



## The influence of financial distress, independent commissioner, audit tenure, and institutional ownership on financial statement integrity

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### ABSTRACT

*This study aims to analyze the effect of financial distress, independent commissioners, audit tenure, and institutional ownership on the integrity of financial statements in non-cyclical customer sector companies in Indonesia listed on the Indonesia Stock Exchange from 2021 to 2024. Data were obtained from financial statements using multiple regression analysis. The sample used in this study consisted of 131 companies selected using purposive sampling, taking into account several predetermined criteria. The data were analyzed using panel data regression techniques with the help of E-views 12 software. The results of this study indicate that FD and AT have a significant effect on financial statement integrity, while independent commissioners and institutional ownership have no effect on financial statement integrity.*

**Keywords :** financial distress, independent commissioner, audit tenure, institutional ownership, financial statement integrity

### ABSTRAK

Penelitian ini dilakukan untuk menguji hubungan antara kondisi kesulitan keuangan, keberadaan komisaris independen, lamanya masa penugasan auditor, serta kepemilikan oleh institusi terhadap tingkat keandalan laporan keuangan pada perusahaan sektor consumer non-cyclical di Indonesia yang tercatat di Bursa Efek Indonesia selama periode 2021-2024. Data penelitian bersumber dari laporan keuangan perusahaan dan dianalisis menggunakan pendekatan regresi berganda. Sampel penelitian terdiri dari 131 observasi yang ditentukan melalui teknik purposive sampling berdasarkan kriteria tertentu yang telah ditetapkan sebelumnya. Analisis data dilakukan dengan metode regresi data panel menggunakan perangkat lunak E-Views versi 12. Temuan penelitian menunjukkan bahwa variabel financial distress dan audit tenure memiliki pengaruh yang signifikan terhadap integritas laporan keuangan, sedangkan komisaris independen dan kepemilikan institusional tidak menunjukkan pengaruh yang berarti terhadap variabel tersebut..

**Kata Kunci :** Kesulitan keuangan, komisaris independen, kepemilikan institusional, integritas laporan keuangan

## 1. Introduction

Financial reports constitute the primary medium through which companies communicate their financial position, performance, and cash flows to stakeholders. For publicly listed companies in Indonesia, disclosure of financial information is not only a regulatory obligation but also a fundamental mechanism of accountability. According to PSAK No. 1 (2022), financial reporting aims to provide information useful for economic decision-making, while Kieso et al.

(2020) emphasize that financial statements function as the main channel of communication between management and external users. The integrity of financial reports therefore becomes critical, as it reflects the extent to which reported information faithfully represents economic reality and can be relied upon by investors, creditors, regulators, and other stakeholders (Wulan & Leny, 2022). High integrity reduces information asymmetry and agency conflicts, whereas compromised integrity undermines investor confidence and weakens market discipline.

Despite regulatory oversight, cases of improper financial reporting remain prevalent in Indonesia, including earnings manipulation, incomplete disclosures, and engineered transactions (Rachman & Handayani, 2023). The Asia-Pacific report by the Association of Certified Fraud Examiners (ACFE, 2024) documents multiple instances of financial statement fraud, with Indonesia contributing a significant proportion of regional cases. A prominent example is the accounting scandal involving PT Tiga Pilar Sejahtera Food Tbk, in which investigative findings revealed financial statement overstatements amounting to approximately IDR 4 trillion. Such cases demonstrate that financial reporting integrity remains a substantive concern even within established firms and relatively stable sectors. These phenomena highlight a persistent gap between regulatory expectations and corporate reporting practices, thereby justifying further investigation into determinants of financial reporting integrity.

Drawing upon agency theory and signaling theory, prior literature suggests that both financial conditions and governance mechanisms shape reporting behavior. Financial distress, defined as a deterioration in a firm's financial stability and performance, may increase managerial incentives to engage in opportunistic earnings management to conceal unfavorable performance (Pratiwi et al., 2025). However, empirical findings remain inconsistent. Some studies report that financial distress positively influences reporting integrity by increasing transparency pressure, while others find negative or insignificant relationships (Widjayanti et al., 2025; Yuda et al., 2024). Similarly, independent commissioners are expected to strengthen oversight and reduce agency conflicts, yet prior studies show mixed evidence regarding their effectiveness (Mukoffi et al., 2023; Damayanti et al., 2023). Audit tenure also produces inconclusive findings, as longer auditor-client relationships may enhance audit quality through accumulated knowledge, but may also impair independence (Aprilia & Sulindawati, 2022; Maisyaroh et al., 2025). Institutional ownership, theoretically associated with stronger monitoring incentives, likewise demonstrates inconsistent empirical results (Tamara, 2021; Istutik, 2022; Manuari, 2021). These inconsistencies indicate an unresolved research gap and suggest that prior studies may have examined these determinants in isolation without adequately integrating financial pressure and governance monitoring mechanisms within a unified framework.

