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The Effect of Committee Audit Characteristics and Reputation of Audit Firm on the Integrity of Financial Statement With Company Size as Moderating Variable

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ABSTRACT
The purpose of this study is to examine the effect of committee audit characteristics and audit firm reputation on the integrity of financial statement considering company size as moderating variable. This study uses panel data analysis and Gretl Program to test the direct effect and moderating effect of the variables. Data were collected from Consumer Goods sector companies that are listed on Indonesia Stock Exchange from year 2017-2019. The result shows that number of audit committee member and proportion of female audit committee are significantly related to integrity of financial statement. The moderating effect of company size on the integrity of financial statement is also confirmed. This research paper can give several recommendations for company in terms of having more relevant and reliable financial statements, there are: (1) we suggest company to have a sufficient amount of audit committee member; (2) we suggest company to have at least one female on the audit committee structure.

Keywords: *Audit Committee Meeting, Audit Committee Member, Company, Integrity of Financial Statement, Proportion of Female Audit Committee, Reputation of Audit Firm*

1. INTRODUCTION

Integrity of Financial Statement (IFS) is a presentation and disclosure of financial statement containing relevance and reliability principles [1]. A relevant and reliable financial statement occurs when management does not practice earnings management affecting IFS. Based on the research by Leuz, Nanda & Wysocki [2], it was found that companies in Indonesia are indicated to practice earnings management. Compared to other ASEAN countries such as Malaysia, Philippines, Thailand and Singapore, Indonesia is considered as a country with the highest level of earnings management.

A number of cases of financial statement fraud that was showing the weakness of the company's IFS have invited many researchers to study the factors that affected it. For example, in 2004 Enron was found to manipulate financial statements by increasing sales profit by $600 million and hiding company debt by $ 1.2 billion. Meanwhile, financial statements fraud in Indonesia could be seen in the case of PT Garuda Indonesia Tbk in 2019, where PT Garuda Indonesia was finally subjected to sanctions by government and non-government financial institutions as well as their financial statements auditors and audit firms; namely audit firm Tanubrata, Sutanto, Fahmi, Bambang & Rekan were also subject to sanctions by the Ministry of Finance.

Almost all cases of financial statement fraud were related to the failure of the audit committee as the supervisor and the audit firm as the auditor. Audit committees were deemed to be ineffective in supervising, while the audit firm's integrity in providing audit opinions was questionable. A number of researches on these two variables have been conducted but have also shown diverse results. A research by Zgarni, Hlioui, & Zehri [3] stated that the audit committee characteristics had a negative impact on earnings management, which could subsequently affect IFS. Meanwhile, a research by Thiruvadi, S. [4] stated that a proportion of female audit committee (ACF) was one of the audit committee characteristics that had a positive impact on the quality of the audit result. Good audit quality will result in a financial statement with integrity. Meanwhile, in terms of the reputation of the audit firms (AFR), a research by Muhamadiyah [5] stated that an audit firm with high reputation does not guarantee that it will give an audit opinion to its clients. This means that an audit firm with a high reputation presents financial statements with integrity, because it did not guarantee a good audit opinion for all of its clients. However, Muhamadiyah's research was not consistent with the research by Januarti & Fitrianasari [6]. The inconsistent research was taken from the result where it was suspected to have been influenced by other strengthening or weakening factors, namely the company size (CSize). Huang & Kang [7], in their research, stated that a company with high reputation would use its incentives to maintain its financial statement quality. Therefore, this research wanted to study whether CSize also influenced the correlation between audit committee characteristics (ACSize, ACMeet, and ACF) and AFR against IFS. The results of this research were expected to answer the doubts of the investors and public, regarding the effectiveness of the audit committee in performing supervision and AFR in providing audit opinions.

