Factors Affecting the Integrity of Financial Statements

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This study examines the effects of audit committee, audit tenure, and financial distress on financial statement integrity in infrastructure companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Financial statement integrity is essential for ensuring the reliability, transparency, and credibility of corporate reporting, particularly in capital-intensive industries that require substantial external financing. Grounded in Agency Theory, this research investigates whether governance mechanisms, auditing characteristics, and financial conditions contribute to the quality of financial reporting. The study employed a quantitative approach using panel data obtained from 37 infrastructure companies over a five-year observation period, resulting in 185 firm-year observations. Data were analyzed using panel data regression with EViews 12. Model selection procedures, including the Chow, Hausman, and Lagrange Multiplier tests, identified the Random Effect Model as the most appropriate estimation method. The findings indicate that audit tenure has a significant negative effect on financial statement integrity, suggesting that prolonged auditor–client relationships may reduce auditor independence and professional skepticism. In contrast, audit committee and financial distress do not significantly influence financial statement integrity. Simultaneously, the independent variables significantly affect financial statement integrity, although the model demonstrates relatively low explanatory power. The study concludes that auditor independence remains a critical determinant of financial reporting integrity. These findings provide implications for regulators, auditors, and corporate management in strengthening governance practices and maintaining the credibility of financial statements.
Keywords: Audit Committee; Audit Tenure; Financial Distress; Financial Statement Integrity; Infrastructure Companies; Corporate Governance; Panel Data Regression; Agency Theory.

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1. Introduction

Financial statements represent one of the most important sources of information used by investors, creditors, regulators, and other stakeholders in evaluating a company's financial position, operational performance, and future prospects. The value of financial statements depends not only on their compliance with accounting standards but also on the integrity of the information they convey. Financial statement integrity reflects the extent to which accounting information faithfully represents a company's actual economic condition without material misstatements or managerial bias. High-quality financial reporting reduces information asymmetry between managers and stakeholders, facilitates more efficient capital allocation, strengthens investor confidence, and ultimately contributes to sustainable economic development[1][2]. Consequently, maintaining financial reporting integrity has become one of the primary objectives of corporate governance systems worldwide[3].

The growing importance of financial statement integrity has been reinforced by numerous accounting scandals and corporate failures occurring across global capital markets. High-profile cases such as Carillion plc in the United Kingdom, Wirecard AG in Germany, and China Evergrande Group in China demonstrated

that deficiencies in corporate governance, ineffective audit oversight, and weak financial reporting practices can lead to significant economic losses, declining investor confidence, and systemic financial instability[4][5][6][7]. These cases illustrate that financial reporting integrity extends beyond technical accounting compliance, serving instead as a fundamental element of corporate accountability, market transparency, and investor protection.

Indonesia has also experienced increasing concerns regarding the credibility of corporate financial reporting. Over the last decade, several publicly listed companies have encountered issues related to earnings management, accounting irregularities, delayed disclosure of material information, and financial restructuring, raising questions about the effectiveness of existing governance mechanisms. In response, the Financial Services Authority (OJK) has continuously strengthened regulations aimed at improving transparency, accountability, and the reliability of financial reporting, while the Indonesia Stock Exchange (IDX) has enhanced disclosure requirements to promote better corporate governance practices[8]. Despite these regulatory improvements, concerns regarding the quality and integrity of financial statements remain evident, indicating that governance reforms alone may not fully eliminate opportunistic financial reporting behavior.

The issue becomes particularly important within the infrastructure sector. Infrastructure companies operate in business environments characterized by high capital intensity, long-term investment projects, extensive debt financing, and substantial government involvement. These characteristics require considerable managerial judgment in recognizing long-term revenues, estimating project costs, valuing assets, and measuring liabilities. Such complexity increases the potential for information asymmetry and creates greater opportunities for earnings management or financial reporting bias. Given the strategic role of infrastructure companies in supporting national economic development, maintaining the integrity of financial reporting is essential to preserve investor confidence, facilitate efficient financing decisions, and strengthen public accountability[9].

Agency Theory provides an appropriate theoretical foundation for explaining these issues. According to Jensen and Meckling[10], the separation of ownership and management creates agency conflicts because managers possess superior information regarding the firm's actual financial condition. This information asymmetry may encourage managers to pursue personal objectives through opportunistic financial reporting, including earnings management and financial statement manipulation[11]. Consequently, organizations implement various corporate governance mechanisms to reduce agency conflicts, improve monitoring effectiveness, and ensure that financial statements fairly represent the firm's underlying economic reality.

Among these governance mechanisms, the audit committee plays a pivotal role in supervising financial reporting processes, internal control systems, risk management, and external audit activities. An effective audit committee is expected to enhance transparency, strengthen accountability, and minimize managerial opportunism through more rigorous oversight of financial reporting practices[8]. Nevertheless, empirical evidence regarding its effectiveness remains inconclusive. Several studies reported that audit committees significantly improve financial statement integrity because stronger monitoring reduces earnings management and enhances reporting quality[12][13][14]. Conversely, other researchers found no significant relationship, arguing that the effectiveness of audit committees depends not only on their size but also on members' financial expertise, independence, experience, and meeting effectiveness[15][16][17]. These conflicting findings indicate that the governance role of audit committees remains an unresolved issue requiring further investigation.

