

FINANCIAL STATEMENT INTEGRITY: THE ROLE OF AUDIT TENURE, KAP SIZE, AND AUDIT FEE

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Abstract

This study aims to determine and analyze the impact of audit tenure, the size of KAP, and audit fees. The purpose of this study is to disseminate knowledge and information about factors that affect the integrity of financial statements of building construction companies in Indonesia. The object of this study is a building construction sub-sector company listed on the Indonesia Stock Exchange during the period 2020 – 2022. The entire quantitative research sample amounted to 33 companies. Purposive sampling is used in the sampling procedure. The test was conducted using multiple regression analysis, where the integrity of financial statements is measured using accounting conservatism. The results of this study show that tenure audits and audit fees have a negative and significant effect on the integrity of financial statements and the size of public accounting has a positive and significant effect on the integrity of financial statements. It is expected that with this research, all parties (management, shareholders, and auditors) must be highly committed to realizing the improvement of financial statement integrity. The limitation of this study is the low adjusted R square value of 0.271, which indicates that the independent variable is only able to explain 27.1% of the variation of the dependent variable, as well as the lack of research samples. Then the suggestion for future research is to add research samples and other variables such as (1) company size; (2) leverage; (3) profitability; (4) financial distress that can explain the effect on the integrity of financial statements.

Keyword: Financial Statement Integrity, Audit Tenure, KAP Size, Audit Fee

1. Introduction

Financial statements are used by business organizations as a means of interaction between stakeholders and management, so the data offered must be accurate and in accordance with facts (Silalahi, 2021). Financial statements are very useful in terms of decision making related to capital affairs carried out by shareholders (Agustin & Soedarsa, 2023). To present the actual facts, financial statements must be written with utmost integrity. Organizations should pay attention to the integrity of their financial statements because it is a measure of how accurate and honest the information presented in the reports is, thus preventing users from being misled when making decisions (Ismail, 2018). High-integrity financial statements are accurate, honest, and do not contain any manipulation of financial data that occurs during the report preparation process (Sri Ayem, 2019). The accuracy of financial reporting is critical because it shows how valuable a business is, which is a signal that can influence the views of creditors, investors, and other stakeholders (Sukanto & Widaryanti, 2018). High-quality financial statements present facts honestly and check facts as they are. Public accountants who review and provide comments may be held accountable by management for maintaining the integrity of financial reporting. (Safitri & Bahri, 2021). With the integrity of financial statements, financial information can be neutral and free from material errors that can

mislead users (Budiharjo et al., 2020). The integrity of financial statements can be a form of information disclosure for companies and other stakeholders (Halim, 2021).

However, the fact that occurred in 2022 was a case of manipulation of financial statements at PT Wijaya Karya Tbk, which is a building construction business entity that has been listed on the Indonesia Stock Exchange. Reporting from www.cnnindonesia.com (2022), www.kliklegal.com (2022) and www.liputan6.com (2022), PT Wijaya Karya is suspected of manipulating the 2022 financial statements. The Company stated that the financial statements were not in accordance with real conditions and were inaccurate. The reason is, the company's financial condition always experiences an increase in revenue, namely in 2022 it has increased to IDR 21.48 trillion, while in the previous year it received revenue of IDR 17.81 trillion and generated profits, even though the cash flow value has never been positive and the company's financial burden has also always increased. From these cases, it can be concluded that companies in the building construction industry struggle to meet user expectations of financial information through the quality of their financial statements.

Research results (Selviana & Wenny, 2021); (Silalahi, 2021); (Wulandari et al., 2021); and (Sukma Danuta et al., 2022) shows that tenure audits have a significant positive effect on the integrity of financial statements. Research (Auliyah et al., 2022) That tenure audits do not have a significant effect on the integrity of financial statements. Research (Pratika & Primasari, 2020); (Sukanto & Widaryanti, 2018); and (Auliyah et al., 2022) shows that the size of KAP has a significant positive effect on the integrity of financial statements. In contrast to research (Selviana & Wenny, 2021) shows that the size of KAP does not have a significant effect on the integrity of financial statements. Research results (Purwanti et al., 2019) and (Auliyah et al., 2022) indicates that audit fees do not affect the integrity of financial statements. But research (Setyawati et al., 2023) states that audit fees positively affect the integrity of financial statements.

