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THE INTERSECTION OF EARNINGS MANAGEMENT AND FINANCIAL REPORTING INTEGRITY IN RURAL BANK: A MULTI-FACTOR ANALYSIS

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ABSTRACT

This study aims to examine the influence of Non-Performing Loans (NPL), Return on Assets (ROA), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), Loan Loss Provision (LLP), Audit Quality, Firm Size and Earnings Management to Financial Reporting Integrity, practices at Rural Banks Indonesia for the 2019-2023 period. The results reveal that NPL significantly impacts both earnings management and the integrity of financial statements, while CAR and earnings management also affect financial statement integrity. As a microfinance institution with limited segmentation, rural bank prioritizes credit distribution as its primary income source and carefully manages loans to prevent NPL increases that could harm its financial health and reputation. High NPL levels can negatively impact the capital adequacy ratio (CAR) due to the anticipation of credit risk. Therefore, rural bank must maintain financial stability indicators, such as NPL and CAR, in their operations and financial reporting. Compliance with banking regulations is crucial for bank of all sizes, ensuring that financial statements are presented transparently and accountably, facilitating informed decision-making.

Keyword: Profit Management, BPR, Regulation, Transparency.

1. INTRODUCTION

Financial statements are a medium used by banks to inform financial performance and form of accountability to various parties for their business management. Rural Bank (BPR) in Indonesia must also submit their financial statements in a transparent and responsible manner to be able to maintain public trust. Integrity is an important part of building trust in the banking system (Cowton, 2002). The integrity of financial statements is a form of enforcing financial reporting transparency, especially during economic downturns and riskier asset portfolios. The application of government regulations in these conditions has become stricter to encourage the enforcement of financial reporting transparency so that the integrity of financial statements can be achieved (Costello et al., 2018).

The importance of financial report integrity is driven by banking regulators through various banking regulations in Indonesia, including regulation of bank health and credit risk management. In addition, improving audit quality, company size and Earnings Management can also affect the integrity of financial statements. Improving the integrity of financial statements can save banks from financial crises (Ng, 2012), supported by the involvement of internal audits in reviewing financial reporting can result in an increase in the quality of financial reporting (Gras-Gil et al., 2012). Finally, higher reporting quality is positively related to bank stability and the success of the banking system (Ng, 2012).

Various financial factors such as Non-Performing Loans (NPL), Return on Assets (ROA), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), and Loan Loss Provision (LLP) have been extensively researched and have the potential to affect Earnings Management and the integrity of financial statements. Increased pressure on management to finally manipulate profits to cover high credit risk, namely through NPLs as an indicator of credit quality (Bhat & Desai, 2020). With a high NPL rate, ROA will be affected, encouraging management to carry out Earnings Management as an effort to improve the company's performance in the eyes of stakeholders (Asmita, 2016; Malik et al., 2012). With the high level of bad loans owned by banks will have an impact on the high Loan Loss Provision (LLP) that must be set aside for excessively high loan losses, LLP is also associated with Earnings Management tools to affect the net profit it reports and result in a decrease in the integrity of financial statements (Beatty & Liao, 2011).

Factors that are able to influence management behavior in the preparation of financial statements are NIM and CAR, the high NIM reflects the bank's efficiency so that this can be a reason for management to carry out Earnings Management in order to produce stable performance (Karamoy & Tulung, 2020). The CAR ratio, which is an indicator of capital adequacy, was also found to be related to the integrity of a bank's

financial statements, where a low CAR may be more susceptible to pressure to improve its financial statements (Altamuro & Beatty, 2010).

Audit quality and company size also play an important role in maintaining the integrity of financial statements, with good audit quality Earnings Management practices that can damage the reliability of financial statements can be detected and prevented. In addition, the size of the company is getting tighter regulatory control and supervision so that the integrity of financial statements can be better maintained (Francis & Wang, 2008).

This study aims to explore the influence of NPL, ROA, NIM, CAR, LLP, audit quality, company size, and Earnings Management on the integrity of financial statements in Rural Banks in Indonesia. Given the importance of the integrity of financial statements in maintaining the stability and reputation of banks, the results of this study are expected to make a significant contribution to the development of literature and banking practices that are more transparent and accountable.