In addition to internal governance mechanisms, auditor-related characteristics have attracted considerable attention in explaining financial reporting quality. Audit tenure, defined as the length of the professional relationship between an auditor and a client, has generated extensive debate within auditing literature. Longer audit engagements may improve audit quality by enabling auditors to develop a deeper understanding of the client's operations, accounting systems, and internal control environment[18]. However, prolonged auditor-client relationships may simultaneously reduce auditor independence due to familiarity threats, thereby weakening professional skepticism and audit effectiveness[19]. Consistent with these theoretical arguments, previous empirical studies have reported contradictory findings. While several studies found that audit tenure significantly affects financial statement integrity[20][21][22][23][24], others suggested that its influence depends on audit quality, corporate governance effectiveness, and firm-specific characteristics[25][26][17]. Therefore, additional evidence remains necessary, particularly in industries with complex operational characteristics such as infrastructure.

Financial condition also represents an important determinant of reporting integrity. Companies experiencing financial distress frequently encounter substantial pressure to maintain investor confidence, obtain external financing, and comply with contractual obligations. Under such circumstances, managers may have stronger incentives to manipulate accounting information or adopt aggressive accounting policies to present a more favorable financial position[27]. Nevertheless, prior empirical evidence remains inconclusive. Several studies concluded that financially distressed companies tend to exhibit lower financial statement integrity because financial pressure increases managerial incentives for financial manipulation [12][28][13][29][30]. In contrast, other studies found no significant relationship, suggesting that effective corporate governance, regulatory supervision, external auditing, and reputational concerns may constrain opportunistic reporting even when firms experience financial difficulties[15], [16], [20]. These inconsistent findings indicate that the relationship between financial distress and financial statement integrity remains open to further empirical examination.

The existing body of literature demonstrates an evolution from examining individual governance mechanisms toward integrating governance quality, auditor characteristics, and corporate financial condition as complementary determinants of financial reporting integrity. However, several important research gaps remain. First, previous studies have largely concentrated on manufacturing, banking, and consumer goods sectors, whereas empirical evidence concerning infrastructure companies remains relatively limited despite the sector's strategic contribution to national economic development[17][25]. Second, most prior studies investigate audit committee, audit tenure, and financial distress independently rather than simultaneously within a unified analytical framework[12][13]. Third, inconsistent empirical findings across previous studies suggest that the determinants of financial statement integrity remain theoretically and contextually unresolved. Finally, limited evidence is available regarding Indonesian infrastructure companies during the post-pandemic period, when financing complexity, governance challenges, and regulatory oversight have become increasingly significant.

To address these research gaps, the present study offers several important contributions to the literature. First, it simultaneously examines audit committee, audit tenure, and financial distress within an integrated analytical framework to provide a more comprehensive explanation of financial statement integrity. Second, it extends previous research by focusing specifically on infrastructure companies listed on the Indonesia Stock Exchange, a sector characterized by high capital intensity, substantial regulatory oversight, and considerable public accountability. Third, the study provides updated empirical evidence from the post-pandemic period, thereby enriching the literature on corporate governance, auditing, and financial reporting quality in emerging capital markets. Accordingly, this research is expected to contribute not only to the development of Agency Theory in the context of financial reporting integrity but also to provide practical

implications for regulators, investors, auditors, and corporate management in strengthening governance practices and enhancing the credibility of corporate financial reporting.

2. Literature Review and Problem Statement

Agency Theory

Agency Theory, introduced by Jensen and Meckling[10], explains the contractual relationship between principals (shareholders) and agents (management). In modern corporations, ownership and management are separated, creating information asymmetry because managers possess more information about the company than shareholders. This imbalance may encourage managers to pursue personal interests that are not aligned with shareholders' objectives. One manifestation of agency conflict is the manipulation of financial information to present a more favorable picture of company performance.

To reduce agency problems, organizations implement monitoring mechanisms such as audit committees, external audits, and corporate governance systems. These mechanisms are intended to ensure that financial statements are prepared objectively and accurately. Therefore, Agency Theory provides an appropriate theoretical foundation for explaining how audit committee effectiveness, audit tenure, and financial distress influence financial statement integrity.

Financial Statement Integrity

Financial statement integrity refers to the degree to which financial reports faithfully represent a company's actual economic condition without material misstatements or manipulation. Financial statements with high integrity are characterized by honesty, transparency, neutrality, and compliance with applicable accounting standards [1].

Integrity in financial reporting is essential because stakeholders rely on financial statements when making investment, financing, and strategic decisions. When financial statement integrity is compromised, stakeholders may make inaccurate decisions that result in economic losses. Consequently, understanding the determinants of financial statement integrity has become an important area of accounting and corporate governance research.

Previous studies suggest that governance mechanisms, auditor characteristics, and organizational conditions significantly influence financial reporting quality and integrity[31][32]. However, empirical evidence remains mixed, indicating the need for further investigation.