This study addresses the identified gap by developing an integrated analytical model grounded in agency theory that simultaneously examines financial distress, independent commissioners, audit tenure, and institutional ownership as determinants of financial reporting integrity. Unlike prior research that focuses on individual variables separately, this study analyzes the interaction between financial pressure and governance monitoring mechanisms within the consumer non-cyclical sector in Indonesia during the 2020–2024 period. The novelty of this article lies in its comprehensive framework that positions financial distress as a source of agency pressure while assessing the effectiveness of internal and external monitoring structures in mitigating opportunistic reporting behavior within a relatively stable sector. This contextual focus strengthens empirical generalizability in emerging markets.

The objective of this study is to analyze the effect of financial distress, independent commissioners, audit tenure, and institutional ownership on financial reporting integrity in Indonesian consumer non-cyclical companies. The findings indicate that financial distress significantly influences financial reporting integrity, while governance mechanisms demonstrate varying levels of effectiveness. Independent commissioners and institutional

ownership not contribute to strengthening reporting integrity, whereas prolonged audit tenure shows a diminishing monitoring effect. These results suggest that governance mechanisms function as partial safeguards against opportunistic reporting under financial pressure.

The theoretical contribution of this study lies in extending agency theory by empirically demonstrating how financial pressure interacts with corporate governance structures to influence reporting integrity in emerging market contexts. Practically, the findings provide implications for regulators, boards of commissioners, and audit committees to enhance monitoring effectiveness, particularly during periods of financial instability. Strengthening governance structures and reinforcing auditor independence may reduce fraud risk and restore stakeholder confidence. The remainder of this article is structured as follows: the next section presents the literature review and hypothesis development, followed by the research methodology, empirical results and discussion, and concluding remarks with recommendations for future research.

## **2. Literature Review**

### **2.1. Grand Theory Framework**

#### **2.1.1. Agency Theory and Signaling Theory**

Agency theory explains the contractual relationship between principals (shareholders) and agents (managers), where separation of ownership and control creates potential conflicts of interest. Managers possess superior access to information, creating information asymmetry that may encourage opportunistic behavior, including earnings manipulation or biased financial disclosure. Within this framework, financial reporting integrity functions as a governance mechanism to reduce agency costs and ensure that disclosed information faithfully represents economic reality (Andini et al., 2024; Hidayati & Djamil, 2024).

Recent empirical studies highlight that agency conflicts intensify under financial pressure and weak monitoring structures. Financial distress may increase managerial incentives to distort reporting in order to preserve reputation or avoid contract violations (Pratiwi et al., 2025). Conversely, governance mechanisms such as independent commissioners, institutional ownership, and external audit quality are expected to constrain opportunistic behavior and strengthen reporting integrity (Mukoffi et al., 2023; Achmad et al., 2024). Thus, agency theory provides a comprehensive theoretical foundation for explaining how financial pressure and monitoring mechanisms interact in influencing financial reporting integrity.

From the perspective of Agency Theory, conflicts between managers (agents) and shareholders (principals) arise due to information asymmetry and divergent interests (Jensen & Meckling, 1976). In situations of financial distress, these conflicts tend to intensify, as managers may have stronger incentives to conceal poor performance or engage in opportunistic behavior to protect their positions. To mitigate such agency problems, governance mechanisms and reporting practices become increasingly important. One such mechanism is the application of accounting conservatism, which limits managerial discretion in overstating earnings and ensures more prudent financial reporting.

Building on this, Signalling Theory provides a complementary explanation of managerial behavior under financial distress conditions. According to Spence (1973), firms convey signals to external stakeholders to reduce information asymmetry and influence market perceptions. In this context, financially distressed firms may deliberately adopt conservative accounting practices as a credible signal of transparency, discipline, and commitment to high-quality reporting. By recognizing losses more promptly and avoiding the overstatement of assets or income, these firms aim to reassure investors and creditors about the reliability of their financial statements. Therefore, accounting conservatism not only serves as a monitoring tool within the agency framework but also functions as a strategic signal to restore stakeholder confidence in periods of heightened uncertainty.