2. BACKGROUND AND HYPOTHESIS DEVELOPMENT

The integrity of financial statements is defined as the completeness of information, honesty and accuracy presented in a company's financial statements, so that users and stakeholders can make economic and accurate and trustworthy decisions. Effective banking management depends on the integrity, reliability, and accuracy of the information provided in financial statements (SHEVCHENKO et al., 2020). Quality financial reports with integrity have been proven to save banks during economic crises and the implementation of regulations from the government (Ng, 2012). The role of financial statements also provides information related to the performance of the bank, so it is considered crucial and can motivate management to strive to meet the expectations of external parties of the bank (Cornett et al., 2009). Financial ratios that are factors that increase Earnings Management behavior and have an impact on integrity include NPL, ROA, NIM, CAR, LLP, audit quality and firm size.

2.1 The effect of NPL on earnings management and financial statements integrity

The high NPLs that reflect the poor quality of bank credit management can motivate management to manipulate financial statements to cover up poor performance, this will have an impact on the decline in the quality of the company's financial statements. Results of the study (Kaligis & Kasingku, 2022; Klein, 2002; Paramastri et al., 2021) prove the influence of NPLs on Earnings Management and the integrity of financial statements.

H1.1 = NPL affects earnings management
H1.2 = NPL affects the integrity of financial statements

2.2 The Effect of ROA on Earnings Management and Financial Statements Integrity

When the company's performance does not meet expectations from external parties, it can have an impact on the company's image. So that management will try to manipulate the reported profit and reduce the integrity of the company's financial statements. One of the things that can reflect good performance through an increase in the ROA ratio is the company's ability to generate profits from its assets. ROA has an influence on earnings management (Chen et al., 2001; Kapoor & Goel, 2017; Suteja et al., 2016) and ROA also affect the integrity of financial statements (Alpriyatna, 2023).

H1.3 = ROA affects earnings management
H1.4 = ROA affects the integrity of financial statements

2.3 The Effect of NIM on Earnings Management and Financial Statements Integrity

A high NIM ratio indicates the bank's operational efficiency so that it can generate high net profit as well. By regulating loan provisions, asset sales or manipulating revenue recognition through Earnings Management practices will cause the bank's NIM value to fluctuate(Kanagaretnam et al., 2003; Kothari et al., 1999; Leventis et al., 2011). Financial statements prepared with Earnings Management practices will reduce the integrity of the information they report. The quality of financial reports is important for banks because it plays a role in building confidence and trust, which has a positive impact on investment attractiveness(Moridu, 2023).
H1.5 = NIM affects earnings management
H1.6 = NIM affects the integrity of financial statements

2.4 The Effect of CAR on Earnings Management and Financial Statements Integrity

One of the indicators of bank health is measured through the CAR ratio, where the larger this ratio, the stronger the bank is in facing future business risks(Collins et al., 1995). Banks must comply with these regulations related to capital adequacy to demonstrate that the bank has a decent level of health and can increase the trust of customers and the public (Bhat & Desai, 2020; Karaoglu et al., 2004). By complying with CAR-related regulations, banks will be more careful in their financial reporting and can improve the integrity and quality of the financial statements they prepare (Beatty et al., 1993; Karaoglu, 2005).

H1.7 = CAR affects earnings management
H1.8 = CAR affects the integrity of financial statements

2.5 The Effect of LLP on Earnings Management and Financial Statements Integrity

Loan Loss Provision (LLP) is formed by banks as an anticipatory method due to the risk of loss from their productive assets. LLP reserves need to pay attention to objective evidence related to the decline in value owned by debtors. LLP is commonly used as earnings management tool when the bank's performance declines or in order to maintain its performance (Azzali et al., 2014; Ceccobelli & Giosi, 2019; Sari & Widaninggar, 2020). Managing LLPs with improper objectives will affect the integrity of the financial statements presented by the bank.

H1.9 = LLP affects earnings management
H1.10 = LLP affects the integrity of financial statements

2.6 The Effect of Audit Quality on Earnings Management and Financial Statements Integrity

One of the important roles of audit quality is to be able to prevent deviations in the information presented in financial statements, such as Earnings Management practices (Francis & Wang, 2008; Wahyuni et al., 2022). The quality of audits has been proven to be able to improve the integrity of the financial statements produced by the company (Nugraheni, 2021; Putra et al., 2022; Safitri et al., 2023). So that good audit quality is able to improve the accuracy and reliability of financial statements by reducing the possibility of Earnings Management.