Audit Committee and Financial Statement Integrity

The audit committee is a committee established by the board of commissioners to oversee financial reporting processes, internal controls, risk management, and external audit activities. An effective audit committee enhances transparency and accountability by ensuring that financial statements are prepared in accordance with applicable accounting standards and regulatory requirements.

Agency Theory suggests that audit committees function as monitoring mechanisms that reduce managerial opportunism and information asymmetry. Through regular oversight and communication with auditors, audit committees can improve the reliability of financial information and strengthen stakeholder confidence. Several empirical studies have found that audit committee effectiveness positively influences financial reporting quality and integrity. Silva et al [32] reported that active audit committees contribute significantly to reducing earnings management practices. Similarly, Reynaldi et al[33] found that audit committee characteristics improve financial reporting transparency and reliability. Therefore, a stronger audit committee is expected to enhance financial statement integrity.

H1: Audit Committee has a positive effect on Financial Statement Integrity.

Audit Tenure and Financial Statement Integrity

Audit tenure refers to the length of time an external auditor or audit firm provides auditing services to a client company. The relationship between audit tenure and financial reporting quality remains a subject of ongoing debate in auditing literature. A longer audit tenure may improve audit effectiveness because auditors acquire greater knowledge of the client's business operations, industry conditions, accounting systems, and internal controls[18]. This accumulated knowledge enables auditors to detect irregularities more effectively and provide higher-quality audit services.

However, excessively long auditor-client relationships may create familiarity threats that reduce auditor independence. When auditors become too closely associated with their clients, they may become less objective in evaluating financial reporting practices[19]. Such conditions may negatively affect financial statement integrity. Given the importance of auditor competence and independence in maintaining reporting quality, audit tenure is expected to influence financial statement integrity.

H2: Audit Tenure has a significant effect on Financial Statement Integrity.

Financial Distress and Financial Statement Integrity

Financial distress refers to a condition in which a company experiences financial difficulties that threaten its ability to meet financial obligations and continue normal business operations. Financial distress is commonly associated with declining profitability, liquidity problems, increasing debt burdens, and deteriorating cash flows[34]

Companies experiencing financial distress often face substantial pressure from investors, creditors, and regulators. Under such circumstances, management may be motivated to manipulate financial information to conceal poor performance, maintain investor confidence, or avoid contractual violations. Agency Theory suggests that managers facing financial pressure may engage in opportunistic behavior to protect personal interests or organizational reputation.

Habib et al [35] found that financially distressed firms tend to exhibit lower financial reporting quality and greater earnings management practices. Similarly, several studies indicate that higher levels of financial distress are associated with lower financial statement integrity due to increased incentives for financial misrepresentation. Accordingly, financial distress is expected to negatively affect financial statement integrity.

H3: Financial Distress has a negative effect on Financial Statement Integrity.

Problem Statement

The integrity of financial statements remains a critical issue in capital markets because stakeholders depend on reliable financial information when making economic decisions. Despite regulatory improvements and enhanced corporate governance requirements, concerns regarding financial reporting integrity continue to emerge in Indonesian public companies, including those operating in the infrastructure sector.

Previous studies have investigated the effects of audit committees, audit tenure, and financial distress on financial reporting quality. However, existing findings remain inconclusive, and most studies have focused on sectors such as manufacturing, banking, and consumer goods. Research specifically examining financial statement integrity in Indonesian infrastructure companies remains limited. Furthermore, prior studies often analyze governance, auditing, and financial condition factors separately rather than integrating them within a comprehensive analytical framework.

Therefore, a research gap exists regarding the combined effects of audit committee effectiveness, audit tenure, and financial distress on financial statement integrity within infrastructure companies listed on the Indonesia Stock Exchange. This study seeks to address this gap by examining these determinants simultaneously and providing empirical evidence from a sector characterized by high capital intensity, substantial financing requirements, and significant public accountability.

The central research question addressed in this study is:

To what extent do audit committee effectiveness, audit tenure, and financial distress influence the financial statement integrity of infrastructure companies listed on the Indonesia Stock Exchange?

By answering this question, the study contributes to the literature on corporate governance, auditing, and financial reporting quality while offering practical insights for regulators, auditors, investors, and corporate management regarding the factors that promote financial statement integrity.

3. Method

Research Design

This study employed a quantitative explanatory research design to examine the influence of audit committee, audit tenure, and financial distress on financial statement integrity among infrastructure companies listed on the Indonesia Stock Exchange (IDX). A quantitative approach was selected because it enables objective measurement of causal relationships among variables and facilitates hypothesis testing using statistical techniques. Furthermore, explanatory research is appropriate because the study aims to investigate cause-and-effect relationships derived from Agency Theory.

The study utilized panel data, which combine cross-sectional data (companies) and time-series data (observation years). Compared with pure cross-sectional or time-series analysis, panel data regression provides several advantages, including increasing the number of observations, improving estimation efficiency, controlling for unobservable firm-specific heterogeneity, and reducing omitted variable bias [36]. Therefore, panel data regression is considered the most appropriate analytical approach for examining variations in financial statement integrity across companies and over time.