## 2.2. Hypothesis Development

### 2.2.1. Financial Distress and Financial Reporting Integrity

Under agency theory, financial distress represents a condition of heightened agency conflict. Managers facing financial instability may attempt to obscure deteriorating performance to avoid dismissal, debt covenant violations, or reputational damage. Empirical findings over the last five years remain inconsistent. Pratiwi et al. (2025) and Yuda et al. (2024) report that financial distress reduces reporting integrity due to increased earnings manipulation incentives. However, Widjayanti et al. (2025) suggest that financial pressure may also increase transparency due to creditor scrutiny. These contradictory findings indicate a research gap requiring further empirical verification. Based on agency theory and dominant empirical evidence suggesting opportunistic incentives under financial pressure, the following hypothesis is proposed:

**H1: Financial distress negatively affects financial reporting integrity.**

### 2.2.2. Independent Commissioners and Financial Reporting Integrity

Independent commissioners function as internal monitoring mechanisms aimed at reducing information asymmetry and safeguarding minority shareholders. Agency theory predicts that stronger board independence enhances oversight effectiveness and reduces managerial opportunism. Recent studies provide mixed evidence. Mukoffi et al. (2023) and Azizah et al. (2025) find a positive relationship between board independence and reporting integrity, while Damayanti et al. (2023) report insignificant effects in certain sectors. These inconsistencies highlight the need for contextual re-examination, particularly within the consumer non-cyclical sector. Drawing upon agency theory and the monitoring hypothesis, the following hypothesis is formulated:

**H2: Independent commissioners positively affect financial reporting integrity.**

### 2.2.3. Audit Tenure and Financial Reporting Integrity

Audit tenure represents an external governance mechanism that influences auditor independence and audit quality. Agency theory suggests that auditors act as intermediaries to reduce information asymmetry. However, prolonged auditor-client relationships may impair independence due to familiarity threats. Empirical evidence remains inconclusive. Maisyaroh et al. (2025) and Hidayati & Djamil (2024) report that longer audit tenure weakens reporting integrity, whereas Aprilia & Sulindawati (2022) find improved audit effectiveness during early engagement periods. Considering the independence risk associated with extended audit relationships, the following hypothesis is proposed:

**H3: Audit tenure negatively affects financial reporting integrity.**

### 2.2.4. Institutional Ownership and Financial Reporting Integrity

Institutional ownership represents concentrated ownership with strong monitoring incentives and voting power. Agency theory posits that institutional investors possess the resources and expertise necessary to discipline management and reduce agency costs. Achmad et al. (2024) and Ardani & Aryati (2023) find that higher institutional ownership strengthens financial reporting integrity. However, Istutik (2022) reports that certain institutional investors may prioritize short-term performance, potentially reducing monitoring effectiveness. These mixed findings reveal the need for further empirical clarification. Based on the monitoring role emphasized in agency theory, the following hypothesis is formulated:

**H4: Institutional ownership positively affects financial reporting integrity.**

### 3. Research Method

This research adopts a quantitative approach by utilizing secondary data obtained from audited financial statements and annual reports of manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 observation period. A quantitative methodology is considered suitable as it facilitates hypothesis testing and the analysis of causal relationships between variables through statistical techniques (Sugiyono, 2023). Furthermore, the application of panel data allows the integration of cross-sectional and longitudinal dimensions, which enhances the reliability and comprehensiveness of the empirical results (Setiawan et al., 2024).

#### 3.1. Population and Sampling Technique

The population consists of 131 manufacturing firms listed on the IDX during the observation period. The sample was selected using purposive sampling to ensure that the selected firms met specific research criteria and provided reliable and comparable data (Setiawan et al., 2024). The sampling criteria were as follows: (1) companies that published consecutive annual reports from 2021 to 2024; (2) companies that used Indonesian Rupiah as their reporting currency; and (3) companies with complete data for all research variables.

Unlike previous specifications, the criterion requiring firms to report positive net income was carefully reconsidered and excluded in this study to avoid potential survivorship bias, as limiting the sample only to profitable firms may distort the analysis of financial distress and weaken the generalizability of the findings. This adjustment ensures that both financially healthy and distressed firms are represented in the sample, providing a more accurate reflection of real market conditions.