H1.11 = audit quality affects earnings management
H1.12 = audit quality affects the integrity of financial statements

2.7 The Effect of Firm Size on Earnings Management and Financial Statements Integrity

Banks with larger sizes tend to be more tightly controlled to reduce the potential for dysfunctional behaviors, such as Earnings Management (Ali et al., 2011; Llukani, 2013; Swastika, 2013). The size of the company affects the integrity of financial statements (Nugraheni, 2021; Safitri et al., 2023), the larger the company, the more interested parties are in its financial statements and the more information must be carefully generated by the company.

H1.13 = firm size affects earnings management
H1.14 = firm size affects the integrity of financial statements

2.8 The Effect of Earnings Management and Financial Statements Integrity

Earnings management is an action taken by company management to regulate or manipulate financial statements to achieve certain targets, both for internal and external purposes. This practice is often done by taking advantage of the flexibility in accounting standards to change financial statements without explicitly violating the rules, but still reducing the quality of the information presented. (Healy & Wahlen, 1999) define earnings management as deliberate intervention by management in the financial reporting process to obtain certain profits. This practice can damage the integrity of financial statements, especially when used to hide true financial performance.

H1.15 = earnings management affects the integrity of financial statements

2.9 The Effect of NPL, ROA, NIM, CAR, LLP, Audit Quality, Firm Size and Earnings Management on Financial Statements Integrity

Non-Performing Loans (NPLs) have a negative influence on the integrity of financial statements, as increased credit risk can encourage management to manipulate profits to cover up poor performance. On the other hand, a higher Return on Assets (ROA) is expected to have a positive effect on the integrity of financial statements, as it shows good operational efficiency, while stable Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) are also expected to contribute positively by reflecting healthy interest margins and adequate capital adequacy. However, a high Loan Loss Provision (LLP) can be an earnings Management tool, so it is estimated to have a negative effect on the integrity of financial statements. Good audit quality is expected to have a positive effect by reducing the possibility of profit manipulation, and larger company sizes are expected to improve the integrity of financial statements due to stricter supervision. Finally, Earnings Management is directly hypothesized to have a negative effect on the integrity of financial statements, as attempts to manipulate financial figures tend to undermine the quality of the information presented.

H1.16 = NPL, ROA, NIM, CAR, LLP, Audit Quality, Company Size and Earnings Management affect the Integrity of Financial Statements

3. SAMPLE SELECTION AND RESEARCH DESIGN

This research is quantitative research that uses secondary data in the form of Rural Bank's financial statements in Jember Regency in 2019-2023. Where the population of this purchase is Rural Banks in the Jember area which totals 16 BPR. The determination of the research sample uses the saturated sample method, which uses the entire research population. Rural Banks financial report data is obtained through the official OJK website, namely the ojk.go.id and the respective Rural Bank's website.

The variables of this study consist of eight independent variables, namely NPL, ROA, NIM, CAR, LLP, Audit Quality, Firm Size, Earnings Management and one dependent variable, namely Financial Statement Integrity.

Table 1. Measurement of Research Variables

Nama Variabel	Rumus
Non-Performing Loan (NPL)	$\frac{Non\ Performing\ Loan}{Total\ Creadi}\ x100\%$
Return on Asset (ROA)	$\frac{\text{Earnings after tax}}{Average\ of\ Total\ Asset}\ x100\%$
Net Income Margin (NIM)	$\frac{\text{Net Interest Income}}{Average\ of\ Productive\ Assets}\ x100\%$
Loan Loss Provision (LLP)	Total LLP/Total Asset
Audit Quality	Audit Audit Tenure (The length of the audit engagement/assignment period starting from the beginning of the KAP's engagement with the client company, this variable uses an interval scale)
Company Size	Ln (Total Aset)
Earnings Management	Modified Jones Model: TAit = NI it – CFO it TAit/Ait-1 = a1(1/Ait-1) + a2{(∆REVit / Ait-1)} + a3(PPEit / Ait-1) + e NDA = a1(1/Ait-1) + a2{(∆REVit - ∆RECit)} + a3(PPEit / Ait-1) DAit = TAit / Ait-1 = NDAit
Financial Reporting Integrity	$CONacc = \frac{\text{NI it} - \text{CFO it}}{TA}\ x - 1$

Method analysis of the data used in study This shared become four namely 1) Statistics Descriptive; 2) Test Assumptions Classic consisting from the Normality Test, Multicollinearity Test, Autocorrelation Test and Heteroscedasticity Test; 3) Multiple Linear Regression Model; 4) Hypothesis Testing consisting of from Partial Test (t) and Simultaneous Test (F); and 5) Coefficient of Determination (R^2).

