders can also be defined as shareholders. Employees, creditors, customers, suppliers, governments, and other related parties in achieving companies' goals can also be called as stakeholders.

Essentially, stakeholder theory explains about complex and dynamic relationships between companies and their environments, such as the stakeholders. Relations between stakeholders and integrity of related financial reports with how interests of stakeholders can affect and be affected by integrity of the financial reports. Ghazali et al., (2008) argued that stakeholder theory is a situation when a company is not just an entity maintained by its own interests, a company also has to provide any benefits for its stakeholders. One of the ways to do this it to upgrade supplies of information regarding risks or the conditions of the company itself.

A well-integrated financial report plays a pivotal role in building confidence of stakeholders toward the company (Pratama, 2022). Owners, investors, and creditors need an honest, accurate, and

transparent financial report to produce investment decisions and risk evaluations. Confidence of stakeholders toward financial reports can also affect relationships between companies and the relevant decision-makers. This theory emphasizes importance of responsibility of companies to present accurate and transparent information to the stakeholders. With an honest financial report, a company can show its commitment towards transparency and accountability (Nofitasari, 2020). In short, this theory can be utilized to measure policies and operations of a company that can affect their reputation and business relationships. Stakeholders' involvement in monitoring and evaluating financial report can also boost its integrity.

Integrity of Financial Statement

Financial reporting refers to a process of giving financial information to the stakeholders. Kieso (2014) mentioned that if there is a financial report capable of fulfilling one of any characteristics registered by the IFRS such as faithful representation and has to be free from error. In financial reporting process, there is a material information that can affect financial decision that will be taken by the users of the information (Yanti, 2020). The holder of the material information is considered to be important because it helps public to understand the structures, policies, activities, and company performance up to standards, ethics, and the companies' relationships with the local people.

If there is such cases of failure of fulfilling any standards set by the IFRS, the company can be imposed of serious consequences including legal sanctions, loss of trust of the investors, bad reputation, and financial loss. Hence, organization has to prioritize accuracy and dependability to keep their trust and credibility intact among stakeholders.

Good Corporate Governance

Good corporate governance is a system used to maintain and provide guidance of a company. This system has a big influence on upholding a stellar performance that comes with analysis and risk management faced by the company. To put things in simple, corporate governance can be defined as a system set to regulate and control a company for stakeholders (Rosliana et al., 2019). Meanwhile, Tunggal (2011) defined this as a relationship among stakeholders used to define directions and control a company's performance.

Organization for Economic Cooperation and Development (OECD) defines GCG as a system used to control and direct business activities of a company, which can be also used to set job descriptions, as well as rights and obligations of the stakeholders such as the shareholders, board of directors, managers, and all of the non-share holders stakeholders, towards the survival of a company.

In short, GCG is means to ensure managements will provide the best decisions for the sake of stakeholders' interests (Epyfami, 2023). The implementation of GCG emphasizes on protection towards rights of the holders of minority share in a company. The principals of GCG ensure those rights to be preserved. This principal of GCG is hoped to be a guidance for the governments so they can implement an ideal state of GCG itself (Rosliana et al., 2019).

Principles of Good Corporate Governance Implementation

In order to implement GCG ideally, an organization needs commitments from all of the components of the organization itself. According to Undang-undang No.40 Tahun 2007, the principles are as follows:

a. Transparency

A company has to provide an accurate, decent, and punctual information for the users of financial report internally and externally.

b. Accountability

Functions, rights, obligations, and responsibility have to be defined among board of commissioners, board of directors, and shareholders.

c. Responsibility

In doing their operations, companies also have to be held responsible toward shareholders and stakeholders.

d. **Independency**

An organization or company has to be maintained professionally without any cheatings, certain interests of any parties, and pressure from any parties that do not align with the rules in effect.

e. **Fairness**

An organization has to meet every rights of stakeholders according to regulations. This principal can be used as a primary factor able to monitor and guaranteeing regulations to be uphold equally and just, in order to achieve mutual interests.

1. Audit Quality

External audit has a role as gatekeepers of stock market to provide certainties of qualities of financial reporting of a public company (Herusetya, 2012).. Audit quality is defined as a joint probability of abilities of an auditor to scan for a foul in financial reporting, and report them if there is any, in an accounting system of a client (Mathius, 2016). With additional knowledge possessed by auditors in a certain industry, it will help them to push for any fouls to be found in a financial report of a company. It is suggested to utilize an auditor with specialization in certain industry will be able to improve information flow, and decrease the already high level of accrual discretionary in a company with a high probability of investment (Sarunggalo & Siregar, 2012).