After applying these criteria, 28 companies met the requirements. Observing these firms over four years resulted in 112 firm-year observations, forming a balanced panel dataset. Although the exclusion rate from the initial population is relatively high, it is primarily driven by data availability and reporting consistency constraints rather than performance-based filtering. This approach enhances data reliability while minimizing bias arising from incomplete observations, thereby improving the robustness of the empirical analysis.

#### 3.2. Operational Definition and Measurement of Variables

##### 3.2.1. Financial Reporting Integrity

Financial reporting integrity reflects the extent to which financial statements faithfully represent a company's economic condition without material misstatement. Consistent with recent studies, integrity is proxied using the accounting conservatism approach through the market-to-book ratio model developed by Beaver and Ryan (Santoso & Andasari, 2022).

The conservatism index is calculated as:

$$INTG = \frac{\text{Stock Market Price}}{\text{Stock Market Value}} \dots \dots \dots (1)$$

Where:

Book Value of Equity = Total Equity / Number of Outstanding Shares

The use of the Market-to-Book (MTB) ratio as a proxy for financial reporting integrity—particularly in capturing accounting conservatism—is widely applied in prior literature;

however, it remains subject to debate due to its indirect nature. Therefore, this study explicitly adopts the MTB ratio on the grounds that it reflects the cumulative effects of conservative accounting practices through the systematic understatement of net assets relative to market valuation. Compared to alternative proxies such as earnings quality or discretionary accruals, the MTB ratio is considered more suitable for capturing long-term conservatism and reducing potential estimation bias associated with accrual-based models. Nonetheless, acknowledging these methodological trade-offs, this study recognizes the limitations of the MTB proxy and encourages future research to incorporate multiple measures of financial reporting integrity for robustness.

**3.2.2. Financial Distress**

Financial distress represents a decline in a firm’s financial stability prior to bankruptcy. This study measures financial distress using the Altman Z-Score model (Altman, 1995; Widjayanti et al., 2025), which has been widely applied in recent empirical research.

The Z-Score formula is:

$$Z = 6,65X1 + 3,26X2 + 6,72X3 + 1,05X4 \dots\dots\dots(2)$$

Where:

- X1 = Working Capital / Total Assets
- X2 = Retained Earnings / Total Assets
- X3 = EBIT / Total Assets
- X4 = Market Value of Equity / Total Liabilities
- X5 = Sales / Total Assets

Lower Z-scores indicate higher levels of financial distress.

**3.2.3. Independent Commissioner**

Independent commissioners represent the proportion of board members who are free from managerial, ownership, or familial affiliations that could impair objectivity. In line with recent governance research (Achmad et al., 2024), independent commissioners are measured as:

$$KI = \frac{\text{Independent of Commissioner}}{\text{Number of Board Commissioners}} \dots\dots\dots(3)$$

A higher proportion reflects stronger internal monitoring mechanisms.

**3.2.4. Audit Tenure**

Audit tenure refers to the length of the audit engagement between a public accounting firm and its client, Consistent with Maisyaroh et al. (2025), Audit tenure is measured by counting the consecutive years the same audit firm audits the company. Longer tenure may increase auditor familiarity risk, potentially affecting independence.

1 = provided at the beginning of the auditor's research year. 2,3,4, dst = Added for the following year.....(4)

### 3.2.5. Institutional Ownership

Institutional ownership represents the proportion of company shares held by institutional investors such as financial institutions, pension funds, and government entities. Following Tamara & Kartika (2021), institutional ownership is measured as:

$$INST = \frac{\text{Number of Shares owned by Institutions}}{\text{Number of outstanding shares}} \dots\dots\dots(5)$$

Higher institutional ownership is expected to enhance monitoring effectiveness and reduce agency conflicts.

### 3.3. Data Analysis Technique

This research employs panel data regression techniques processed through EViews 12 software. Before conducting hypothesis testing, several diagnostic evaluations were performed to confirm the robustness of the model, including tests for data normality, multicollinearity, heteroscedasticity, and autocorrelation (Hidayati & Djamil, 2024). Furthermore, the most appropriate estimation model – whether the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM) – was selected through a series of specification tests, namely the Chow test, Hausman test, and Lagrange Multiplier test.