4. RESULTS AND DISCUSSION

This study uses the entire Rural Banks population in the Jember area, namely 16 BPRs during the period 2019 to 2023, where each variable is calculated with a predetermined formula, tabulated and analyzed using the analysis method previously described.

4.1 Statistical Descriptive Results

Table 1. Statistical Descriptive Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
NPL	80	.001	.348	.04103	.052029
ROA	80	-.064	.118	.04195	.029780

NIM	80	.117	.359	.18943	.054788
CAR	80	.158	2.005	.85144	.487626
LLP	80	.004	.292	.04616	.050044
Audit Quality (AQ)	80	1	4	1.39	.684
Firm Size (SZ)	80	15.568	20.225	17.15580	1.087238
Earnings Management	80	-.189	.283	.04370	.094858
Financial Statement Integrity	80	.816	1.039	.90085	.043682
Valid N (listwise)	80				

Source: SPSS (2024)

4.2 Assumption Classic Test Results

Based on the results of the classical assumption tests carried out, namely the normality test, multicollinearity test, autocorrelation test and heteroscedasticity test, all showed the results that the regression model could be used for the analysis of research results (Appendix).

Table 3. Assumption Classic Test Result

Test		Value			
		Model 1		Model 2	
Normality Test Result		0.200		0.200	
Multicollinearity Test Results	NPL	.467	2.143	.505	1.981
	ROA	.256	3.905	.424	2.359
	NIM	.336	2.979	.446	2.243
	CAR	.215	4.644	.278	3.598
	LLP	.462	2.165	.618	1.619
	Audit Quality (AQ)	.806	1.241	.853	1.172
	Firm Size (SZ)	.252	3.963	.405	2.468
	Earnings Management (EM)			.876	1.142
Heteroscedasticity Test Result		Appendix		Appendix	
Autocorrelation Test Result		.653		1.000	

Source: SPSS (2024)

4.3 Hypothesis Test Results

Table 4. Result of Regression Model 1

Variable	Standardized Coefficients	t	Sig.
Constant	-.334	-.686	.496
NPL	-.547	-4.046	.000
ROA	-.676	-2.799	.007
NIM	.224	1.577	.122
CAR	-.002	-.078	.938
LLP	.001	.111	.912
Audit Quality (AQ)	-.028	-1.700	.096

Firm Size (SZ)	.154	.896	.375
R Square	.671		
Adjusted R Square	.621		
F-stat.	13.408		
Sig. F	.000		

Source: SPSS (2024)

From Table 4 the value of the regression coefficient is taken from standardized coefficient as follows:

EM = –0,334 – 0,547NPL – 0,676ROA + 0,224NIM – 0,002CAR + 0,001LLP – 0,028AQ + 0,154SZ

Table 5. Result of Regression Model 2

Variable	Standardized Coefficients	t	Sig.
Constant	.890	12.409	.000
NPL	-.016	-.226	.822
ROA	-1.057	-7.587	.000
NIM	-.130	-1.757	.083
CAR	.039	3.741	.000
LLP	-.104	-1.520	.133
Audit Quality (AQ)	-.001	-.246	.806
Firm Size (SZ)	.003	.751	.455
Earnings Management (EM)	.067	2.189	.032
R Square	.729		
Adjusted R Square	.698		
F-stat.	23.845		
Sig. F	.000		

Source: SPSS (2024)

From Table 5 the value of the regression coefficient is taken from standardized coefficient as follows:

FSI = 0,890 – 0,016NPL – 1,057ROA – 0,130NIM + 0,039CAR – 0,104LLP – 0,001AQ + 0,003SZ + 0,067EM

Partial Test Results (t)

Based on Tables 3 and 4, the results can be described as follows:

1. The significance value of 0.010 is less than 0.05, then H0.1 is rejected, meaning that NPL partially has a significant effect on Earnings Management.
2. The significance value of 0.822 is greater than 0.05, then H0.2 is accepted, meaning that NPLs partially do not have a significant effect on the integrity of the Financial Statements.
3. The significance value of 0.007 is less than 0.05, then H0.3 is rejected, meaning that ROA partially has a significant effect on Earnings Management.
4. The significance value of 0.000 is less than 0.05, then H0.4 is rejected, meaning that ROA partially has a significant effect on the integrity of the Financial Statements.
5. The significance value of 0.122 is greater than 0.05, then H0.5 is accepted, meaning that NIM partially does not have a significant effect on Earnings Management.
6. The significance value of 0.083 is greater than 0.05, then H0.6 is accepted, meaning that NIM partially does not have a significant effect on the integrity of the Financial Statements.
7. The significance value of 0.938 is greater than 0.05, then H0.7 is accepted, meaning that CAR partially does not have a significant effect on Earnings Management.
8. The significance value of 0.000 is less than 0.05, then H0.8 is rejected, meaning that CAR partially has a significant effect on the integrity of the Financial Statements.
9. The significance value of 0.912 is greater than 0.05, then H0.9 is accepted, meaning that LLP partially does not have a significant effect on Earnings Management.
10. The significance value of 0.133 is greater than 0.05, then H0.10 is accepted, meaning that LLP partially does not have a significant effect on the integrity of the Financial Statements.

11. The significance value of 0.095 is greater than 0.05, then H0.11 is accepted, meaning that Audit Quality (X6) partially does not have a significant effect on Earnings Management.
12. The significance value of 0.806 is greater than 0.05, then H0.12 is accepted, meaning that the Audit Quality (X6) partially does not have a significant effect on the integrity of the Financial Statements.
13. The significance value of 0.375 is greater than 0.05, then H0.13 is accepted, meaning that the Company Size partially does not have a significant effect on Earnings Management.
14. The significance value of 0.455 is greater than 0.05, then H0.14 is accepted, meaning that the Company Size partially does not have a significant effect on the Integrity of the Financial Statements.
15. The significance value of 0.032 is less than 0.05, then H0.15 is rejected, meaning that Earnings Management partially has a significant effect on the integrity of the Financial Statements.

Simultaneous Test Results (F)

Based on Table 4, it is known that the significance value of 0.000 is greater than 0.05 so it can be concluded that H0.16 is rejected, meaning that NPL, ROA, NIM, CAR, LLP, Audit Quality, Company Measurements and Earnings Management simultaneously affect the Integrity of Financial Statements.

4.4 Determination Coefficient (R^2) Results

The Adjusted R Square value is 0.698 or 69.8%. This means that the independent variable in the regression model is able to explain the variation of the bound variable by 69.8%, the remaining 30.2% is explained by other variables from this study.

4.3 Discussion

1) The Effect of NPL on Earnings Management and Financial Statements Integrity

Based on the results of this study, NPLs have an effect on Earnings Management, while NPLs have no effect on the integrity of financial statements. The results of descriptive statistics show that the average NPL value owned by Rural Banks is below 5% (4.1%), this shows that Rural Bank's NPL in the period 2019-2023 is maintained and in accordance with government regulations. The relatively stable NPL value shows that the credit risk generated by the bank's credit portfolio has been well managed, this also has an impact on credit reserves that have been sufficient to offset the risks faced. To maintain these conditions, bank management will implement accounting and risk management policies, one of which is the management of accrued accounts in financial statements. This result is in accordance with NPLs affecting Earnings Management (Sari & Astuti, 2015; Lestari et al., 2019; Sari & Widaninggar, 2020).

NPLs have no effect on the integrity of financial statements because the size of BPRs is smaller than that of commercial banks, making BPRs have a simpler credit portfolio, so that NPL management can be more focused and controlled. Regulatory pressure related to the value of NPLs that are maintained continues to be sought by BPR to be able to maintain the health level of banks, improve the reputation and public trust in BPR. These priorities encourage BPRs to comply with banking standards and become more transparent in presenting their financial statements. When NPLs are maintained through good credit portfolio management, the integrity of financial statements can be further improved (Bhat & Desai, 2020).

2) The Effect of ROA on Earnings Management and Financial Statements Integrity

There is no effect of ROA on Earnings Management, nor does it affect the integrity of financial statements. The ROA ratio is one of the bank's performance indicators used to measure the bank's ability to generate profits, indicating healthy bank conditions and good operational efficiency (Cornett et al., 2009). It aims to meet the regulations and expectations of stakeholders and the community (Fonseca & González, 2008). However, this is not the main factor for BPR to carry out Earnings Management, nor has an impact on the integrity of financial statements. Earnings Management is often used by companies to cover for unstable and fluctuating performance conditions (Kanagaretnam et al., 2003). With a limited scope of business, BPR is regulated and supervised in strict regulations, where the supervision ensures that BPR's financial statements reflect the actual financial condition, reduce distortions in financial statements and improve the integrity of the financial statements presented by BPR. Strict supervision reduces opportunities for management to manipulate performance figures, so that the integrity of financial statements is maintained even though the reported ROA has not met the expectations of external BPRs.