2. Auditors of Specialization Industry

Auditors of Specialization Industry is an understanding and special ability of a certain industry that is gained by an auditor's skills in auditing, as it is a very good tool to improve the audit quality as a whole (Rahadiano, 2012). According to Reichelt & Wang (2010), when an auditor has a big group of clients in the same industry, it has a tendency to improve the skill of said auditor and it will lead to a higher level of audit quality of those clients in the same period. Wicaksono & Purwanto (2021) also said specialized auditor has a better quality in auditing. Tendencies of companies that has high risk force auditors to give a better analysis of audit to avoid any legal obstacles due to cheating of the financial report, to make the report an even better of quality (Tussiana & Lastanti, 2018).

3. Audit Fee

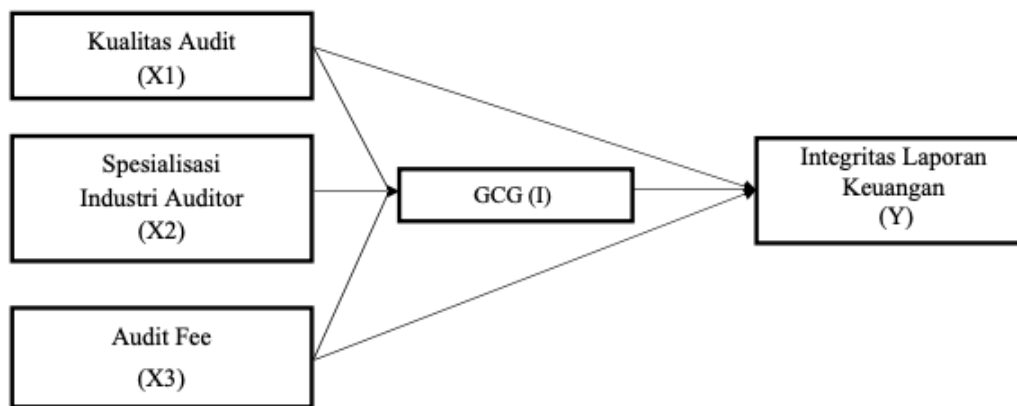
Public accountant is a professional service so when it comes to providing a service of external auditor, client or company is obliged to pay for the service, as it is called the Audit Fee. According to (Nainggolan et al., 2022), audit fee is a honorarium imposed by public accountants to companies for their services. Audit fee refers to a sum of payment, paid by a company to external audit firms to do independent checking and provide opinions regarding justice and accuracy of the company's financial report. Indonesian Institute of Public Accountant (Institut Akuntan Publik Indonesia, IAPI) issued a guideline regarding audit fee in which the policy explained how much an audit fee should be measured by the service provided by the auditors. That would be the reason why there would be differences between the amount that should be paid as services, depending on the complexity. Audit fee can affect the quality of audit by public accountant, as it will also affect the financial report, and vice versa (Puspita & Utama, 2016).

Previous Researches

According to previous researches convened by Akram et al., (2018), Mechanisms of Corporate Governance, audit quality, size of company, and leverage toward integrity of financial statement indicates that institutional ownership, board of directors, audit committee, independent commissioner, and leverage do not affect on the integrity of the financial report. On the other hand, managerial ownership can give effects negatively toward the integrity of the financial report. According to a research by Putri (2021) with a title of Audit Fee, Audit Report Lag, Audit Tenure, and Corporate Governance toward Integrity of Financial Statement indicated that audit report lag, institutional ownership, and managerial ownership proved to be positive toward the financial report

integrity, while audit tenure goes the other way, proved to be negative. Audit fee does not affect the financial report integrity in any ways. Research by Handayani and Ibrani (2021) with a title of Role of Auditor Specialization in Moderating Corporate Governance and Quality of Audit Reporting in Indonesian Manufacturing Companies proved that size of the board of commissioners, proportion of independent commissioners, and institutional ownership has some effects on the quality of an audit. Audit committee, Industry Specialized Auditor does not give any effects on the quality of the audit reports. While Inayati & Azizah (2021) with their research of The Effect of Audit Quality, Managerial Ownership and Audit Committee on the Integrity of Financial Statements shows that audit quality proved to be affected negatively on the financial statement integrity, while audit committee and managerial ownership do not give any effects whatsoever, to the financial statement integrity.