2. LITERATURE REVIEW

Financial statements are the most important source of information and are used as a basis for decision-making by capital market practitioners (including shareholders, creditors, and financial analysts), capital market legislators, and other stakeholders [8]. Therefore, financial statement must have integrity in order to not mislead the users. IFS is defined as the presentation and disclosure of a financial statement containing relevance and reliability principles [1]. A relevant and reliable financial statement can be achieved if the management does not practice earnings management that may affect IFS. Problems regarding earnings management itself are often associated with agency theory proposed by Jensen and Meckling [9]. Agency theory discusses conflicts of interest that occur between principals and management in organizations caused by information discrepancy. Information in a company tends to be known more by management, as the party who operates the company every day [10]. The presence of this information discrepancy makes principal seem distrustful to management. Management could hide information from the principal by not reporting the company's financial statements according to the facts. The previous researches have revealed several managers' motives in doing earnings management, such as in the research by Burns & Kedia [11] which stated that shares option could motivate manager to practice aggressive accounting. Matolcsy [12] also found a positive correlation between cash bonuses and economic growth. This indicated that managers tend to increase their profits and reduce their expenses to earn bonuses from the company.

Therefore, to solve this problem, the role of good corporate governance is needed. Farber [13] in Halbouni, Obeid, & Garbou [14] stated that there was a correlation between financial reporting system credibility and the corporate governance mechanism quality. Farber in his research found that companies practicing fraud had bad corporate governance. Meanwhile, governance itself is a process for detecting and preventing fraud, with an aim to ensure long-term profitability and corporate prosperity; in a sense, good governance will automatically provide an added value to the shareholders and stakeholders from the generated financial statements [15]. The American Institute of Certified Public Accountants (AICPA) [16], applied several indicators to measure the effectiveness of good governance in preventing and detecting fraud, including the effectiveness of audit committee and the audit firm [14]. Zgarni, Hlioui, & Zehri [3] in their research also stated that audit committee and audit firm are two important actors in corporate governance system that are able to limit the earnings management practices. The followings are variables used in this research:

2.1. Integrity of Financial Statement (IFS)

Financial statement with integrity is defined as a presentation and disclosure of financial statement containing relevance and reliability principles [1]. These are not that different from the definition by Kieso & Weygandt, Camacho-Minano & Campa [17] in their journal, stating that among the many existing definitions, international standard-setting bodies and the committee often view financial statement with integrity as financial statements containing elements of transparency and reliability. A relevant and reliable financial statement can be achieved when management does not practice earnings management reducing the IFS. The earnings management activity itself can be measured in two ways, i.e.: (1) using the Modified Jones Model [18] by measuring the absolute discretionary accrual value; (2) using the methodology introduced by Roychowdhury [19] by measuring the manipulative transaction value conducted by the company. This research used Roychowdhury measurement [19], where it used cash flow values from the manipulative operational activities (CFO) to measure the IFS. IFS was measured by the absolute value of difference between actual CFO and normal CFO. Normal CFO is estimated by real activity earnings management model from [19], with the following equation:

$$CFO = \alpha 0 + \alpha 1(1/At\text{-}1) + \beta 1(St/(At\text{-}1) +) \quad (1)$$

$$\beta 2(\Delta St/(At\text{-}1) + \varepsilon t) \quad (2)$$

2.2. Audit Committee (ACSize, ACMeet, ACF)

Audit Committee is a committee established by, and responsible to, the Board of Commissioners in assisting the duties and functions of the Board of Commissioners (NUMBER 55/POJK.04/2015). Furthermore, in the Journal of Qamhan, Chee Haat, Hashim & Salleh [20], it was outlined that the audit committee has functions as supervisor and communicator between the important parties in the company, such as board members, internal auditors, external auditors, and other interested parties. The audit committee’s function in supervising the course of the company's financial reporting process and external auditors’ audit activities [21] greatly determines the success of an organization in aligning conflicts of interest between principals and managements. The preparation of financial statement that does not involve conflicts of interest will result in corporate financial statements with integrity. This is in line with Klein’s journal [22] which emphasized on the importance of audit committee's supervisory function to the improvement of company financial reporting. The previous studies have revealed several characteristics deemed to affect the audit committee’s function in supervising the course of the company's financial reporting process, including ACSize, ACMeet, and ACF.