Secondary data were obtained from audited annual reports and financial statements covering the 2020–2024 observation period. These reports provide reliable and publicly available information regarding corporate governance characteristics, auditor information, and financial performance required to measure the research variables.

Population and Sample

The population comprised all infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Infrastructure companies were selected because they operate in highly capital-intensive industries, require substantial long-term financing, and are subject to extensive regulatory oversight, making financial reporting integrity particularly important.

The sample was determined using purposive sampling to ensure that all selected companies possessed complete and comparable information throughout the observation period. The sampling criteria were as follows:

1. Infrastructure companies continuously listed on the Indonesia Stock Exchange during 2020–2024.
2. Companies publishing complete audited annual reports and financial statements for five consecutive years.

3. Companies providing complete information regarding audit committee composition, audit tenure, and financial data required to calculate the Altman Z-Score and Market-to-Book Ratio.
4. Companies that were not delisted or suspended for an extended period during the observation period.

Application of these criteria resulted in a final sample of 37 infrastructure companies, generating 185 firm-year observations (37 companies × 5 years). The balanced panel dataset enhances estimation consistency because each firm contributes the same number of observations throughout the study period.

Data Sources and Collection

This study relied exclusively on secondary data collected from publicly available sources. Financial statements and annual reports were obtained from the official Indonesia Stock Exchange website (www.idx.co.id) and each company's official website. Information regarding audit committee composition, auditor identity, audit tenure, and corporate governance characteristics was extracted manually from annual reports, while financial data required to calculate the research variables were obtained from audited financial statements.

Data collection was conducted using documentation techniques. Each annual report was reviewed systematically to identify governance information, whereas financial statement data were compiled using Microsoft Excel before being analyzed using EViews version 12. This procedure ensured data consistency, completeness, and comparability across all sampled companies throughout the observation period.

Operational Definition and Measurement of Variables

Financial Statement Integrity (FSI)

Financial Statement Integrity refers to the extent to which financial statements faithfully represent a company's actual economic condition without material misstatement or manipulation. This study adopts the Market-to-Book Ratio (Market Value of Equity divided by Book Value of Equity) as a proxy for financial statement integrity. This proxy is widely used in accounting literature because it reflects accounting conservatism and the degree to which reported accounting values are supported by market valuation. Higher market-to-book ratios indicate greater investor confidence in reported accounting information and therefore higher financial reporting integrity[37].

$$FSI = \frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Equity}$$

Higher values indicate greater financial statement integrity.

Audit Committee (AC)

The audit committee represents one of the principal corporate governance mechanisms responsible for overseeing financial reporting, internal control systems, and external audit activities. This study measures audit committee effectiveness using the number of audit committee members, consistent with Indonesian corporate governance regulations and previous empirical studies. Committee size is considered an important indicator because larger committees potentially possess broader expertise and stronger monitoring capacity, thereby enhancing financial reporting quality[13].

AC = Number of Audit Committee Members

Audit Tenure (AT)

Audit tenure is measured as the number of consecutive years the same external auditor or audit firm has audited the company. This indicator is widely adopted because it directly reflects the duration of the

auditor–client relationship. Longer tenure may improve auditors' understanding of client operations but may simultaneously reduce auditor independence because of familiarity threats[18], [19]

$$AT = Number\ of\ Consecutive\ Years$$

Financial Distress (FD)

Financial distress reflects a company's financial difficulties in meeting its financial obligations. This study uses the Altman Z-Score because it is one of the most widely validated bankruptcy prediction models and has been extensively applied in accounting and financial reporting research. Lower Z-Score values indicate a greater probability of financial distress and stronger incentives for managerial opportunism[34]

FD=Altman Z-Score

Table 1. Operational Definition of Variables

Variable	Symbol	Measurement	Scale
Financial Statement Integrity	FSI	$FSI = \frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Equity}$	Ratio
Audit Committee	AC	Number of Audit Committee Members	Ratio
Audit Tenure	AT	Number of Consecutive Years	Ratio
Financial Distress	FD	Altman Z-Score	Ratio

Source: Adapted from previous studies and processed by the authors (2026).

Data Analysis Technique

The data were analyzed using EViews version 12 through several stages to ensure the robustness and validity of the research findings. Initially, descriptive statistical analysis was conducted to provide an overview of the characteristics of the research variables, including minimum values, maximum values, mean values, and standard deviations. This analysis helps describe the distribution and variability of the data collected from infrastructure companies during the observation period.

Given that this study employed panel data, a panel data model selection procedure was carried out to determine the most appropriate estimation model. The selection process began with the Chow Test, which was used to compare the Common Effect Model (CEM) and the Fixed Effect Model (FEM). Subsequently, the Hausman Test was performed to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) was more suitable for the data. Finally, the Lagrange Multiplier (LM) Test was employed to compare the Common Effect Model (CEM) and the Random Effect Model (REM). The results of these tests were used to identify the most appropriate panel data estimation model for hypothesis testing.

Prior to conducting the regression analysis, several classical assumption tests were performed to ensure the validity of the model. These included the normality test to examine whether the residuals were normally distributed, the multicollinearity test to assess the correlation among independent variables, and the heteroscedasticity test to determine whether the variance of the residuals remained constant across observations. The fulfillment of these assumptions is essential to ensure unbiased and reliable estimation results.