Conceptual Framework



Hypothetical Development

Audit Quality's Influence towards Good Corporate Governance

There are numerous accounting cases in the last couple of years that summoned questions from various perspectives, especially regarding a company's maintenance. Based on these cases, this indirectly indicated that the mechanism of GCG has not been implemented to its maximum potential. According to the Agency Theory, audit quality has affected significantly toward a practice of good corporate governance in which the agency theory assumed that there is a relationship between principals and agents in which both of them tend to be facing with each other. Audit quality has a role to decrease conflicts between principals and agents and it also can increase transparency, accountability, and principals' interest protection. In the Stakeholders Theory, audit quality also has a pivotal role in building a good relationship between companies and stakeholders, increasing transparency, accountability, and monitoring, in the process.

Public accountant as an independent party offers a fairness opinion regarding the financial statements, while it also raises questions at the same time. Some of the people represented by stakeholders thought that companies audited by the Big 4 Accountant Firms is more trusty so the companies will not risk their reputation to give an opinion of "fairness without any exceptions" without any catches to companies with bad managements. It can be said the better the audit quality, the more integrated the financial statements, that has to fulfill the principal of "disclosure", one of the components in order to implement GCG.

Hormati (2009) argued that audit quality has a positive effect on the GCG. In-line with what Ulum (2007) found that external auditors' quality affected on the quality of GCG implementations.

While Indarti et al., (2018) proved otherwise. In theory, substantive relationships and results of various researchers above, this research propose these hypothesis as follows:

H1: Audit quality positively affected toward good corporate governance.

Influence of Audit Quality towards Financial Statements Integrity

BPK issued a Standar Pemeriksaan Keuangan Negara No.1 Tahun 2007 about monitoring implementation by auditor based on a monitoring standard that will result an even better audit quality, improving information credibility gained from an entity that has been monitored by evidence assembling and testing objectively.

Audit quality as a joint probability in which an auditor will find and report any fouls in the clients' accounting system. Probability where auditor will find one of them depends on the auditor's technical skills. This audit quality is essential due to the high quality of audit will generate an integrated financial statement so it can be trusted as one of the factors of decision-making process (Akram et al., 2018). Audit that has been done accordingly and fit to the standards will decrease any chance of cheating and improve credibility of the financial statement. Agency theory assumed that any existences of conflicts of interests between agents and principals can lead to forgery or inaccurate information to be presented on the statement. Audit plays a pivotal role on minimizing those risks that can decrease the integrity of the statement. Audit quality can provide assurance and trust to various stakeholders regarding the company's financial statement. The audit quality can influence the perceptions of stakeholders' regarding the financial statement.

Oktapiyana et al., (2018) suggested that audit quality has the ability to influence the integrity of financial statement. Aligned with what Akram et al., (2018) has stated that quality of audit affects the integrity of financial statement. Serly & Helmayunita (2018) begged to differ in which they provided evidence saying audit quality does not affect the integrity of the financial statements in any way. Based on theories, substantive relationship and previous research results above, this research proposes a hypothesis as follows:

H2: Audit Quality positively affected integrity of financial statement.

Influence of Industry Specialized Auditors toward Good Corporate Governance

Specialized auditors have abilities to detect mistakes and more experience than a non-specialized auditors. An auditor has a responsibility to provide assurance of relevancy of a financial statement free of misstatement. Auditor that has specialization on certain industries has better understandings about characteristics, risks, and the best practices in their respective industries. With this sharpened skills, auditor can provide better suggestions to the company's management when they are designing and implementing a well-maintained operation. Auditor with specialization in certain industry can help build trust to the shareholders by providing assurance that the audit is done by a party that has a deepened insights regarding this particular industry. This boosts transparency and accountability of the company to the shareholders and support good corporate as a whole.

Sun et al., (2014) argues that industry specialized auditors will do high quality audit processes to their clients, so they can generate accounting information that can be qualified enough to be inputted into the financial statement. With an integrated financial statement, the implementation of GCG in the company can be said as decent. Based on the theories, substantive relationship and results of the previous researches aboce, this research proposes a hypothesis as follows:

H3: Industry Specialized Auditor positively affected towards Good Corporate Governance

Influence of Industry Specialized Auditor towards Financial Statement Integrity

Besides of formal education, an auditor has to pass enough technical trainings, be it technical or general (Tussiana & Lastanti, 2018). Special training for auditors is imperative to sharpen their personal quality and upgrade their special skills in several aspects so the report they generate will be integrated highly (SPAP, 2021).