Audit committee member (ACSize) is the number of people based on the decision of Board of Commissioners who are also the members of the audit committee. Vafeas [23] stated that the greater the ACSize, the broader the knowledge they have, thus, the audit committee can work more effectively. This broader knowledge of audit committee was deemed to have a positive effect on the audit committee's supervisory function, where the audit committee could use its competence to mutually discuss any odd matters that lead to fraud. This Vafeas’ Research is also supported by several other researchers such as in the research by Mansor, Che-Ahmad, Ahmad-Zaluki, & Osman [24], stating that the greater ACSize, the more effective supervisory function performed by audit committee so it could reduce the rate of earnings management. However, these two researches were not in line with the research of Abdul Rahman & Ali [25], which stated that manipulation in accounting had a positive impact on ACSize, which means that the greater ACSize, the greater the rate of earnings management. Berkman [26] supported Abdul Rahman & Ali's [25] research by stating that the greater the ACSize, the more difficult the communication process and decision-making and would create the potential conflict of interest which could increase the rate of earnings management. ACSize itself was measured by the number of audit committees for the annual report period.

Meanwhile, in terms of audit committee meeting (ACMeet), it is known that ACMeet is the number of meeting conducted by audit commitee for a year. Regulation of Financial Service Authority (POJK) Number 55/POJK.04/2015 [27]has regulated the minimum meeting number for public companies in Indonesia, i.e. A minimum of once every three month, or four times in a year. There are several researches regarding the correlation between ACMeet and IFS, including research by Klein [22] which stated that the audit committee's supervisory function could be achieved by holding ACMeet regularly with external auditors and the company's internal financial manager to discuss the financial statements, audit process, and internal corporate control. Research by Beasley, Carcello, Hermanson, & Lapides [28] in Qamhan et al., [20]strengthened this statement by finding out that ACMeet from companies that have committed fraud are less when compared to companies that do not commit fraud. However, these two researches were not in line with the research of Xie, Davidson, & DaDalt [29], he did not agree that ACMeet could have an impact on the effectiveness of audit committee's supervisory function. ACMeet is measured by the number of meeting conducted by audit commitee for a year.

Furthermore, the last audit committee characteristic, namely, ACF, is defined as the percentage of women in the audit committee in the annual reporting period. There are several views regarding the correlation between ACF and IFS, among others, a research by Thiruvadi [4] found that ACF in the audit committee affects the audit committee’ diligence as a whole. The increased audit committee’ diligence would improve the financial statement quality. This could be seen from the less number of company's financial statement. Thiruvadi's research was also supported by research by Zalata, Tauringana, & Tingbani [30] which states that ACF in audit committee would reduce the earnings management practices. However, these two researches were not in line with the gender similarities theory which states that gender differences will disappear once individuals enter the professional world; hence that individual behavior will not be guided based on gender behavior, but based on systems and rules where individuals work [31]. ACF itself was measured by the percentage of women in the audit committee.

2.3. Audit Firm Reputation (AFR)

Rindova, Williamson, Petkova, & Sever [32] in Nasution & Ostermark [31]stated that reputation consists of two dimensions, i.e. perceived quality which means producing high quality services, and prominence which means obtaining widely public recognition. In order to produce high quality services, it is not enough for audit firm to only have competence and qualified personnel, but it also needs the independence of each personnel implementing ethical principles in their professional competence [31]. Audit firm implementing these two dimensions will be capable of producing correct audit opinions and financial reports with integrity.

However, Weiss rating [33] revealed that it was found that 42% of 288 public companies that subsequently filed for bankruptcy, including Enron company, were given a clean opinion from their external auditors in the years prior to the bankruptcy. This data raised public doubts about the reputation of audit firms in providing its audit opinions. Audit firms were proven not to be responsible for the audit opinion it provided, even though the audit’s opinion was an important tool for investors in making investment decisions. An unreliable audit opinion also indicates poor quality financial statements.