The difference between this study and previous studies is in the object of research. Which is the research (Auliyah et al., 2022) Using the object of research, namely mining companies. (Sukma Danuta et al., 2022) utilizing research objects, namely property organizations and real-estate. (Selviana & Wenny, 2021) using the object of study, namely the transport company. (Setyawati et al., 2023) Using the object of study, namely the organization of the financial sector. (Silalahi, 2021) and (Purwanti et al., 2019) using the object of research, namely state-owned companies. Meanwhile, in this study, the object of research is the building construction sub-sector organization listed on the Indonesia Stock Exchange (IDX) for the 2020-2022 period.

This study aims to understand and assess the impact of tenure audits, KAP sizes, and audit fees on the integrity of financial statements in building construction organizations listed on the IDX for the 2020-2022 period. The findings of this study can provide data and knowledge about indicators that affect the integrity of financial reports in building construction business entities in Indonesia and are expected to be able to participate when determining policies for users of financial statements.

2. Theoretical Background

2.1 Agency Theory

Agency theory is the main concept used in this study, namely shareholders act as principals and agents, namely managers who are given the power to make decisions (Jensen & Meckling, 1976). There are different needs between investors and managers, namely investors want to know the company's financial statements as they are and

accurate. On the other hand, managers want to manage company finances as well as possible so that they can generate the maximum company profit, besides that managers want to get personal benefits, such as bonuses or promotions.

Because of the difference in interests, it will trigger a conflict of interests (Wulandari et al., 2021). Principals and agents both expect the maximum possible profit. Principals and agents jointly avoid risk. Managers may be afraid to disclose financial information when the company is experiencing losses or if financial information does not match investor expectations.

So, because it can happen it is possible to falsify these financial statements. Therefore, a 3rd party is needed who is free for this matter, namely public accountants. An independent public accountant can be seen from the period of cooperation between public accountants and the company, which is a maximum of 3 years (Putri & Cahyonowati, 2014). However, if the client's relationship with the auditor is more than 3 years, it can reduce the independence of the auditor, resulting in a decrease in the independence of the auditor when carrying out his obligations (Manuari & Devi, 2021). In addition, independent public accountants can also be seen from the size of big four or non-big four public accountants. KAP big four is considered more independent and more reliable in making Financial statements with great integrity (Lubis et al., 2019). Non-big four public accountants are labeled less reliable in maintaining their independence because non-big four public accountants cannot withstand pressure from management (Selviana & Wenny, 2021). Then, independent public accountants can also be seen from audit fees, if the company provides high audit fees it can make the integrity of economic reporting doubtful because morally auditors feel required to produce good audit opinions by manipulating financial statements (Auliyah et al., 2022). Public accountants are responsible for evaluating the financial records prepared from clients in order to produce appropriate and accurate financial statements.

2.2 Financial Statement Integrity

The integrity of financial statements must show how far data related to the company's financial position, performance, and cash flow must be presented appropriately and accurately, and the information will be accounted for to stakeholders (Selviana & Wenny, 2021). Financial statement integrity is the quality of data that is a guarantee if the data is reasonably free from errors and biases as well as openly describing what is meant to be described (Savero et al., 2017). Financial report Integrity is Report which is presented precisely accurately, also in the process of compiling there is no manipulation of financial data (Safitri & Bahri, 2021). Integrity in financial statements is useful for meeting the qualitative requirements of financial information (Auliyah et al., 2022); can influence the decision of its users by strengthening it or changing it, the decision maker also increases the trust of users of financial information (Amrulloh et al., 2016); Important for stakeholders in the organization because Financial Report i.e. reliable data sources (Verya et al., 2017); represents the price of the organization, which is an indication of forces that can influence the views of creditors, investors, and other stakeholders. Measurement of the integrity of financial statements generally uses the principle of accounting conservatism as previous research carried out (Halim, 2021); (Wulandari et al., 2021); (Gustina, 2018); (Saad & Abdillah, 2019); (Purwanti et al., 2019). Because business and economic activity are surrounded by uncertainty, conservatism is the basis for financial reporting that advocates careful recognition and measurement of assets and net profits (Gustina, 2018). Reporting integrity Financial can

be assessed through Market-to-Book Value comparison (Dewi et al., 2019); (Fatimah et al., 2020); (Ancient & Fuadi, 2023).