If a specialized auditor has a deepened insights then they will give a better audit quality. Auditor specialization contributes on credibility given by the auditors (Nicolin & Sabeni, 2013). Knowledge that has to be possessed by auditors are not only about auditing and accounting, it also about the industry of the potential clients' are competing. Specialized auditor knows more about their respective industries, and this allows the auditors to analyze financial statements more effectively, as well as identifying any potential errors that can cause a statement not fit for the standard, to make sure the statement to be declared integrated. Industry Specialized Auditors can help gain trust of the shareholders with a highly integrated financial statement.

High-risk companies have tendencies to demand their auditors to provide a more qualified service to avoid any cheatings and errors of their financial statements. Fajaryani (2015) argued that decent auditors will provide decent financial statements. Tussiana & Lastanti (2018) and Nicolin & Sabeni (2013) also said that industry specialized auditor do not affect the financial report in any ways. Based on the theories, substantive relationship and results of the previous researches above, this research proposes a hypothesis as follows:

H4: Industry Specialized Auditor positively affected financial statement integrity.

Audit Fee's Influences on Good Corporate Governance

Audit fee is an honorarium imposed by public accountants to the company for their service done by the accountants for the financial statements (Suharli & Nurlaelah, 2008). A decent audit fee can give signals to the shareholders that a company is committed to do good corporate governance practices. Shareholders can see the audit fee payments as an indication that the company has done enough to gain an objective and thorough monitoring on their financial statements. This promotes transparency and strengthening trusts of shareholders to the company. Aryani (2011) mentioned that a low audit fee (far below standards) has a tendency to raise questions between the competency and skills of the public accountant in upholding the technical standards in-line with the professional standards demands, resulting in a financial statement that is considered not credible enough, giving signal that the company does not practice good corporate governance. The better implementation of the GCG in a company, everyone involved with the company will play their respective roles minding on the standards that has been set (Hormati, 2009).

Aryani (2011) declared that the amount if audit fee positively and significantly affected the implementation of GCG. Based on the theories, substantive relationship and results of the previous researches above, this research proposes a hypothesis as follows:

H5: Audit fee positively affected Good Corporate Governance

Audit Fee's Influence on Financial Statements Integrity

Audit fee is a payment that needs to be procured by clients to the auditor as their professional auditing services, and can be used as a sign of fairness of a financial statement. In some cases, the higher audit fee, the harder the auditor has to work to compensate their wages, making for a decent audit opinion. To achieve a high integrity financial statement, the clients need to pay a high amount in which that is worth with the auditor's skills (Puspita & Utama, 2016). A fair and just audit fee can improve transparency and trust of the shareholders. A decent audit fee payment can be thought as a

company's investment on making sure the quality and accuracy of their financial statement. This can build trust between shareholders including investors and any other external parties.

Puspita & Utama (2016) research has come to a similar point with Serly & Helmayunita (2018) that indicated audit fee positively and significantly affected the financial statement. Meanwhile, Auliyah et al., (2022), Putri (2021) and Paydarmansh et al., (2014) argued otherwise, in which audit fee does not affect the financial statement. Based on the theories, substantive relationship and results of the previous researches above, this research proposes a hypothesis as follows:

H6: Audit fee positively affected Financial Statements Integrity

Influence of Good Corporate Governance on Financial Statements Integrity

Corporate governance is a system that regulates a relationship between board of commissioners, board of directors, and management to ensure balance on maintaining a company. A company that has implemented corporate governance decently can be said that the company has fulfilled every elements of GCG. The better implementation of GCG, the more integrated their financial statements will be. With a well maintained operations, a company has an effective monitoring mechanism. This can minimize any chances of cheating and manipulations of the financial statement so their integrity will be intact. Good corporate governance pushes a breakthrough of information punctually and comprehensively to the shareholders. By doing so, the company can ensure their financial statement mirrors their conditions and their actual performance. This can contribute on their financial statements and build trust among the shareholders.

Dewi & Putra (2016) aligned with Atiningsih & Suparwati (2018) declared that good corporate governance positively affected the financial statement's integrity. Inayati & Azizah (2021) took a different conclusion and argued that good corporate governance has nothing to do with the financial statement. Based on the theories, substantive relationship and results of the previous researches above, this research proposes a hypothesis as follows:

H7: Good Corporate Governance positively affected the financial statement.

2. Materials and Methods

Research Framework

Methods used in this research is Structural Equation Modeling (SEM) powered by AMOS software. SEM is a multivariate statistics method used to test relations among constructive variables. Samples in this research are mining companies in periode of 2018-2021. This research relies on purposive sampling, determining certain factors, while some data represent others to see their characteristics as a whole. Criteria used in this research are as follows:

1. Manufacturing companies in mining industry listed in Bursa Efek Indonesia (BEI) in period of 2018-2021.
2. Mining companies that publish their yearly financial statements comprehensively and regularly in periode of 2018-2021.
3. Companies that have all of the necessary data relating to the variables used in this research.