Many previous studies have examined the effect of AFR on IFS, but the results were inconsistent. Muhamadiyah [5] in his research stated that audit firm with high reputation did not guarantee that it will give going concern audit opinion to its clients (negative impact). This meant that an audit firm with high reputation presents financial statements with integrity, because it did not guarantee a good audit opinion for all of its clients. On the other hand, research by Januarti & Fitrianasari [6] gave different results, where they found that AFR had a positive impact on going concern audit opinion, although not significant.

Riyanto [34] in Salehi, Mahmoudi, & Gah [35] stated that audit firm measurement has been used by many previous studies to determine the resulted audit quality where such audit quality would be able to determine the AFR. This research used interval variables as the proxy of AFR: 1 for local audit firm, 2 for foreign audit firm, and 3 for audit firm big four. A local audit firm is the one without any foreign affiliations. Foreign audit firm is a foreign audit firm that is not incorporated into the audit firm big four. The audit firm big four is the one incorporated into the big four and its services are used by most large companies around the world. From research by Zgarni et al., [3] it was found that the audit firm that are incorporated into the big four tend to reduce earnings management practices in Tunisian context.

2.4. Company Size (CSize)

CSize is a scale that classifies the company size. CSize affects the governance implemented in a company. Klapper & Love [36] in Rahayuningsih [37] stated that there are two views regarding the implementation of governance with CSize. The first view is that large companies tend to have more complex agency problems, thus requiring tighter governance. The second view is that small companies have better growth opportunities. Therefore, small companies need funding from external parties to grow. Funding can only be achieved if the company has successfully applied good governance. Good governance will improve the trust from funders for these new-growing companies. From the two views, this research looked at the first one; that large companies were more likely to have good governance than small companies because they had more funds that could be invested to build a better governance system. Meanwhile, for small companies, it would be difficult to implement a good governance system due to limited funds. Therefore, large companies should have had higher IFS than small companies because they were likely to be more capable to implement better governance system, in this case the audit committee and external auditors. However, to ensure that, this research would include the CSize within the connection between audit committee and external auditors with the IFS. CSize itself was measured using the total assets in the company's financial statements. This proxy measurement was in accordance to Tarigan [38] in Agustia & Suryani [39], who stated that CSize could be seen from total assets in the financial statements. Companies owning large total assets are considered as large companies because it was easier for them to obtain funding sources.

The Relationship between Audit Committee Characteristics, Company Size, and Financial Statement Integrity. It was assumed from the results of previous researches, that there were inconsistencies between the audit committee characteristics and IFS, caused by other factors that contributed to weakening or strengthening the relationship between the audit committee and IFS, namely the CSize factor. Research by Nasution & Setiawan [40] stated that CSize had an important role in presenting financial statements. The greater the CSize, the more the company will be noticed by the public. This has made large companies more cautious in presenting their financial statements. Thus, the company would lean to avoid earnings management practices. Meanwhile, through the two views of Klapper & Love [36], this research suspected that large companies were more capable in implementing better governance system, in this case the audit committee and external auditors. With regard to the relationship between the corporate governance system and IFS [13], it could be indirectly assumed that better governance systems were more likely to be owned by large companies to be able to produce financial statement with integrity.

This research assumed that CSize could weaken the relationship between ACSize and IFS. A research by Berkman [26] stated that the greater CSize, the greater ACSize would be. However, ACSize that was too large would result in ineffective decision making, hence the financial statements would be lacking in integrity. This was caused because the greater the ACSize, the more difficult the communication process and decision-making and would create the potential conflict of interest which could increase the rate of earnings management.

This research assumed that CSize could strengthen the relationship between ACMeet and IFS. A research by Beasley et al., [28]in Qamhan et al., [20] found out that ACMeet from companies that have committed fraud are less when compared to companies that do not commit fraud. This proved that the greater ACMeet, the more integrity the financial statements would be, thus, it was assumed that there was a positive relationship between CSize and ACMeet. This hypothesis was supported by the research by Tinambunan, Zulfikar, & Ibrani [41] which states that ACMeet would affect the reporting timeliness. He explained that reporting timeliness proved the cooperation among audit committee members in assisting the managerial problems. This proved that

ACMeet being held frequently may improve the company governance system.