2.3 Audit Tenure

Audit tenure is how long the auditor is bound to provide audit services to clients (Saad & Abdillah, 2019). Outlined by (Dewi et al., 2019) Audit tenure is the period of time the auditor serves and relates to the client or how long the auditor is bound by the contract. Audit tenure is the tenure of the Accounting Firm (Manuari & Devi, 2021). In the provisions contained in the Minister of Finance Regulation Number 17/PMK.01/2008 concerning Public Accountant Services, Article 3 mentions the Time Limit for Service Provision. In accordance with the regulation, the provision of general audit services on the financial statements of an entity is carried out by a Public Accounting Firm (KAP) for a maximum of 6 consecutive financial years, while a Public Accountant can provide such services for a maximum of 3 consecutive financial years (Fatimah et al., 2020). Audit tenure can provide benefits to business entities that use services, such as independence and auditor skills, emotional relationships between auditors and their clients, costs, and others (Muhammad Rafly Herdiansyah et al., 2022); Audit tenure can also create a more effective audit program with a set period of 3 years, so that the auditor and the client (company) can avoid a sense of closeness that can lead to cooperation between the auditor and client (Wulandari et al., 2021). With the audit tenure, it is necessary to rotate auditors or change auditors who can develop audit skills and audit independence from a reduction in client influence over auditors (Dewi et al., 2019). Audit tenure measurement is generally by adding up the total period of time of the public accountant bond and clients who use the audit service before the auditor moves (Silalahi, 2021); (Wulandari et al., 2021); (Sukma Danuta et al., 2022); and (Fatimah et al., 2020) Using the dummy variable, it is 0 if the organization is audited by the same auditor in about three years and is worth 1 if the business entity is audited by the same auditor in less than 3 years.

2.4 KAP Size

The size of KAP is a profession that is trusted by the public as a neutral party and is considered to increase the credibility of financial reporting The size of KAP is a way to categorize KAP according to its clients, number of memberships, and overall income (Maulana, Muhammad Fahmi Surya Sanjaya, 2017). Due to their extensive expertise in working with a wide variety of clients, big four KAP is labeled as more capable of carrying out more accurate audits (Selviana & Wenny, 2021). Compared to non-big four public accountants, the advantage of big four public accountants is their ability to maintain auditor independence (Sukanto & Widaryanti, 2018); Big four KAP can be trusted because it is higher and provides good and earnest reporting (Ayu & Septiani, 2018); With big four public accountants, the integrity of financial statements can be further improved (Lubis et al., 2019). However, in KAP that is not the big four, it is labeled as more focused on developing positive relationships with the organization with the aim of attracting more customers. This can cause smaller KAPs to become too dependent on certain business entities (Wijaya & Wibawaningsih, 2020). The measurement of the size of KAP generally utilizes a dummy variability, which will be given a number of 1 to organizations whose financial statements are audited by KAP big four, and 0 for financial statements audited by KAP non big four (Pratika & Primasari, 2020); (Ayu & Septiani, 2018); (Sukanto & Widaryanti, 2018); (Lubis et al., 2019); and (Sukma Danuta et al., 2022).

2.5 Audit Fee

Audit fee is the amount of cost for audit services carried out by the auditor (Andriani & Nursiam, 2018). Accountants charge a company a fee called an audit fee for auditing its financial statements (Widiya Damayanti & Aufa, 2022). Audit fees are honorariums for audit services bolted by the public accountant for Financial Report which it charges to the corporate world (Purwanti et al., 2019). After performing its audit services, the public accountant is paid an audit fee; The amount of this fee is determined based on the hazard of the task, the complexity of the service provided, the level of skill required to perform the service, and the associated KAP structural fee (Sandoria & Pangaribuan, 2020). The charge-out rate for auditors should be determined taking into account each member's credentials and experience, as well as the appropriate service salary for staff members (Munthe, 2019). Audit fees can determine the independence of an auditor (Auliyah et al., 2022); With the audit fee, the company is expected to provide a decent payment in accordance with the honor of the position of public accountant (Esti Widiyari & Tri Jatmiko Wahyu Prabowo, 2008). Audit cost measurement generally uses the natural logarithm of professional fees (Auliyah et al., 2022); (Esti Widiyari & Tri Jatmiko Wahyu Prabowo, 2008); (Purwanti et al., 2019); (Pertiwi, 2019); and (Yusica & Sulistyowati, 2020).