The data included in this research are secondaries, collected from financial statements, auditing financial report available on the BEI from their website (www.idx.co.id) and in the website of the companies.

Operational and Variable Measurement Definition

This research used auditing financial report, industry specialized auditors, and audit fee as independent variables and variable of financial statement integrity as dependent variable, as well as variable of good corporate governance as the intervening variable.

Dependent Variable (Financial Statement Integrity)

Dependent variable in the research is the financial statement integrity. Financial statement integrity depicts how far a financial statement is presented, showing fair, honest, and unbiased information so it will not confuse users of the statement when they are deciding on financial decisions. The dependent variable can be measured by using conservatism, in which the calculations are calculated with conservatism levels. Prudence is a principal of carefulness in finding out assets and revenue due to financial activities and business full of uncertainties. Conservatism concept is proved to be useful to measure, declare, and report assets value and lower revenue, as well as the value of obligations and burdens be higher. Measurement of conv accrual model according to Zhang (2007) are as follows:

$$\text{Conv accrual} = \left(\frac{\text{Non operating accruals}}{\text{Total assets}} \right) \times -1$$

This research made some inquiries on how to determine Conv accrual. What have been changed are total asset and non-operational accrual as substitutions of assets total and non-operational accrual accumulations. This is done due to lack of sum of years determined to be the samples in this research, so it is wise to do it yearly. Conv accrual is multiplied by -1 so the higher the value of conv accrual, it shows implementation of conservatism getting higher as well. This has been done by Zhang (2007) in Haniati & Fitriany (2010).

Independent Variables

Audit Quality

Audit quality is defined as joint probability of an auditor skills to find out any errors on reporting financial statements and report if there is any errors to be found. Audit quality is determined by adding scores from the four audit quality proxies, such as size of accounting firm, tenure of accounting firm, rotation of public accountant & RQA of the company of *i* in the year of *t*. The highest value of adding AQMS score is 4. AQMS measurement is hoped to reflect the audit quality in a broader manner, not like any conventional audit quality measurement using a single proxy. This way of determining the value is based on research of Herusetya (2012) as follows:

No	Proxies	Measurement Criteria
Competence Dimension		
	Quality of Accounting Firm	Scored 1 if audited by the Big 4 firms, and 0 if by anyone else.
	Tenure of Accounting Firm	If the assignment period range of 3 years < tenure of Accounting Firm < 9 years scored 1, and 0 if anything else.
Independence Dimension		
	Rotation of Public Accountant	Rotation of Public Accountant is measured by using dummy variable, in which scored 1 if there is a real rotation of public

	accountant, and 0 if there is no rotations at all, or a pseudo-rotation happened.
RQA	RQA resembles willingness and accuracy of audit opinion report going- concern (GC) issued by Accounting Firms. RQA is scored 1 if it fulfills one of any criteria as follows, and scored 0 if not. i. If Accounting Firm gives GC opinion in the year t and client i in the year of t+1 has a negative operational cashflow or net loss as an indication of financial distress. ii. If Accounting Firm does not give any GC opinion in the year of t and client i in the year of t+1 does not have a negative operational cashflow or net loss.
AQMS Formula	Audit Quality Metric Score is a score of 4 audit quality proxies from the Accounting Firms toward client i in the year of t, which will be given 4 as the highest score of AQMS.

Industry Specialized Auditor

Industry Specialized Auditor is an understanding and special skills of a certain industry gained from an expertise of auditors in auditing and special skills on auditing a certain industry to improve the quality of audit Rahadianto (2012).

Industry specialized auditor refers to a special skills possessed by an audit company to help clients by giving guidelines on facing financial crisis in the desired industry as well as the risk of audit such as regulations, taxes, etc (Wicaksono & Purwanto, 2021). Specialized auditor contributes on the credibility of the auditor. Auditor should have not only insights regarding audits and accounting but also the industry of the client's company. Deepened insights will provide better financial statements thanks to the better audit quality. Based on Tussiana & Lastanti (2018), industry specialized auditor can be determined using a formulae as follows:

$$SPCLit = \frac{\text{Amount of client's asset in certain industries}}{\text{Amount of all clients' from all of the accounting firms in certain industries}} \times 100\%$$