This research assumed a hypothesis that CSize could weaken the relationship between ACF and IFS. Bigger ACF might improve diligence [4]reduced profit management practices [30], and be more likely to generate higher quality audit assurance from the audit firm [42]. These advantages have made ACF earn a large audit fee from the company. Research by Sellami & Cherif [43] added that ACF showed greater relationship related to audit costs compared to male audit committees. This is consistent with the framework in the previous paragraph, where the large companies would be more likely to employ ACF to obtain better audit assurance and more likely to pay higher audit fees for them.

H_1: Company size weakened the relationship between the number of audit committee members and the integrity of financial statements

H_2: Company size strengthened the relationship between the number of audit committee meetings and the integrity of financial statements

H_3: Company size weakened the relationship between the composition of women in audit committee and the integrity of financial statements

The Relationship between audit firm Reputation, Company Size, and Financial Statement Integrity.

This research formed a hypothesis stating that large companies would have greater incentives than small companies and be likely to use these incentives to employ international scale external auditors with high reputation, namely external auditors who are the members of the big four. Dhaliwal [44]in Hartadi [45]found out that audit fee significantly affected the audit quality. The greater the audit fee, the better the resulting audit quality would be. Large-scale companies would certainly be able to pay higher audit fee and to employ audit firm that were members of the big four. Audit firms that are members of the big four could provide better audit quality compared to non-big four, i.e. local and foreign audit firms. This was further explained in the research by Muhamadiyah [5]which stated that audit firms with great reputations and names could provide better audit quality in revealing going concern problems in order to maintain their reputation. Dopuch & Simunic [46] in Salehi et al., [35] also stated that large audit firms would produce high quality services to maintain their reputation. Meanwhile, Khrisnan [47] in Khlif & Samaha [48] stated that in general, audit firms that are members of the big four had specific specialty and knowledge in the industry, needed for detecting problems related to the application of internal control systems in various sectors. Lawrence, Suddaby, & Leca [49] in their research added that large-sized or reputable audit firms provided support in the form of training programs, standardized audit methodologies, and opportunities for review by other colleagues; hence, with all of these advantages, it was said that audit firms that were members of big four are likely to present higher quality audits than the local and other foreign audit firms. Based on the framework of thoughts above, the following hypothesis were formulated:

H_4: Company size strengthened the relationship between the reputation of audit firm and the integrity of financial statements (Please don't highlight your text in yellow.)

3. METHOD

A research was conducted to 60 manufacturing companies in the Consumer Goods Industry sector that issued annual financial statement and had their statements published in Indonesia Stock Exchange (IDX) during 2017-2019. Sampling was made using a purposive sampling method. Purposive sampling method is a method for determining samples based on criteria that have been previously formulated by the researcher [50]. The criteria of companies used as sample in this research were:

1) The companies used Rupiah currency as the reporting currency, because this research used CSize variables, which had the same currency.
2) The required data were available completely and the company issued financial statements that had been audited by an independent auditor during the research period.
3) The company's period for reporting financial statement were from 1 January to 31 December.

After sampling was taken using the above criteria, the number of samples that met the criteria were from 40 companies.

The source of data in this research was financial statement data. To obtain the data required in this research, the researchers used documentation techniques by referring to the annual statement from the companies that were eligible as the samples. These data were obtained from the official website of Indonesia Stock Exchange (IDX). In addition, this research was conducted using multiple linear regression method using the form of panel data, so that the data would be processed using the Gretl software. The equation for panel data regression is as follows:

$$IFS: \beta0+\beta1ACSize+\beta2ACMeet+\beta3ACF+\beta4AFR+ \beta5ACSize*CSize+\beta6ACMeet*CSize+\beta7ACF*CSize+ \beta8AFR*CSize+\varepsilon \quad (3)$$