2.6 Hypothesis Development

2.6.1 The Effect of Audit Tenure on Financial Statement Integrity

Article 3 of the Regulation of the Minister of Finance Number. 17/PMK.01/2008 concerning the Period Limit for Service Provision states that Public Accountants can provide general audit services on an entity's financial reporting for up to six consecutive financial years, and public accountants can provide general audit services on an entity's financial reporting for up to 3 consecutive financial years (Fatimah et al., 2020). According to agency theory, if the auditor has worked with customers for more than three years, so management can work with the auditor to distort financial statements so that it will reduce the independence of the auditor (Darya & Puspitasari, 2017). Financial statements will be less honest if clients and public accountants have a close and long-term relationship (Wulandari et al., 2021). Senior audit cooperation causes a peaceful relationship between public accountants and management, which triggers a loss of public accountant independence due to a sense of kinship between public accountants and clients (Aminah et al., 2017). Because of this sense of kinship, auditors are unable to resist client pressure such as client requests to manipulate financial statements. Therefore, a rotation of public accountants is needed, with the aim of avoiding the practice of manipulating financial statements that have an impact on the integrity of financial reporting (Selviana & Wenny, 2021). Previous researchers related to tenure audits and financial statement integrity have been carried out by several previous researchers, including (Sukma Danuta et al., 2022); (Silalahi, 2021); (Selviana & Wenny, 2021); (Fatimah et al., 2020); and (Amrulloh et al., 2016) Stating that tenure audits have a positive effect on the integrity of financial statements. But on research (Saad & Abdillah, 2019); (Dewi et al., 2019); (Manuari & Devi, 2021); (Ancient & Fuadi, 2023); and (Wulandari et al., 2021) Disclose different findings, especially that the integrity of financial statements is negatively affected by the audit period. Based on the description above, the research hypothesis is:

H1: Audit Tenure negatively affects the Integrity of Financial Statements.

2.6.2 The Effect of KAP Size on Financial Statement Integrity

The size of KAP is known by dividing it into two categories: big four and non-big four. This process is known as the KAP size classification (Sukanto & Widaryanti, 2018). Agency theory explains that investors will be more confident to invest their funds in the company because the organization is audited by big four public accountants who are guaranteed independence (Mulyono, 2017). Through big four public accounting firms, so that Financial statements becoming more accurate and transparent which causes financial reporting to be able to produce financial reporting with great integrity (Lubis et al., 2019). Big four KAP can be called more independent than non-big four KAP because it is considered to be able to withstand management pressure and can overcome problems. KAP big four has also received high reputations in the business environment. If the company is audited, the big four public accounting firm is able to produce an independent audit report, so that it can increase trust in the users of the report, especially by investors. Thus, it is expected that KAP big four will be able to maintain its independence to produce financial statements with quality integrity (Pratika & Primasari, 2020). In previous researchers related to the size of KAP and the integrity of financial statements have been carried out by several previous researchers, including (Auliyah et al., 2022); (Sukanto & Widaryanti, 2018); (Pratika & Primasari, 2020); (Wijaya & Wibawaningsih, 2020); and (Lubis et al., 2019) The size of KAP has a positive effect on the integrity of financial statements. But on research (Selviana & Wenny, 2021); (Sukma Danuta et al., 2022); and (Amrulloh et al., 2016) stated different results, namely the size of the KAP negatively affects the integrity of financial statements. Based on the description above, the hypothesis of this study is:

H2: The size of KAP has a positive effect on the integrity of financial statements.

2.6.3 The Effect of Audit Fee on Financial Statement Integrity

Audit costs are costs associated with audit services that public accountants provide to businesses in connection with financial statements (Purwanti et al., 2019). Agency theory explains that management tends to incur large audit costs that can reduce auditor independence due to pressure from management (Auliyah et al., 2022). Public accountants will have sufficient discretion to conduct audits in accordance with appropriate protocols and ensure that the opinions produced are accurate and in accordance with the provisions of the financial statements if subject to fair audit funds (Harahap et al., 2018). Because of the high cost of auditing, auditors have a wide range of means to collect, examine, and assess information to be confident themselves that Financial statements is authentic (Serly & Helmayunita, 2019). High audit costs can make auditors less neutral. The amount of this fee puts the auditor in a difficult situation because in addition to being required to act independently of the fairness of the opinions of the financial statements he audits, he is also under pressure to comply with the wishes of clients who pay large fees for these services in order to maintain client satisfaction and future business (Auliyah et al., 2022). Large audit fees can make the integrity of financial statements doubtful because morally auditors feel required to produce good audit opinions by manipulating financial statements. Previous researcher, (Setyawati et al., 2023) Audit fees positively affect the integrity of financial statements. (Purwanti et al., 2019) and (Auliyah et al., 2022) Stating different results i.e. audit fees negatively affect the integrity of financial statements. Based on the description above, the hypothesis of this study is:

H3: Audit Fee negatively affects the integrity of financial statements

3. Method

This research uses secondary data and quantitative analysis of companies in the building construction subsector listed in the 2020-2022 period on the Indonesia Stock Exchange. The selection of building construction sub-sector companies as research objects, due to cases that occurred in building construction companies such as PT Wijaya Karya which allegedly manipulated financial statements. With many building construction products that have been completed, such as highways, railways, tunnels, buildings, bridges, power generation buildings, and communication network buildings, it is clear that the building and construction company subsector will offer promising opportunities for Indonesia's economic growth. The secondary data source of this research was taken from the IDX (Indonesia Stock Exchange) and the company's website. Sampling using purposive sampling with criteria of (1) building construction sub-sector companies listed on the Indonesia Stock Exchange during the period 2020 – 2022, (2) construction sub-sector companies that provide complete information about the variables studied, (3) construction sub-sector companies that publish their financial statements in rupiah, (4) building construction sub-sector companies that experience profits during the 2020-2022 period. Based on data obtained from the Indonesia Stock Exchange, the building construction sub-sector companies listed during the period 2020 – 2022 amounted to 27 companies. Then, after a data sorting process based on predetermined criteria, there are 11 companies x 3 years, totaling 33 data that qualify as research samples. The integrity of financial statements is measured by:

$$\text{CONACC} = \frac{(\text{NIO} + \text{DEP} - \text{CFO}) \times (-1)}{\text{TA}}$$

Where NIO is the operating profit of current year; DEP is the depreciation of current year; CFO is the net amount of cash flow from operating activities of current year; TA is total assets of current year (Wulandari et al., 2021); (Halim, 2021); and (Saad & Abdillah, 2019). Tenure audits are assessed through dummy elements, namely 0 if the business entity is audited by the same auditor within ≥ 3 years and 1 if the organization is audited by the same auditor within < 3 years (Silalahi, 2021); (Sukma Danuta et al., 2022) and (Fatimah et al., 2020). The size of the KAP is measured through a dummy element, namely the organization that is audited by the big four KAP will be given the number 1, and the organization audited by the non-big four KAP will be given the number 0 (Ayu & Septiani, 2018) and (Lubis et al., 2019). Audit costs are assessed through Natural Logarithms (Professional Fee) (Auliyah et al., 2022) and (Pertwi, 2019). Testing is performed using descriptive statistics, classical assumption tests, hypothesis tests, and multiple linear regression analysis. The classical assumption test used in this study is (1) normality test, (2) multicollinearity test, (3) autocorrelation test, (4) heteroskedasticity test. Test the hypothesis used in the study, namely (1) F test, (2) t test, (3) determination coefficient test. The multiple linear regression models are:

$$Y = a + \beta_1 \text{AT} + \beta_2 \text{KAP} + \beta_3 \text{LNFE} + e$$

Where Y is a symbol that indicates the integrity of financial statements; a is a symbol indicating a constant; $\beta_1 \text{AT}$ is a symbol indicating the regression coefficient of audit tenure, $\beta_2 \text{KAP}$ is a symbol indicating the regression coefficient of size KAP; $\beta_3 \text{LNFE}$ is a symbol indicating the regression coefficient of audit fee.

4. Results and Discussion

Research data can be seen through minimum numbers, maximum numbers, mean (average), and standard deviation can be presented through various ways using descriptive statistical analysis (Lubis et al., 2019). Purposive sampling was used to collect 33 information obtained through annual reporting of building construction subsector business entities listed between 2020 and 2022 on the Indonesia Stock Exchange (IDX).