The multiple regression model is specified as follows:

$$FRI_{it} = \alpha + \beta_1 FD_{it} + \beta_2 IC_{it} + \beta_3 AT_{it} + \beta_4 IO_{it} + \epsilon_{it}$$

Where:

FRI = Financial Reporting Integrity

FD = Financial Distress

IC = Independent Commissioner

AT = Audit Tenure

IO = Institutional Ownership

$\epsilon$  = Error term

Hypothesis testing was conducted using t-tests (partial effects) and F-tests (simultaneous effects) with a 5% significance level. The coefficient of determination ( $R^2$ ) was used to assess explanatory power.

## 4. ANALYSIS AND DISCUSSIONS

### 4.1 Descriptive Statistics

Table 1 Descriptive Statistics

	Obs.	Mean	Std. Dev	Min	Max	Skew	Kurt
FD	112	5.092	3.280	-2.106	14.136	0.406	3.005
CI	112	2.726	0.766	1.250	5.000	0.909	4.547
AT	112	1.964	0.976	1.000	4.000	0.596	2.218
INST	112	0.880	01.123	0.069	7.001	4.537	2.4377

Source: E-Views 12 (data processing).

The table presented above summarizes the descriptive statistics of five variables (FD, CI, AT, and INST) based on a total of 112 observations. The average values show that FD records the highest mean at 5.093, followed by CI with a mean of 2.727 and AT at 1.964. In contrast, INST has the lowest mean value of 0.881, indicating a relatively more even distribution compared to the other variables.

### 4.2 Panel Data Regression Model Selection

**Table 2 Overall Panel Data Regression Model**

	Prob	Result	Decision
Chow	0.0024	Prob < 0.05	FE
Hausman	0.6970	Prob > 0.05	RE
LM	0.0030	Prob < 0.05	RE

Source: E-Views 12 (data processing).

The optimal panel data model was determined through the Chow, Hausman, and Lagrange Multiplier (LM) tests. The Chow test ( $p = 0.0024$ ) indicated that FE is preferred over CE. However, the Hausman test ( $p = 0.6970$ ) supported the use of RE instead of FE. This result was reinforced by the LM test ( $p = 0.0030$ ), which also favored RE over CE. Therefore, RE was selected as the most appropriate model for this study.

### 4.3 Classical Assumption Test

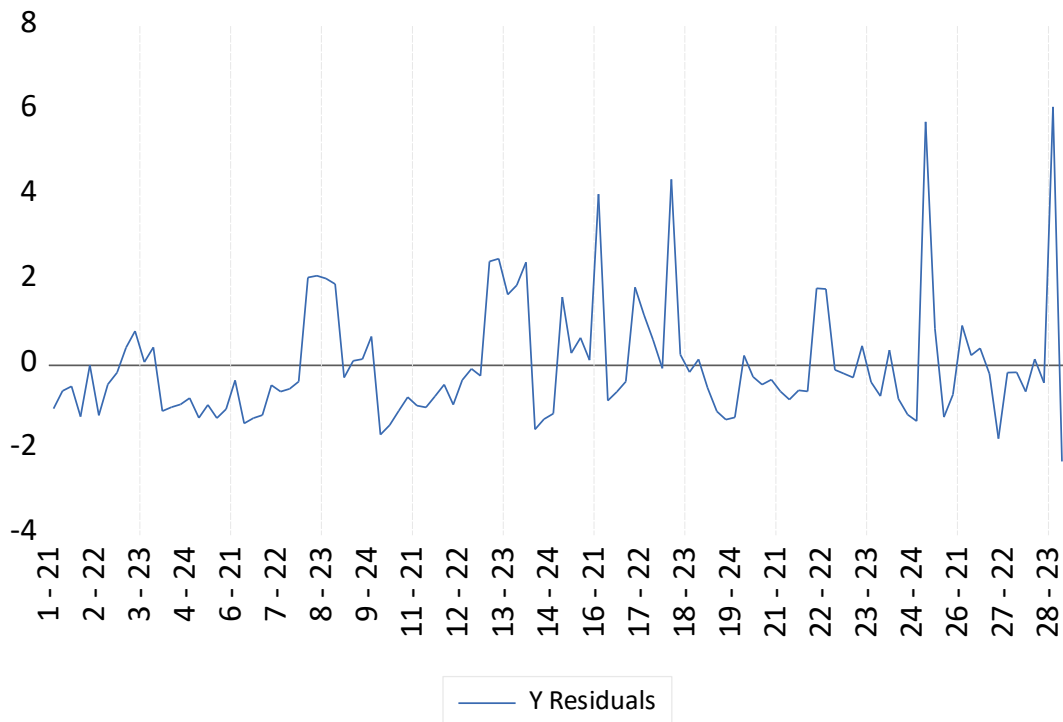
The table below presents the results of the multicollinearity tests.