Remarks:

IFS : Integrity of Financial Statement

ACSize : Number of Audit Committee Member

ACMeet : Number of Audit Committee Meeting in One Year

ACF : Proportion of Female Audit Committee

AFR : Audit Firm Reputation

CSize : Company Size

ε : Error

The operational definition for each variable in this research is as follows:

Table 1. Variable Operational Definition

Variables	Variable Operational Definition
Integrity of Financial Statement (IFS)	Absolute Earning Management measured using CFO Model from Roychowdhury [19]
Audit Committee Size (ACSize)	Number of audit committee member
Audit Committee Meeting (ACMeet)	Frequency of audit committee meetings in one year
Audit Committee Female (ACF)	Percentage of female members in the audit committee
Audit Firm Reputation (AFR)	Interval Variable is given score 1 for audit firm which are included in the category of local audit firm, score 2 for audit firm which is included in the category of foreign audit firm, and score 3 for audit firm which is included in the big four category
Company Size (CSize)	Total assets

Table 2. Descriptive Statistics

Variable	Mean	Median	S.D.	Min.	Max
IFS	0.105	0.081	0.097	0.001	0.474
ACSize	3.020	3.000	0.343	2.000	4.000
ACMeet	6.170	4.000	3.820	0.000	20.000
ACF	0.241	0.250	0.272	0.000	1.000
AFR	2.370	2.000	0.517	1,000	3.000
CSize	9.970	1.730	19.600	0.120	96.500
ACSize*CSize	30.200	5.180	59.000	0.352	290.000
ACMeet*CSize	62.200	11.400	143.000	0.000	786.000
ACF*CSize	1.580	0.074	4.300	0.000	26.200
AFR*CSize	27.700	4.190	58.900	0.240	290.000

Source: Data result from Gretl

4. RESULTS AND DISCUSSION

4.1. Description of Data

The number of companies in this study were 60 companies, with an observation period of 3 years, from 2017 to 2019. Meanwhile, out of the 60 companies, the number of companies meeting the samping criteria are 40 companies. Table 2 below presents the test results using descriptive statistics method for the 40 samples.

From table 2 it can be seen that the IFS dependent variable has a minimum value of 0.001, a maximum value of 0.474, an average value of 0.105, and a standard deviation of 0.097. The minimum IFS value of PT Mayora Indah Tbk showed that PT Mayora Indah Tbk had the most integrity financial statements when compared to other sampled companies in 2017.

Meanwhile, in the characteristics of the audit committee, there was an ACSize with a maximum value of 4 people and a minimum value of 2 people; this means that there were still companies with ACSize below the amount specified in the POJK. In the ACMeet variable, it was found that there were companies that did not hold meetings in that year. On the other hand, there were also companies that held up to 20 meetings in a year. The average ACMeet of the 40 sampled companies is 6,170.

This average number is quite high if compared to the ACMeet requested by POJK, which is 4 meetings a year. In the ACF variable, it was known that half of the sample companies with a total of 57 data from 2017-2019 have had audit committee composition with 0% female, and only one company had a total of 3 data from 2017-2019 with its audit committee composition with 100% woman.

Furthermore, the AFR variable shows a minimum value of 1, indicating that the company was classified as audited by a local audit firm, a maximum value of 3 indicating that it was audited by the audit firm big four, and a value of 2 indicating that the company was audited by a foreign audit firm. The AFR variable has an average value of 2.370 and a standard deviation of 0.517; this standard deviation value, that is smaller than the average value, indicates a grouped data.

The CSize variable has an average value of 9.970 and a standard deviation of 19.600. This quite large difference between the standard deviation value that is higher than the average value indicating that the company's data size during 2017-2019 varied.