From the findings of descriptive statistical testing, a maximum value of 0.06 for financial statement integrity is found in PT TOTL and PT PBSA companies. This is because, in both companies produce audit opinions fairly without exception and management is tasked with preparing and presenting financial statements appropriately and fairly based on Indonesian Financial Accounting Standards, so as to produce financial statements with integrity. There is no material misstatement in these financial records, either by fraud or errors. Management is strongly committed to implementing Financial Accounting Standards as much as possible. This condition is very good for improving the integrity of financial reporting. PT WIKA produces a minimum value of -0.41. This occurs when a company produces an audit opinion without expressing an opinion or not giving an opinion due to the auditor's inability to gather adequate and relevant audit evidence. The management has also not described the financial statements that have been set by Financial Accounting Standards. In addition, it can be caused by accounting personnel and facilities that are less supportive. In an average financial statement integrity value of -0.0388 "tends to be good", it can be seen from companies that produce fair audit opinions without exception which means the company has integrity. However, there are also companies that produce audit opinions that do not express an opinion. The integrity of financial statements is still not good because the management has not applied Financial Accounting Standards in preparing financial statements. The management is expected to be able to prepare financial statements appropriately and accurately in accordance with Financial Accounting Standards in Indonesia.

Table 1. Descriptive statistics

Variable	N	Min	Max	Mean	Std. Deviation
Audit Tenure	33	0	1	0,73	0,45
Public Accounting Firm	33	0	1	0,12	0,11
Audit Fee	33	18,88	22,07	20,2584	1,02783
Financial Statement Integrity	33	-0,41	0,06	-0,0388	0,02146

Source: Processed Data, 2023

Audit tenure has a maximum value of 1 in PT NRCA, PT WIKA, PT JKON, and PT BUKK, this is because the period of relationship between auditors and organizations is less than 3 years which shows the independence of an auditor. The minimum value produced is 0 in PT TOTL, PT ADHI, and PT PBSA, this happens because the period of relationship between auditors and organizations is more than 3 years which shows the closeness between the two parties which will make the auditor not independent. On average, the tenure audit value of 0.73 "tends to be good" because an auditor has worked with the company for less than 3 years and the independence of an audition or is guaranteed and there is no closeness between the two parties. So that it can produce financial statements with integrity.

PT PP and PT JKON are audited by big four public accountants, who are labeled more independent because of their good reputation and ability to withstand management pressure to manipulate financial reporting, so the size of the public accounting firm for

these companies has a maximum value of 1. KAP big four already has a good name in the business environment. In addition, big four KAP employs highly skilled auditors who can provide more accurate audits for their clients. In order to maintain its reputation, KAP big four has a greater motivation for auditors to strive for openness, objectivity, and competence. The Big Four Public Accountants are able to carry out more effective audit procedures and follow the rules of the Public Accountant Professional Standards, which allows auditors to identify and report violations in their customers' financial statements and guarantee that the financial statements comply with SAK (Kristian, 2018). The minimum value produced is 0 at PT BUKK, PT PBSA, and PT PP PRESESI, this shows if the company is audited by KAP Non Big four which is labeled can build a close correlation between auditors and companies to manipulate financial statements, so that KAP Non Big four judged less independent. In addition, human resources, reputation, and knowledge at KAP non big four are less supportive in auditing customer financial reporting. On average, the value of the KAP size of 0.12 "tends to be good" because existing companies tend to be audited by big four public accountants who have good independence and can withstand pressure from clients, which causes financial reporting results with high integrity.

The audit fee has a maximum value of 22.07 on PT BUKK which indicates that the company provides audit fees to the auditor in an unreasonable or too large amount which results in the auditor not being independent. Audit costs are too large because auditors are under pressure from management in manipulating financial reporting. Business entities pay audit fees to auditors in small amounts or in accordance with the cost of tasks, difficulty of services, provided, the level of proficiency required to perform the service, and the structure of the relevant KAP funds. As a result, the minimum score on PT NRCA is 18.88. Through appropriate audit funds based on the provisions create an independent auditor by auditing financial statements as is. On average, the audit fee value of 20.2584 "tends to be not good". The lack of good audit fees is caused by the average company providing audit fees to auditors in large amounts which makes auditors not free and auditors get pressure from their users to cheat on financial reporting which causes them not to have financial reporting with high integrity.