**Table 3 Multicollinearity Test**

Variable	Coefficient Correlation	< 0.9	Conclusion
FD	-0.226	✓	No multicollinearity
CI	-0.020	✓	No multicollinearity
AT	0.076	✓	No multicollinearity
INST	0.004	✓	No multicollinearity

Source: E-Views 12 (data processing).

The results of the heteroscedasticity test are presented in the following graph:



**Figure 1 Heteroscedasticity Test FRI**

Source: E-Views 12 (data processing).

The heteroscedasticity assessment shows that the plotted values remain within the specified thresholds of 0.500 and  $-0.500$ , suggesting that the variance of the residuals is stable and that no heteroscedasticity is detected in the dataset. However, Figure 1—intended to illustrate this test—is currently explained only through textual description, without presenting the actual visual output. To strengthen clarity and ensure methodological transparency, the scatterplot should be included in the final version of the manuscript. Providing a visual representation of the residual pattern will allow readers to more effectively evaluate whether heteroscedasticity is present and will improve the overall robustness and credibility of the empirical findings.

## 4.4 Testing Hypothesis

### 4.4.1 T-test (Partial)

The t-test is employed to assess whether there are statistically meaningful differences in the average values across groups. Depending on the data characteristics and research objectives, this test can be implemented in several forms, including independent sample tests, paired sample tests, and one-sided tests (Putri et al., 2023). Based on the empirical findings, only the financial distress (FD) and audit tenure (AT) variables demonstrate statistical significance at the 5% level. Specifically, FD shows a p-value of 0.028 with a t-statistic of 2.214, which exceeds the critical t-value of 1.981. Similarly, AT records a p-value of 0.034 with a t-statistic of  $-2.142$ , which also indicates significance despite its negative direction. These results confirm that both FD and AT have a significant influence on financial reporting integrity (FRI). In contrast, the variables representing independent commissioners (IC) and institutional ownership (INST) yield probability values greater than 0.05, indicating that their effects on FRI are not statistically significant. A detailed summary of these results is presented in the following table.

**Table 4 T- test**

Variable	t-Statistic	t-Table	Probability Value	Conclusion
FD	2.214	1.981	0.028	Significant
CI	0.823	1.981	0.411	Not Significant
AT	-2.142	1.981	0.034	Significant
INST	-0.981	1.981	0.327	Not Significant

Source: E-Views 12 (data processing).

#### 4.4.2 F-Test (Simultaneous Test)

The F-test is employed to determine whether there are significant differences in variance across multiple groups. Based on the analysis of the full dataset, the test yielded an F-statistic of 42.694 with a probability value of 0.034, which is below the 0.05 threshold. This outcome demonstrates that financial distress (FD), capital intensity (CI), audit tenure (AT), and institutional ownership (INST) jointly exert a significant influence on Financial Reporting Integrity (FRI).

F-statistic	2.694204
Prob(F-statistic)	0.034741

#### 4.4.3 Coefficient of Determination (Adjusted R-Squared)

To complement the F-test results, it is important to evaluate the explanatory power of the model using the Adjusted R-Squared value.

Indicator	Value
Adjusted R-Squared	0.118

The adjusted coefficient of determination (Adjusted R<sup>2</sup>) of 0.118 shows that the model is able to account for about 11.8% of the changes in Financial Report Integrity (FRI) through the variables included in the analysis. Meanwhile, the remaining 88.2% of the variation is attributable to other factors that are not incorporated in this study. This modest level of explanatory capacity indicates that financial reporting integrity is shaped by a wide range of influences, extending beyond financial distress, corporate governance mechanisms, and audit-related attributes.

### 4.1. The Effect of Financial Distress on Financial Reporting Integrity

The initial hypothesis (H1) predicted a negative effect of financial distress on financial reporting integrity. However, the empirical results indicate a statistically significant effect with a positive coefficient, suggesting a direction that is inconsistent with the proposed hypothesis. Therefore, H1 is rejected in terms of its directional prediction, although the variable remains statistically significant and not consistent with Pratiwi et al. (2025) and Yuda et al. (2024). This finding implies that financial distress may function as a disciplinary mechanism, encouraging managers to adopt more conservative and transparent reporting practices to restore credibility and maintain stakeholder trust. In this context, distressed firms may reduce opportunistic behavior and strengthen reporting integrity as a response to increased scrutiny from creditors, regulators, and investors. Hence, while the hypothesis is not supported as originally formulated, the result provides important insight into the governance role of financial distress in enhancing financial reporting quality.