Audit Fee

Audit fee is issued by the company to the external auditor due to their utilization of their professional service to monitor the financial statements (Putri, 2021). One of the guidance on deciding how much is the fee audit issued by the IAPI through SK No.024/IAPI/VII/2008. Based on the research of Puspita & Utama (2016), variable of audit fee can be determined using a formulae as follows:

$$AF = Ln (\text{Professional Fee})$$

In which:

AF = Audit Fee

Ln = Natural Logarithm

Intervening Variable (Good Corporate Governance)

Intervening variable is a variable in theory can affect the relationship between independent and dependent variables as it can strengthen or weaken the relationship. This makes the Good Corporate Governance fit to be set as the intervening variable. According to Setyawan (2019), good corporate governance is a resemblance of a decent maintenance of a company, in which it covers a

protection mechanism towards the interest of shareholders as the owners of the company and creditor as the external funder. This research uses institutional ownership, independent board of commissioners, board of directors, and audit committee as the indicators of the corporate governance mechanism (Iqbal, 2012).

Institutional ownership is proxied by using proportions of the sum of the shares owned by the institution, such as government, financial institution, law institution, overseas institution, trust fund, and other institutions by the end of the year. It can be proxied as follows:

$$\text{Institutional ownership} = \sum \frac{\text{Shares owned by the institutions}}{\text{Total shares at the end of the year}}$$

In which:

$$\sum \text{Shares owned by the institutions} = \text{Total shares of the investors' institution}$$

$$\sum \text{Total shares at the end of the year} = \text{Total of the shares}$$

Independent board of commissioners are proxied using proportions of the sum of independent commissioners towards the total of board commissioners in the company so it can be formulized as follows:

$$\text{Independent commissioners} = \sum \frac{\text{Independent commissioners}}{\text{Board of commissioners}}$$

In which:

$$\sum \text{Independent commissioners} = \text{Total of independent commissioners in a company}$$

$$\sum \text{Board of commissioners} = \text{Total of the board of commissioners in a company}$$

Board of directors is a company organ in charge and has a big responsibility towards the management of a company. Board of directors are determined by the total member in the company

$$\text{Board of directors} = \sum \text{Members of the directors}$$

In which:

$$\sum \text{Members of directors} = \text{Total members of directors}$$

Audit committee is a committee assembled by the board of commissioners and has a task and responsibility to monitor the financial statement, external audit and the internal controlling system. Variable of audit committee is determined by looking at the total member of the committee in the company.

$$\text{Audit committee} = \sum \text{Members of the audit committee}$$

In which:

$$\sum \text{Members of the audit committee} = \text{Total members of the audit committee}$$

3. Result and Discussion

Research Results

Descriptive Statistics

Table 1 Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
KA	144	,00	4,00	1,00	1,0173
SPI	144	,0003	16,9203	,9998	2,6543
AF	144	17,2488	22,7497	20,4949	1,3151
ILK	144	-1,208	,2060	-,030	,1317
GCG	144	,0196	,9971	,7025	0,26032

According to the results in the Table 2, it is found that the integrity variable of financial statement has a minimum value of -1,208, maximum of 0,2060, mean of -0,030, and standard

deviation of 1,3151. In average, it shows that the financial statement integrity of the company is of -0,030, which means the mean of financial statement average of the company from the total of financial statement of -3%.

Evaluation of Goodness Criteria of Fit Model

Table 2 Goodness of Fit Index for Full Model

Goodness of Fit Index	Criteria	Analisis Results	Model Evaluation
<i>Chi-Square</i>	≤ 5	4,71	Good
Probability	> 0,05	0,063	Good
AGFI	≥ 0,90	0,912	Good
GFI	≥ 0,90	0,948	Good
NFI	≥ 0,90	0,987	Good
NCP	Expected to be low	4,690	Good
RMSEA	< 0,08	0,047	Good

It can be seen from the value of feasibility test from the full model has fulfilled the standard of criteria test of goodness of fit such as AGFI with value of 0,912 > 0,90, GFI with value of 0,948 > 0,90, NFI with value of 0,987 > 0,90, and RMSEA with value of 0,047 < 0,08. From all of the feasibility test above, all of them fits the criteria. It can be concluded that all of the test has a fit model.