3) The Effect of NIM on Earnings Management and Financial Statements Integrity

Based on the results of the analysis, it is known that NIM has no effect on Earnings Management and also on the integrity of financial statements. The average NIM value obtained by BPR during 2019-2023 is 18.9%, the higher the NIM value indicates BPR's profit from lending to customers. In a situation of strict supervision implemented by the government, BPRs are more focused on ensuring that their financial statements reflect the actual financial condition without any manipulation of NIM-related figures. The pressure to maintain compliance and stability makes management more focused on other more stable indicators, besides banks with high NIM volatility, the integrity of financial statements is more dependent on other financial stability indicators.

4) The Effect of CAR on Earnings Management and Financial Statements Integrity

CAR has no effect on Earnings Management and CAR has an effect on the integrity of financial statements. One of the indicators of financial stability is CAR, as it reflects the health and resilience of banks in the face of financial and operational risks. With a stable CAR, banks do not need to do Earnings Management to manipulate the financial statements they report. However, in the results of the CAR influence test on the integrity of financial statements, it is known that both have an influence, where the average CAR value of BPR is known to be 85.1%, this is a high CAR value. A high CAR score also indicates the health level of BPR is maintained, with an adequate CAR can improve the integrity of financial statements so that the reputation of BPR in the community is also getting better.

5) The Effect of LLP on Earnings Management and Financial Statements Integrity

LLP has no effect on Earnings Management and also the integrity of financial statements. LLP is a measure of how much funds BPR must set aside to cover potential losses due to non-performing loans. BPRs that operate on a smaller scale than commercial banks, have a more homogeneous portfolio so that it is easier to determine how large LLPs should be formed. However, with stricter regulations, BPRs need to be more careful in the formation of LLPs, so as to prevent the misuse of LLPs as a tool for Earnings Management and can maintain the integrity of BPR's financial statements.

6) The Effect of Audit Quality on Earnings Management and Financial Statements Integrity

Based on the results of the analysis, it is known that there is no influence of audit quality on Earnings Management and the integrity of financial statements. Audit quality as measured by audit tenure is the length of the audit engagement/assignment period starting from the beginning of the KAP engagement with the client company. The longer the assignment period of the KAP can detect and report fraud in financial statements, including when Earnings Management practices occur. However, the longer the audit engagement period can also reduce the independence of auditors and have an impact on decreasing the integrity of financial statements. In this study, the quality of audits measured by the interval scale shows that the average audit period of BPR using auditor services is less than 2 years. The results of the analysis show that the length of the assignment to audit has no effect on Earnings Management practices and does not improve or decrease the integrity of the financial statements reported by BPR. The reason is that the short engagement period tends not to have a deep understanding of the company's policies, culture or environment, resulting in low quality financial reports (Van Johnson et al., 2002).

7) The Effect of Firm Size on Earnings Management and Financial Statements Integrity

There is no influence of company size on Earnings Management and the integrity of financial statements. The size of the company that increasingly has better access to resources so that it can implement stricter financial policies and internal controls. In addition, larger companies are increasingly supervised by various stakeholders, but the implementation of banking regulations does not look at how big or small BPR is. This makes all BPRs to comply with the rules, so that they are more careful in making policies and reporting their financial performance. The size of the company does not guarantee that it is free from financial statement fraud (Pradika & Hoesada, 2019).

8) The Effect of Earnings Management and Financial Statements Integrity

Based on the results of the analysis, it is known that Earnings Management affects the integrity of BPR's financial statements. The practice of Earnings Management is defined as the management of financial statements without violating applicable financial rules/standards, but still reducing the quality of information presented in order to obtain certain profits (Healy & Wahlen, 1999). Earnings Management causes the readability of financial statements to be more complicated, thus affecting the integrity of financial statements(Ajina et al., 2016; Arayesh, 2019).