4.1 Classical Assumption Test

Classical assumption testing is used to ascertain the correctness of the regression equations that have been described. Regression models can be biased if the classical assumptions are not met. (Riswan & Dunan, 2019). To ascertain whether the research variables have a normal distribution or not, normality testing is needed. (fig. 1) The dots spread out around the diagonal line and follow the diagonal direction, indicating the normal distribution of the study's residual data. In table 2, the tolerance value of each variable is greater than 0.10 and the VIF value is smaller than 10, so there is no problem of multicollinearity between independent variables in this study. This study is also free from autocorrelation, because the Durbin-Watson value is 1.708 which shows $DU < DW < 4 - TWO$ (table 3). The scatterplot image shows that the dots are spread randomly and are located above and below the number 0 on the Y-axis, this shows that this study is free of symptoms of heteroskedasticity (figure 2).

4.2 Test the hypothesis

Table 2. Hypothesis Test Results

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,204	0,276		0,737	0,467
Audit Tenure	-0,370	0,076	-0,658	-4,899	0,000
Public Accounting Firm	0,125	0,041	0,507	3,018	0,005
Audit Fee	-0,188	0,060	-0,393	-3,133	0,001
Adjusted R Square					0,271
F					0,038

Source: Processed Data, 2023

The t test and F test were used in this study. The fact that a sig value of 0.038 in the F test (table 4) is smaller than 0.05 indicates that the regression model is met and the independent variable can impact the dependent variable simultaneously. The sig value of each independent variable on the t-test (table 4) smaller than 0.05 (0.000, 0.005, 0.001) indicates that the independent variable can only partially affect the dependent variable. Table 4 shows that the adjusted R square coefficient of determination is 0.271. This shows that the independent variable affects 27.1% of the dependent variable, while the remaining 72.9% is influenced by other factors outside this study. The multiple linear regression formula in table 4 can be created as follows:

$$Y = 0.204 - 0.370AT + 0.125KAP - 0.188LNFEE$$

4.3 Discussion

4.3.1 The Effect of Audit Tenure on Financial Statement Integrity

The tenure audit variable has a sig value of 0.000 less than 0.05 according to the findings of the hypothesis test. This shows that the tenure audit has a negative and significant effect on the integrity of the financial statements as indicated by a calculated T value of -4.899. This shows that the longer an audit is carried out on a company, the greater the effect on the correctness of financial statements. This indicates that H1 is approved. The longer the auditor and the corporation work together, the closer the relationship will be and the auditor's independence will be lost. This intimacy makes it difficult for auditors to withstand customer pressure to falsify financial statements, which reduces the integrity of financial statements. Research has been conducted to prove this (Saad & Abdillah, 2019); (Dewi et al., 2019); (Manuari & Devi, 2021); (Ancient & Fuadi, 2023); and (Wulandari et al., 2021).

The results of this study describe if supervisory actions by shareholders to management are needed for efforts so that management actions are in accordance with the needs of investors and do not deviate, it supports the agency theory of (Jensen & Meckling, 1976). Management will take deviant actions by cooperating with auditors for a long time to manipulate financial reporting which will result in auditor independence declining. This can affect the decline in the integrity of financial reporting. Supervision actions by shareholders to management can be carried out by emphasizing regulations regarding the period of relationship between the auditor and the business entity is less than 3 years to avoid manipulation of financial statements.

This research shows that the presence of tenure audits in a business entity must be overcome, because empirically proven tenure audits can reduce the integrity of financial reports for an organization. For this reason, if an auditor has been working with the company for 2 years, a rotation of auditors is needed, with the aim of avoiding acts of manipulating financial statements that can make the integrity of financial statements decrease. For management that is proven to cooperate with the auditor to manipulate financial statements, sanctions should be given in the form of termination of employment contracts for both parties, so that acts of manipulation of financial statements do not recur within the company.

4.3.2 The Effect of KAP Size on the Integrity of Financial Statements

The variable size of KAP has a sig value of 0.005 less than 0.05 and a calculated T value of 3.018 according to the findings of the hypothesis test. This shows that the size of KAP has a positive and significant influence on the integrity of financial statements. This means that the KAP of a company will have a greater influence on improving the integrity of financial statements. This indicates that H2 is approved. The company will produce more honest financial statements if audited by four major public accountants. To improve the auditor's ability to identify and disclose violations in clients' financial statements and ensure that financial statements comply with IFRS, the big four public accountants can carry out audit processes that are more effective and in accordance with the Professional Standards of Public Accountants (Kristian, 2018). Compared to non-big four public accountants, independent parties known as "big four public accountants" offer a more trustworthy signal of free speech. Financial statements will have high integrity if presented with greater independence and reliability. Research has been conducted to prove this (Auliyah et al., 2022); (Sukanto & Widaryanti, 2018); (Pratika & Primasari, 2020); (Wijaya & Wibawaningsih, 2020); and (Lubis et al., 2019).