Hypothetical Test

Table 3 Hypothetical Test Results

			Estimate	C.R.	P	Conclusion
GCG	<---	KA	,030	1,363	,005	Accepted
ILK	<---	KA	-,002	-,625	,532	Rejected
GCG	<---	SPI	,163	1,579	,114	Rejected
ILK	<---	SPI	,079	,319	,498	Rejected
GCG	<---	AF	-,021	-1,215	,224	Rejected
ILK	<---	AF	,000	-,204	,039	Accepted
ILK	<---	GCG	,012	-,994	,013	Accepted

Source : AMOS Software

Discussion

Based on Table 3, the results of the hypothetical test are as follows:

Influence of audit quality towards good corporate governance

SEM analysis result shows a path coefficient of 0,030 with a value of C.R. 1,363 and p = 0,005. In the significance level (α) 5% of p is 0,005 < 0,05 so it can be concluded that the variable of audit quality is affecting good corporate governance, which means H1 is accepted. Based on the result of the hypothesis test above, the influence of audit quality towards good corporate governance shows that company with a better audit quality tends to have a better good corporate governance as well.

This shows that any monitoring and controlling mechanisms aligning with the good corporate governance elements are proved to be effective. This results are aligned with the research conducted by Hormati (2009), Mayangsari (2003) and Ulum (2007) that stated audit quality has a positive influence towards the financial statement integrity. Integrated financial statement while also fulfilling the disclosure principal are one of the elements on implementing the good corporate governance principal all around the company. Audit quality influenced the good corporate governance since there is a role of public accountant in giving independent opinion on fairness of the information presented in the financial statement. The company who implements the good corporate governance will provide informative and transparent evidences to generate a more integrated financial statement.

Influence of audit quality towards financial statement integrity.

SEM analysis result shows a path coefficient of -0,002 with a value of C.R. -0,625 and $p = 0,532$. In the significance level (α) 5% of p is $0,532 > 0,05$, so it can be concluded that the variable of audit quality is not affecting the financial statement integrity, which means H2 is rejected. This result aligns with the research of Mayangsari (2003), Tussiana & Lastanti (2018), and Serly & Helmayunita (2018). They argued that the variable of audit quality does not give any influences towards the financial statement integrity. Negative path coefficient gives us a clue of a tendency that the lower the audit quality then the lower the integrity of the financial statement. This research gives implications that audit quality that is determined by multidimensional competence approach (size of accounting firms, tenure of accounting firms, rotation of public accountant, and RQA) do not affect the integrity of the financial statement. This means the Big 4 Accounting Firms do not always be the primary option of the companies to do auditing. This happens since in Indonesia the *go-public* companies are allowed to audit their own companies. It can be said that no matter how important or how long the public accountants have served in a company, it does not give any influences toward the financial statement integrity since all public accountants will work according to their determined professional code of ethics. An auditor has to be independent, always, in doing their occupation and has to give true and honest opinions to generate an integrated financial statement (Puspita & Utama, 2016).

Influence of industry specialized auditors toward good corporate governance.

SEM analysis result shows a path coefficient of 0,163 with a value of C.R. 1,579 and $p = 0,114$. In the significance level (α) 5% of p is $0,114 > 0,05$, so it can be concluded that the variable of industry specialized auditors is not affecting the good corporate governance, which means H3 is rejected. Research of Hardiningsih (2010) stated that in the Agency Theory can be expanded to explain that industry specialized auditors as one of the function in boosting the agency cost. Meanwhile, in a company, good corporate governance has a vital role to decrease agency cost. In a good corporate governance ecosystem, agency cost can be decreased so the benefits for the stakeholders and company can be increased. Combinations of special factors of the company and industry can generate a variation of demands toward monitoring and its consequences towards the audit quality (Craswell, Francis, & Stephen, 1995).

Influence of industry specialized auditors toward financial statement integrity.

SEM analysis result shows a path coefficient of 0,079 with a value of C.R. 0,319 and $p = 0,498$. In the significance level (α) 5% of p is $0,498 > 0,05$, so it can be concluded that the variable of industry specialized auditors is not affecting financial statement integrity, which means H4 is rejected.. This result supports a research conducted by Nicolin & Sabeni (2013) and Tussiana & Lastanti (2018). They mentioned that industry specialized auditors do not give any influences toward financial statement integrity. This happens due to the consequence of existence of external auditors since they cannot monitor and assess management's policy in presenting information for the financial statement.

Influence of audit fee towards good corporate governance.

SEM analysis result shows a path coefficient of -0,021 with a value of C.R. -1,215 and $p = 0,224$. In the significance level (α) 5% of p is $0,224 > 0,05$, so it can be concluded that the variable of audit fee is not affecting good corporate governance, which means H5 is rejected. Audit fee does not have anything related to audit quality or practice of good corporate governance done by the company. Audit fee is paid to the auditor as a sign of compensation as their work of evaluating and providing independent opinions on the financial statement integrity.

Influence of audit fee towards financial statement integrity.