To examine the effects of audit committee, audit tenure, and financial distress on financial statement integrity, panel data regression analysis was employed. The empirical model of this study is formulated as follows:

$$FSI_{it} = \alpha + \beta_1 AC_{it} + \beta_2 AT_{it} + \beta_3 FD_{it} + \varepsilon_{it}$$

where FSI_{it}represents the financial statement integrity of company i in year t, AC_{it}denotes the audit committee, AT_{it}represents audit tenure, FD_{it}indicates financial distress, $\alpha$is the constant term, β_1, β_2, and $\beta_3$are the regression coefficients, and $\varepsilon_{it}$is the error term.

Hypothesis testing was conducted using both partial and simultaneous significance tests. The partial test (t-test) was used to evaluate the individual effect of each independent variable on financial statement integrity at a significance level of 5%. Meanwhile, the simultaneous test (F-test) was employed to determine whether all independent variables collectively influence financial statement integrity. In addition, the coefficient of determination (Adjusted R^2) was used to assess the proportion of variation in financial statement integrity explained by audit committee, audit tenure, and financial distress.

Based on Agency Theory, this study proposes that financial statement integrity is influenced by governance mechanisms, auditing characteristics, and the financial condition of a company. Audit committees are expected to strengthen monitoring functions and improve the quality of financial reporting, while audit tenure may affect auditor competence and independence. Financial distress, on the other hand, may increase managerial incentives to engage in opportunistic financial reporting practices. Therefore, these variables are incorporated into the research framework to explain the determinants of financial statement integrity in infrastructure companies listed on the Indonesia Stock Exchange.

4. Results and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide an overview of the characteristics of each research variable, including the mean, maximum value, minimum value, and standard deviation. The results of the descriptive statistics are presented in Table 2.

Table 2. Descriptive Statistics Results

Statistics	FSI	AC	AT	FD
Mean	1.651632	3.183784	1.686486	1.838714
Median	1.142	3	1	1.039
Maximum	8.725	5	5	35.466
Minimum	0.175	2	1	0.003
Std. Dev.	1.53495	0.530337	0.839954	3.070495
Skewness	2.376753	1.253807	1.138432	7.592956
Kurtosis	9.279011	5.669248	3.918008	79.79518
Jarque-Bera	478.0847	103.392	46.45695	47237.53
Probability	0	0	0	0
Sum	305.552	589	312	340.162
Sum Sq. Dev.	433.5171	51.75135	129.8162	1734.741
Observations	185	185	185	185

Source: EViews 12 Output, Processed Data (2026)

Based on Table 2, the Financial Statement Integrity (FSI) variable has a mean value of 1.651632, a maximum value of 8.725000, a minimum value of 0.175000, and a standard deviation of 1.534950. Since the mean exceeds the standard deviation, the data distribution can be considered relatively stable and representative. The Audit Committee (AC) variable has a mean value of 3.183784, a maximum value of 5.000000, a minimum value of 2.000000, and a standard deviation of 0.530337. The mean value is substantially higher than the standard deviation, indicating a relatively homogeneous distribution among observations.

Audit Tenure (AT) shows a mean value of 1.686486, a maximum value of 5.000000, a minimum value of 1.000000, and a standard deviation of 0.839954. Similar to the previous variables, the mean exceeds the standard deviation, suggesting a relatively low level of dispersion. Financial Distress (FD) has a mean value of 1.838714, a maximum value of 35.466000, a minimum value of 0.003000, and a standard deviation of 3.070495. The standard deviation exceeds the mean value, indicating greater variability and a wider dispersion of financial distress conditions among the sampled firms.

Panel Data Regression Estimation

Panel data regression can be estimated using three alternative approaches: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

a. Common Effect Model (CEM)

The results of the Common Effect Model estimation are presented in Table 3.

Table 3. Common Effect Model Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.022492	0.24764	8.167078	0.0000
AC	-0.16917	0.071721	-2.35876	0.0194
AT	-0.0057	0.050623	-0.11252	0.9105
FD	-0.03041	0.028087	-1.08262	0.2804

Weighted Statistics

Statistic	Value
R-squared	0.041995
Adjusted R-squared	0.026117
S.E. of Regression	1.430906
F-statistic	2.644776
Prob(F-statistic)	0.050633
Durbin-Watson Stat	0.750833

Source: EViews 12 Output, Processed Data (2026)

b. Fixed Effect Model (FEM)

The Fixed Effect Model estimation results are presented in Table 4.

Table 4. Fixed Effect Model Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.325991	0.537226	4.329631	0.000
AC	-0.05408	0.162022	-0.33375	0.739
AT	-0.25563	0.084527	-3.02419	0.0029
FD	-0.03866	0.027679	-1.39676	0.1646

Statistic	Value
R-squared	0.744495
Adjusted R-squared	0.675773
S.E. of Regression	0.874015
F-statistic	10.83344
Prob(F-statistic)	0.0000
Durbin-Watson Stat	2.195339

Source: EViews 12 Output, Processed Data (2026)

c. Random Effect Model (REM)

The Random Effect Model estimation results are presented in Table 5.