The results of this study support the concept of agency from (Jensen & Meckling, 1976) which reveals if investors will be more confident to invest their funds in business entities audited by big four public accountants whose independence is guaranteed. KAP big four already has a fairly good reputation and already has a lot of knowledge, so that auditors audit financial statements fairly and accurately. If the organization is audited by non-big four public accountants, the management can pressure the auditor to make financial reporting fraud that causes good financial reporting in the eyes of shareholders. However, shareholders want to get financial statements as they are, therefore the company should be audited by the big four public accountants. This is because KAP big four is able to withstand sharpening pressure to manipulate financial reporting.

This research shows that the existence of the size of KAP in a business entity must continue to be a concern, considering that the size of KAP can empirically increase the integrity of financial reporting in an organization which of course will also be beneficial for all shareholders. Business entities that use non-big four public accountants should be changed to non-big four public accountants that are guaranteed to be independent. Therefore, it is expected that KAP big four will be able to maintain its independence and increase confidence in producing financial statements with high integrity.

4.3.3 The Effect of Audit Fee on the Integrity of Financial Statements

Based on the findings of the hypothesis test, the audit cost variable has a calculated T value of -3.133 and a sig value of 0.001 less than 0.05. This shows that audit costs have a negative and significant effect on the integrity of financial statements. This means that

the impact on the accuracy of financial statements decreases along with the large audit costs of a company. This indicates that H3 is approved. The more auditors receive audit fees, the more likely they are to manipulate financial statements. Because, they can obey company requests or cooperate with management to manipulate financial statements that can endanger the integrity of financial statements. These findings are supported by research (Purwanti et al., 2019) and (Auliyah et al., 2022).

The results of this study support the agency theory of (Jensen & Meckling, 1976) That said, if to make financial statements seem profitable to shareholders, management often pays large or excessive audit fees. As a result, pressure from management can undermine auditor independence. Management tends to provide large audit costs to pressure the auditor so that it can reduce auditor independence. The pressure on the management is to manipulate financial statements. Shareholders must supervise in the form of looking at audit costs given to auditors whether in reasonable or unreasonable amounts, if in unreasonable amounts it can cause manipulation of financial reporting.

This research shows that the existence of audit costs in a company must be overcome, because empirically proven audit fees in large amounts can reduce the integrity of financial reporting for an organization. So that business entities should provide reasonable audit costs in accordance with the hazard of the work, the complexity of the services provided, and the level of skills needed to perform the service. Through a decent audit fee, it can provide appropriate independence to the auditor to carry out the audit process based on adequate provisions so that the audit results are produced based on financial reporting conditions and avoid manipulation of financial statements.

5. Conclusion

The focus of this study is to know and analyze the effect of audit tenure, KAP size, audit fee on the integrity of financial statements. The research findings are as follows: (1) tenure audits have a significant and negative effect on the integrity of financial statements; (2) The size of KAP has a positive and significant effect on the integrity of financial statements; and (3) audit costs have a negative and significant effect on the integrity of financial statements. According to this study, tenure audits and company audit costs need to be addressed because they have the potential to jeopardize the accuracy of their financial statements. Regulations governing the period of cooperation between auditors and companies must be affirmed, and companies that violate these regulations will be subject to severe sanctions. The next step in addressing audit fees is to ensure that auditors are paid reasonable rewards commensurate with the complexity of the services provided, the level of expertise required, and the assignment of risk. The existence of the KAP size in a company must continue to increase its independence in realizing the integrity of good financial statements. The recommendation in this study is that all parties (management, shareholders, and auditors) must be highly committed to realizing the improvement of financial statement integrity. The low adjusted R square value of 0.271, which indicates that the independent variable is only able to explain 27.1% of the variation of the dependent variable, and the lack of a study sample is a limitation of this study. Therefore, research samples and other variables can be added to the research model such as (1) company size; (2) leverage; (3) profitability; and (4) financial distress that can explain its impact on the integrity of financial reporting is recommended for further investigation.

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