SEM analysis result shows a path coefficient of 0,000 with a value of C.R. -0,204 and $p = 0,039$. In the significance level (α) 5% of p is $0,039 > 0,05$, so it can be concluded that the variable of audit fee is affecting financial statement integrity, which means H6 is accepted. This result is in-line with the research of Puspita & Utama (2016) and Serly & Helmayunita (2018). They declared that audit fee is affecting financial statement integrity. The amount of audit fee is in-line with the independence of auditors. When auditor has been compensated well, they can keep their independence on evaluating and providing objective opinions for the financial statement. Accounting firms that accept decent audit fee can provide every resources needed to give a strong quality of mechanism system. A decent quality of monitoring can help verify auditor fulfills the standards so the statements the auditor make can be ensured. However, a poor audit fee or a rich audit fee can impose problems toward the integrity of the financial statements. If the audit fee is too poor, the auditor may be too pressurized, resulting in a poor performance. While the audit fee is too rich, there will be potentials of conflict of interests that can affect the independence of the auditor.

Influence of good corporate governance towards financial statement integrity.

SEM analysis result shows a path coefficient of 0,012 with a value of C.R. -0,994 and $p = 0,013$. In the significance level (α) 5% of p is $0,013 > 0,05$, so it can be concluded that the variable of good corporate governance is affecting financial statement integrity, which means H7 is accepted. This result is aligned with the research of Oktadella (2011), Atiningsih & Suparwati (2018) and Dewi & Putra (2016) that indicated good corporate governance does affect financial statement integrity. Good corporate governance strives transparency in reporting the company's financial reports. With a decent practice of good corporate governance, the company can help verify that the financial statement is indeed corresponds with the real financial situation. An effective and independent board of directors and audit committee are vital elements of good corporate governance. The board of directors has the responsibility to monitor and evaluate the quality of the company's procedures. The presence of board of directors and independent audit committee to keep the integrity of the financial statements intact and to make sure there has to be a decent monitoring going on. Monitoring is necessary since it is one of the essence of the good corporate governance, in which institutional investors also come into play, so the management can be more focused on improving their performance (Jama'an, 2008). The presence of institutional investors can limit managers to manage the revenue so it can generate a more integrated financial statement.

4. Conclusion

Based on the result of data analysis using SEM as have been explained above, this research mentions that the model developed shows relationships among variables hypothesized in which the variable audit quality affects the variable of good corporate governance, it shows that companies with better audit quality has a better good corporate governance as well. This shows effective monitoring and controlling mechanisms on audit process can affect the implementations of good corporate governance principals in a company. Integrated financial statement has to fulfill the disclosure principal as it is also one of the principals of good corporate governance. It is also one of the conclusion of this research that variables of audit fee and good corporate governance affect the

integrity of the financial statements, in which the bigger the audit fee, the better the auditor can keep their allegiance and independence in evaluating and providing objective opinions toward the financial statement, as it is imperative to stay in-line with the good corporate governance, resulting in a highly integrated financial statement. Good corporate governance strives for transparency in reporting the financial situation of a company. With the good corporate governance practice, a company can provide accurate, punctual, and comprehensive information to be presented in the financial statement. Transparency can certainly help to verify that financial statement is indeed mirrors the real existing financial situation in hand. On the other hand, variables of audit quality and industry specialized auditors do not affect on giving an integrated financial statement, since auditors have to stay independent in doing their tasks and always providing a true and honest audit opinion aligned with their professional codes and ethics. Variable of industry specialized auditors does not affect good corporate governance in which industry specialized auditors as one of the indicators of ever skyrocketing of agency cost. Meanwhile, in a company, good corporate governance plays a vital role on reducing agency cost. In a proper ecosystem of good corporate governance, agency cost can be minimalized. Audit fee has no relations whatsoever with the quality of audit or the practice of good corporate governance committed by the company in which audit fee is paid to the auditor as compensations for their work, which is evaluating and providing independent opinion for the company's financial statement.

It is advised by this research as a reference for the upcoming researches and this research can be considered as brand-new insights regarding the effects of audit quality, industry specialized auditors, and audit fee toward financial statement integrity and good corporate governance as the intervening variables. We hope that the next research can provide more research samples or using other company's sample, not only the ones who are focusing on the mining sectors so it is expected to explain more about the levels of integrated financial statements of the company. We also hope that the next researches can add more independent variables projected to affect the integrity of the financial statements. It is also permissible to use another formula to determine the integrity of the financial statements such as Conservatism, Basu, or any improved models in the future.

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