Table 5. Random Effect Model Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.330233	0.557762	4.17783	0.0000
AC	-0.07539	0.156357	-0.48217	0.6303
AT	-0.23004	0.083677	-2.7492	0.0066
FD	-0.02752	0.026767	-1.02821	0.3052
Statistic			Value	
R-squared				0.045186
Adjusted R-squared				0.02936
S.E. of Regression				0.885111
F-statistic				2.855227
Prob(F-statistic)				0.038566
Durbin-Watson Stat				1.719789

Source: EViews 12 Output, Processed Data (2026)

d. Model Selection

To determine the most appropriate panel data estimation model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), several model selection tests were conducted.

Table 6. Summary of Panel Data Model Selection

Test	Probability Value	Decision Rule	Selected Model
Chow Test	0.0000	$p < 0.05$	Fixed Effect Model
Hausman Test	0.0544	$p > 0.05$	Random Effect Model
Lagrange Multiplier Test	0.0000	$p < 0.05$	Random Effect Model

Source: EViews 12 Output, Processed Data (2026)

Table 6 presents the results of the panel data model selection process. The Chow Test yielded a probability value of 0.0000, indicating that the Fixed Effect Model (FEM) was preferable to the Common Effect Model (CEM). However, the Hausman Test produced a probability value of 0.0544, suggesting that the Random Effect Model (REM) was more appropriate than the Fixed Effect Model (FEM). Furthermore, the Lagrange Multiplier Test generated a probability value of 0.0000, confirming that the Random Effect Model (REM) was superior to the Common Effect Model (CEM). Therefore, based on the overall model selection procedure, the Random Effect Model (REM) was selected as the final estimation model for hypothesis testing.

Classical Assumption Tests

Prior to hypothesis testing, several classical assumption tests were conducted to ensure the validity of the regression model. These tests included normality, multicollinearity, heteroscedasticity, and autocorrelation assessments.

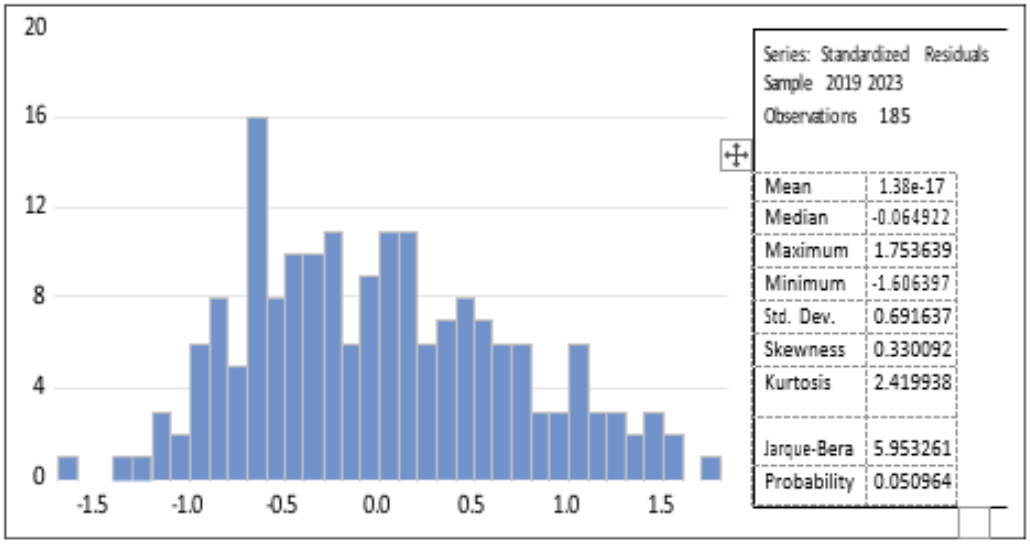

Figure 1. Normality Test Results

The Jarque–Bera probability value of 0.050964 exceeds the 0.05 significance level, indicating that the residuals are normally distributed. Therefore, the normality assumption is satisfied.

Table 7. Multicollinearity Test Results

Variable	Centered VIF
Audit Committee (AC)	1.004276
Audit Tenure (AT)	1.00358
Financial Distress (FD)	1.00471

Source: EViews 12 Output, Processed Data (2026)

All centered VIF values are substantially below the threshold value of 10, indicating that no multicollinearity problem exists among the independent variables.

Table 8. Heteroscedasticity Test Results

Statistic	Value	Probability
F-statistic	1.11216	0.3455
Obs*R-squared	3.34849	0.341
Scaled Explained SS	4.833021	0.1844

Source: EViews 12 Output, Processed Data (2026)

The Glejser test produced an Obs*R-squared probability value of 0.3410, which is greater than 0.05. Thus, the model is free from heteroscedasticity and satisfies the homoscedasticity assumption.

Table 9. Autocorrelation Test Results

Statistic	Value
Durbin–Watson Statistic	1.719789

Source: EViews 12 Output, Processed Data (2026)

The Durbin–Watson statistic falls within the acceptable range, indicating the absence of serious autocorrelation problems in the regression model.