4.2. Data Analysis Result

This research used double linear regression analysis to determine whether the CSize moderation variable also moderate the relationship between independent variables of ACSize, ACMeet, ACF, and AFR, with the dependent variable of IFS. This research had gone through the Chow test, Breusch test, and Hausman test to determine the best method of processing the data. From the three tests, it was found that the Random Effect Model (REM) method was the best method to be implemented. Below is the result of the regression analysis, made from Gretl software: had the most integrity financial statements when compared to other sampled companies in 2017.

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Based on table 3 above, it was found that there were 2 variables with a significant p-value, i.e. independent variables of ACSize and ACF. The ACSize variable had a p-value of 0.007, whereas the ACF variable had a p-value of 0.049. This meant that the two variables had a significant effect on the dependent variable of IFS. The direction of the influence from both variables were evident from the coefficient signs from the ACSize and ACF variables. The ACSize variable had a coefficient value of -0.037, implying that the ACSize significantly had a negative effect on IFS. This meant that the bigger the ACSize, the smaller the IFS would be. Smaller IFS number indicated that the company did not do their earnings management. Thus, it can be concluded that the more members of the audit committee, the better the integrity of their financial reports would be. Meanwhile, the ACF variable had a coefficient value of 0.090, implying that the ACF significantly had a positive effect on IFS. The higher the ACF was, the greater the IFS would be. This proved that the company had done more earnings management, therefore it can be concluded that the more women are assigned as the audit committee, the less integrity the financial report would be.

The independent variables of ACSize and ACF, when being interacted with the moderating variable of CSize, turned out to show results with a significant effect. These were evident from the ACSize*CSize and ACF*CSize variables, with the p-values of 0.004 and 0.039 respectively, and with coefficients of 0.009 and -0.007 respectively. From these results, it was evident that CSize actually weakened the relationship between the two independent variables of ACSize and ACF, against the dependent variable of IFS.

The larger the CSize, the weaker the relationship between ACSize and IFS would be. If the relationship were to be increased, the financial statement would have shown more integrity, as proved by the negative coefficient, under the premise where the greater the relationship between the CSize would also affect the ACSize, where the financial statements would show less integrity. This was evident from the positive ACSize*CSize interaction coefficient. This result corresponded with the previously proposed hypothesis.

Meanwhile, the moderating variable of CSize would also weaken the relationship between ACF and IFS. Initially, the greater the ACF, the less integrity the financial statements would be. In large company cases, the bigger the ACF will result in more integrity of the financial statements. These results were in accordance with the hypothesis, i.e. CSize could weaken the relationship between ACF and IFS.

Meanwhile, for the independent variables of ACMeet and AFR, there were no significant effects between ACMeet and AFR with IFS. The moderating variable Csize was also not proven to strengthen or weaken the influence between ACMeet and AFR with IFS.

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4.4. Discussion

4.4.1. The Relationship between Audit Committee Characteristics, Company Size, and Financial Statement Integrity

Hypothesis 1 (H_1) this research has successfully proved that a company size would weaken the relationship between ACSize and IFS. A negative ACSize coefficient indicated a negative relationship between ACSize and IFS; whereas the greater the ACSize, the smaller the IFS number. These indicated that the less the earnings management was carried out by the company through CFO manipulation, the more integrity the financial statements would be. The significantly positive coefficient on ACSize*CSize weakened the relationship between IFS and ACSize, which resulted in a negative coefficient. Therefore, the final relationship between ACSize and IFS after getting moderation from CSize was that: the bigger the company (CSize), the more committees would make financial statements that lack integrity. This result was in line with the research conducted by Berkman [26], which stated that large companies tend to have too many members in their audit committee. This could hinder the communication and decision-making process, hence creating a possibility of conflict of interest, which can increase earnings management number.