#### **4.2. The Effect of Independent Commissioners on Financial Reporting Integrity**

The results indicate that independent commissioners do not significantly affect financial reporting integrity. Although agency theory posits that independent board members strengthen monitoring and reduce information asymmetry, the empirical evidence suggests that their presence alone does not guarantee effective oversight. This finding aligns with Damayanti et al. (2023), who argue that board independence may be symbolic when monitoring functions are not supported by competence and active engagement. However, it contrasts with Mukoffi et al. (2023), who find that a higher proportion of independent commissioners enhances reporting credibility. The inconsistency implies that the effectiveness of independent commissioners depends not merely on numerical proportion but also on governance quality, expertise, and institutional enforcement. Thus, formal compliance with governance regulations may not necessarily translate into substantive improvements in reporting integrity.

#### **4.3. The Effect of Audit Tenure on Financial Reporting Integrity**

The empirical findings demonstrate that audit tenure significantly affects financial reporting integrity. Longer auditor–client relationships tend to weaken auditor independence, thereby influencing reporting credibility. Within agency theory, external auditors serve as monitoring mechanisms to reduce information asymmetry between management and shareholders. However, extended engagement periods may create familiarity threats that reduce professional skepticism. This finding supports Maisyaroh et al. (2025) and Hidayati and Djamil (2024), who document that prolonged audit tenure can impair independence and reduce reporting quality. Nevertheless, it differs from Aprilia and Sulindawati (2022), who suggest that moderate tenure enhances audit effectiveness due to accumulated client knowledge. The present results reinforce the argument that maintaining auditor independence through appropriate rotation policies remains essential for safeguarding reporting integrity.

#### **4.4. The Effect of Institutional Ownership on Financial Reporting Integrity**

The results show that institutional ownership does not significantly influence financial reporting integrity. Although agency theory predicts that institutional investors act as effective monitoring agents, the findings suggest that ownership concentration and control power may be more relevant than mere ownership proportion. This result is consistent with Manuari (2021), who reports that dispersed institutional ownership reduces monitoring effectiveness. However, it differs from Achmad et al. (2024), who find that concentrated institutional ownership strengthens governance oversight. The discrepancy indicates that the monitoring role of institutional investors depends on ownership structure characteristics, such as dominance, activism, and voting power. In this study's context, institutional ownership appears insufficient to discipline managerial reporting behavior.

### **5. Conclusion**

This study aims to examine the influence of financial distress, independent commissioners, audit tenure, and institutional ownership on financial reporting integrity within manufacturing companies listed in Indonesia. The findings indicate that financial distress and audit tenure play an important role in shaping financial reporting integrity, while independent commissioners and institutional ownership have not demonstrated effective monitoring functions in strengthening reporting credibility. These results suggest that financial pressure may encourage companies to improve transparency in order to maintain legitimacy, whereas

prolonged auditor–client relationships may weaken auditor independence and reduce reporting objectivity. The practical implications of this study emphasize the importance of strengthening corporate governance mechanisms, particularly in ensuring auditor independence through appropriate rotation policies and improving the substantive role of independent commissioners in overseeing financial reporting practices. For regulators, the findings highlight the need to enhance supervision frameworks to ensure that governance structures function effectively rather than symbolically. For companies, maintaining reporting integrity during periods of financial instability is essential to preserve stakeholder trust and long-term sustainability.

This study is subject to several limitations. First, the research focuses only on manufacturing companies within a specific observation period, which may limit the generalizability of the findings across sectors and economic conditions. Second, the measurement of financial reporting integrity relies on a single proxy, which may not fully capture broader dimensions of reporting quality. Third, governance variables are measured quantitatively without assessing qualitative aspects such as board competence or audit quality perceptions. Future research is encouraged to expand the scope of analysis by including additional sectors, extending the observation period, and incorporating alternative proxies for financial reporting integrity. Further studies may also explore moderating or mediating variables, such as audit quality, managerial ownership, or corporate risk management practices, to provide a more comprehensive understanding of the mechanisms influencing financial reporting integrity.

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