Panel Data Regression Analysis

Following the model selection procedure, the Random Effect Model (REM) was identified as the most appropriate estimation model. The panel data regression results are presented in Table 10.

Table 10. Panel Data Regression Results (Random Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.330233	0.557762	4.17783	0.0000
KA	-0.07539	0.156357	-0.48217	0.6303
AT	-0.23004	0.083677	-2.7492	0.0066
FD	-0.02752	0.026767	-1.02821	0.3052

Source: EViews 12 Output, Processed Data (2026)

Based on Table 10, the panel data regression equation can be formulated as follows:

$$FSI = 2.330233 - 0.075391AC - 0.230044AT - 0.027523FD + \varepsilon$$

The regression equation indicates that the constant value is 2.330233, implying that when all independent variables remain constant, Financial Statement Integrity (FSI) is estimated at 2.330233. The coefficient of Audit Committee (AC) is -0.075391, indicating a negative relationship between audit committee size and financial statement integrity. Audit Tenure (AT) has a coefficient of -0.230044, suggesting that a longer auditor-client relationship is associated with lower financial statement integrity. Similarly, Financial Distress (FD) has a coefficient of -0.027523, indicating that higher levels of financial distress tend to reduce financial statement integrity.

Coefficient of Determination (R^2)

The coefficient of determination was used to evaluate the explanatory power of the model. The results are presented in Table 11.

Table 11. Coefficient of Determination Results

Statistic	Value
R-squared	0.045186
Adjusted R-squared	0.02936
F-statistic	2.855227
Prob. (F-statistic)	0.038566
Durbin–Watson Statistic	1.719789

Source: EViews 12 Output, Processed Data (2026)

The Adjusted R-squared value of 0.029360 indicates that approximately 2.94% of the variation in Financial Statement Integrity can be explained by Audit Committee, Audit Tenure, and Financial Distress. The remaining 97.06% is influenced by other factors not included in the research model. Although the explanatory power of the model is relatively low, the overall model remains statistically significant.

Simultaneous Test (F-Test)

The F-test was conducted to determine whether the independent variables jointly affect Financial Statement Integrity. The results are summarized in Table 1. The F-statistic value of 2.855227 with a probability value of 0.038566 is below the significance level of 0.05. Therefore, Audit Committee, Audit Tenure, and Financial Distress simultaneously have a significant effect on Financial Statement Integrity. This result indicates that the independent variables collectively contribute to explaining variations in financial statement integrity among infrastructure companies listed on the Indonesia Stock Exchange during the 2019–2023 period.

Partial Test (t-Test)

The t-test was employed to examine the individual effect of each independent variable on Financial Statement Integrity. The results are presented in Table 12.

Table 12. Partial Test Results (t-Test)

Variable	Coefficient	t-Statistic	Probability	Result
Audit Committee (AC)	-0.07539	-0.48217	0.6303	Not Significant
Audit Tenure (AT)	-0.23004	-2.7492	0.0066	Significant
Financial Distress (FD)	-0.02752	-1.02821	0.3052	Not Significant

Source: EViews 12 Output, Processed Data (2026)

The results indicate that the Audit Committee variable has a probability value of 0.6303, which exceeds the 0.05 significance level. Therefore, Audit Committee does not significantly affect Financial Statement Integrity, and Hypothesis 1 is rejected. Audit Tenure has a probability value of 0.0066, which is below 0.05, indicating a significant effect on Financial Statement Integrity. The negative coefficient suggests that longer audit tenure is associated with lower levels of financial statement integrity. Accordingly, Hypothesis 2 is supported. Financial Distress has a probability value of 0.3052, which exceeds the significance threshold of 0.05. Thus, Financial Distress does not significantly affect Financial Statement Integrity, leading to the rejection of Hypothesis 3.

Discussion

The Effect of Audit Committee on Financial Statement Integrity

The results indicate that the audit committee does not significantly affect financial statement integrity in infrastructure companies listed on the Indonesia Stock Exchange. The statistical analysis shows a coefficient value of -0.075391 with a probability value of 0.6303, which exceeds the significance level of 0.05. Therefore, the first hypothesis is rejected.

From the perspective of Agency Theory, the audit committee serves as a monitoring mechanism designed to reduce information asymmetry and managerial opportunistic behavior[38]. However, the findings suggest that the existence of an audit committee alone is insufficient to improve financial statement integrity. This may indicate that the effectiveness of the audit committee depends not merely on its existence or size but also on factors such as competence, independence, meeting frequency, and the quality of oversight activities.

A possible explanation is that audit committees in infrastructure companies primarily perform supervisory and advisory functions without being directly involved in operational financial reporting processes. Consequently, their ability to influence the integrity of financial statements may be limited. Furthermore, regulatory compliance may encourage companies to establish audit committees merely to fulfill governance requirements rather than to strengthen financial reporting quality.