Table 3. Regression Analysis

	coefficient	std. error	p-value	
const	0.108	0.087	0.212	
ACSize	-0.037	0.014	0.007	***
ACMeet	-0.001	0.003	0.722	
ACF	0.090	0.045	0.049	**
AFR	0.038	0.031	0.208	
CSize	-0.018	0.017	0.293	
ACSize*CSize	0.009	0.003	0.004	***
ACMeet*CSize	0.000	0.000	0.600	
ACF*CSize	-0.007	0.003	0.039	**
AFR*CSize	-0.004	0.003	0.192	

Source: Data result from Gretl

Hypothesis 2 (H2) this research suspected that CSize would strengthen the relationship between ACMeet and IFS. This research was unsuccessful in proving the hypothesis where CSize could strengthen the relationship between ACMeet and IFS. These results were consistent with the research by Qamhan et al., [20] who also found no significant results between ACMeet and earnings management. Qamhan guessed that there were other factors to be considered in the audit committee meeting; i.e. the quality of meetings realized in the audit committee meetings. He argued that the attendance of members in audit committee meetings was important and could affect the members' quality in performing their functions.

Hypothesis 3 (H3) this research suspected that CSize would weaken the relationship between ACF and IFS. H3 in this research was proved. The significantly negative coefficient on ACF*CSize weakened the relationship between IFS and ACF, which resulted in a positive coefficient. A positive ACF coefficient indicated a positive relationship between ACF and IFS; whereas the greater the ACF, the higher the IFS number. These indicated a higher the earnings management was carried out by the company through CFO manipulation. However, this relationship changed after being moderated by the CSize variable, which then weakened the relationship. Therefore, the relationship between ACF and IFS after getting moderation from CSize was that: the bigger the company (CSize), the better the integrity for the financial statements. This result was in line with the research by Lai et al., [42] which stated that ACF was more likely to ensure the integrity of the audit results from the audit firms, thus making it possible to obtain a higher audit fee, whereas the higher audit fee itself could be provided by the company. In this sense, large companies have greater incentives than small companies.

4.4.2. The Relationship between audit firm Reputation, Company Size, and Financial Statement Integrity

Hypothesis 4 (H4) this research suspected that CSize would strengthen the relationship between AFR and IFS. After analyzing the data, H4 was not proven because the AFR independent variable did not show any significant p-value. This insignificant result showed that AFR had no impact on the IFS. We guessed that the AFR and IFS variables were unrelated because out of the 40 samples in this company, only two data were used local audit firm. This would reduce the variance of AFR. The results of data processing for the audit firm big four and foreign audit firm, showed the results of grouped data, and added another possibility that the foreign audit firm has an independent audit review system, same as the audit firm big four.

5. CONCLUSION

The company size (CSize) also weakened the relationship between ACSize and ACF against IFS. ACSize initially had a significantly negative effect on AFS, but it turned to have significantly positive impact after being interacted with the CSize moderating variable. This indicated that the bigger the ACSize in a large company, the less integrity the financial statements would be resulted. On the other hand, the ACF initially had a significantly positive effect on AFS, but it turned to have significantly negative impact after being interacted with the CSize moderating variable. This indicated that the bigger the ACF in a large company, the more integrity the financial statements would be resulted.

This research has not been able to prove the other two hypotheses, i.e. whether CSize would strengthen, or in contrast, weaken the relationship between AFR and ACMeet against IFS. However, from some of the results, this study could suggest several points, in essence: (1) the number of audit committees should not be too large because it could cause conflict of interest and obstacles for the effective communication and decision making; (2) the company should place at least one female audit committee on the members of the audit committee, because this placement would give positive impact such as an increase in independence, diligence, and the integrity of the financial statements.

This research incurred several limitations, including; (1) the samples used were relatively small; from 60 companies, only 40 companies within 2017-2019 period met the criteria; (2) the samples were only limited to one sector of industry: Consumer Goods, and has yet to identify differences in earnings management patterns in each industry; (3) the AFR variable was measured using variable intervals. The AFR variable should have been measured with a better scale, which was the ratio scale using the data on the number of audit firm partners. These data for year 2018 and 2019 could not be found on the website of the Indonesian Public Accountants Association (IAPI).

Therefore, we suggest that future researchers need to find and access broader data with samples from various types of industries, in order to identify the differences in earnings management patterns in each industry. In addition, the research can also implement ratio variables for all of the data, in order to produce higher quality data.

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