This finding is consistent with the studies of Yuda[12], Lestari[14], Azis[28], Wulandari (2021), Sukerni[15], which also reported that audit committees do not significantly influence financial statement integrity. These studies argue that the presence of audit committees does not automatically guarantee effective monitoring when committee members lack sufficient expertise or authority to influence management decisions. Therefore, improving audit committee quality may be more important than increasing the number of committee members.

The Effect of Audit Tenure on Financial Statement Integrity

The findings reveal that audit tenure significantly affects financial statement integrity, with a coefficient of -0.230044 and a probability value of 0.0066. Thus, the second hypothesis is accepted. The negative coefficient indicates that longer auditor-client relationships tend to reduce financial statement integrity.

This finding can be explained through Agency Theory and auditor independence principles. External auditors play an essential role in mitigating agency conflicts by providing independent assurance regarding

the fairness of financial statements. However, prolonged audit engagements may create familiarity threats between auditors and clients. As auditors become increasingly familiar with management, their objectivity and professional skepticism may decline, reducing the effectiveness of the audit process.

The result supports the argument that excessive audit tenure may weaken auditor independence. Although longer engagements allow auditors to gain greater knowledge of a client's business operations and accounting systems, such benefits may be outweighed by the risk of close relationships that compromise audit quality. Consequently, financial statements may become less reliable and less reflective of the company's actual financial condition.

This finding is consistent with Wulandari[17], who found that audit tenure influences financial statement integrity. The result also supports regulatory policies in Indonesia that limit auditor engagement periods to preserve auditor independence. The negative relationship identified in this study suggests that auditor rotation remains an important governance mechanism for maintaining high-quality financial reporting.
From a practical perspective, companies should avoid excessive dependence on the same external auditor for extended periods. Regulators and stakeholders should continue encouraging auditor rotation policies to maintain auditor objectivity and enhance financial statement credibility.

The Effect of Financial Distress on Financial Statement Integrity

The results indicate that financial distress does not significantly affect financial statement integrity. The statistical analysis shows a coefficient value of -0.027523 with a probability value of 0.3052, which exceeds the significance level of 0.05. Therefore, the third hypothesis is rejected.

Theoretically, companies experiencing financial distress face substantial pressure to maintain investor confidence and secure external financing. Such pressure may encourage earnings manipulation or aggressive accounting practices. However, the findings suggest that financial difficulties do not necessarily reduce the integrity of financial statements among infrastructure companies.

One possible explanation is that infrastructure companies are subject to extensive regulatory oversight, public scrutiny, and monitoring by investors and creditors. These monitoring mechanisms may limit managerial opportunities to manipulate financial information despite financial difficulties. In addition, companies experiencing financial distress may intentionally provide more transparent and conservative financial reporting to restore stakeholder confidence and avoid further reputational damage.

The findings are consistent with Azis[28], who reported that financial distress does not significantly influence financial statement integrity. This result implies that financial reporting quality is influenced more by governance and auditing mechanisms than by financial condition alone. Even when companies face financial challenges, they may maintain reporting integrity due to legal obligations, reputational concerns, and external monitoring pressures.

From a theoretical standpoint, this finding suggests that financial distress does not automatically lead to lower reporting integrity. The relationship may depend on other moderating factors such as corporate governance quality, ownership structure, audit quality, or regulatory enforcement. Therefore, future studies should consider incorporating these variables to better explain variations in financial statement integrity.
Overall, the findings demonstrate that among the variables examined, audit tenure is the only factor that significantly influences financial statement integrity. In contrast, audit committee and financial distress do not significantly affect financial reporting integrity in Indonesian infrastructure companies. These results highlight the critical role of auditor independence in ensuring the credibility and reliability of corporate financial reporting.

5. Conclusion

This study aimed to examine the effects of audit committee, audit tenure, and financial distress on financial statement integrity in infrastructure companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Using panel data regression analysis with the Random Effect Model (REM), the findings provide empirical evidence regarding the determinants of financial statement integrity within the Indonesian infrastructure sector.

The results reveal that the audit committee does not have a significant effect on financial statement integrity. This finding indicates that the existence or size of the audit committee alone is insufficient to enhance the quality and integrity of financial reporting. The effectiveness of audit committees may depend more on factors such as competence, independence, expertise, and the quality of oversight activities rather than merely the number of committee members.

In contrast, audit tenure was found to have a significant negative effect on financial statement integrity. This result suggests that prolonged auditor-client relationships may reduce auditor independence and professional skepticism, thereby potentially weakening the reliability of financial statements. The finding highlights the importance of maintaining auditor independence through appropriate auditor rotation policies and governance practices.

Furthermore, financial distress was found not to significantly affect financial statement integrity. This indicates that companies experiencing financial difficulties do not necessarily compromise the integrity of their financial reporting. Strong regulatory oversight, external monitoring, and reputational considerations may encourage firms to maintain transparent and reliable financial disclosures despite financial challenges. The study concludes that audit tenure is the only significant determinant of financial statement integrity among the variables examined. These findings contribute to the literature on corporate governance and auditing by emphasizing the critical role of auditor independence in ensuring reliable financial reporting. Future research is encouraged to incorporate additional governance variables, audit quality measures, ownership structures, and broader industry coverage to improve the explanatory power of financial statement integrity models.

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