9) The Effect of NPL, ROA, NIM, CAR, LLP, Audit Quality, Firm Size, Earnings Management and Financial Statements Integrity

The contribution of independent variables to the bound variables in this study was 69.8% (based on the value of the determination coefficient). This shows that regulatory pressures related to the non-performing loan ratio, profitability level, capital adequacy, LLP reserves, audit assignment period, size/size of BPR assets and Earnings Management practices can affect the integrity of the financial statements reported by BPR. In general, BPR as a financial institution must comply with rules related to the level of bank health and responsible business management, so as to improve the reputation of BPR and public trust in it.

5 SUMMARY AND CONCLUSION

The purpose of this study is to examine the influence of NPL, ROA, NIM, CAR, LLP, audit quality, company size on Earnings Management and NPL, ROA, NIM, CAR, LLP, audit quality, company size and Earnings Management on the quality of financial statements at BPR Banks for the 2019-2023 period. The results of this study show that NPL affects Earnings Management and also the integrity of financial statements, while CAR and Earnings Management variables affect the integrity of financial statements. Rural

bank as a microfinance institution with limited segmentation, encourages rural bank to prioritize credit distribution as the main source of income. Rural bank also carefully manages the loans distributed so that there is no increase in NPLs that can reduce the level of health and reputation of BPR in the eyes of the public. A high NPL level can have an impact on the capital adequacy ratio (CAR) which decreases as a result of the anticipation of credit risk. Therefore, BPRs need to maintain ratios that reflect financial stability such as NPLs and CARs in their business activities and financial reporting. As a financial institution that must comply with banking regulations, BPRs with large and small asset sizes must comply in implementing these regulations, so that the integrity of financial statements will be presented more transparently and accountable so that they can be used for decision-making.

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Appendix

Results of the Equation 1

Classical Assumption Test Normality Test Results

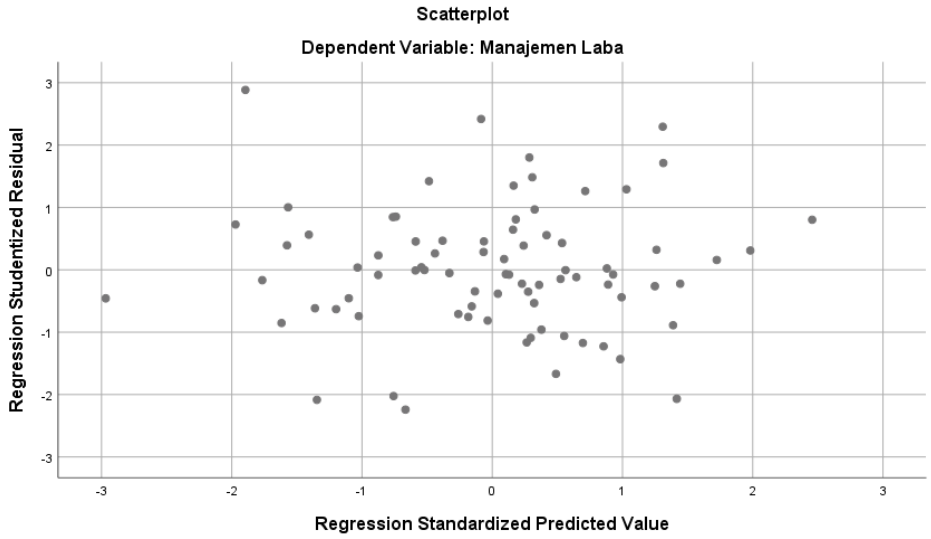
One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		80
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.08876848
Most Extreme Differences	Absolute	.072
	Positive	.072
	Negative	-.051
Test Statistic		.072
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Multicollinearity Test Results

Coefficients[a]				
Model		Sig.	Collinearity Statistics	
			Tolerance	VIF
1	(Constant)	.496		
	NPL	.000	.467	2.143
	ROA	.007	.256	3.905
	NIM	.122	.336	2.979
	CAR	.938	.215	4.644

	LLP	.912	.462	2.165
	Audit Quality (AQ)	.096	.806	1.241
	Firm Size (SZ)	.375	.252	3.963
a. Dependent Variable: Earnings Management				

Heteroscedasticity Test Results



Autocorrelation Test Results

Runs Test	
	Unstandardized Residual
Test Value[a]	-.00544
Cases < Test Value	40
Cases >= Test Value	40
Total Cases	80
Number of Runs	39
Z	-.450
Asymp. Sig. (2-tailed)	.653
a. Median	

Results of the Classical Assumption Test Equation 2

Normality Test Results

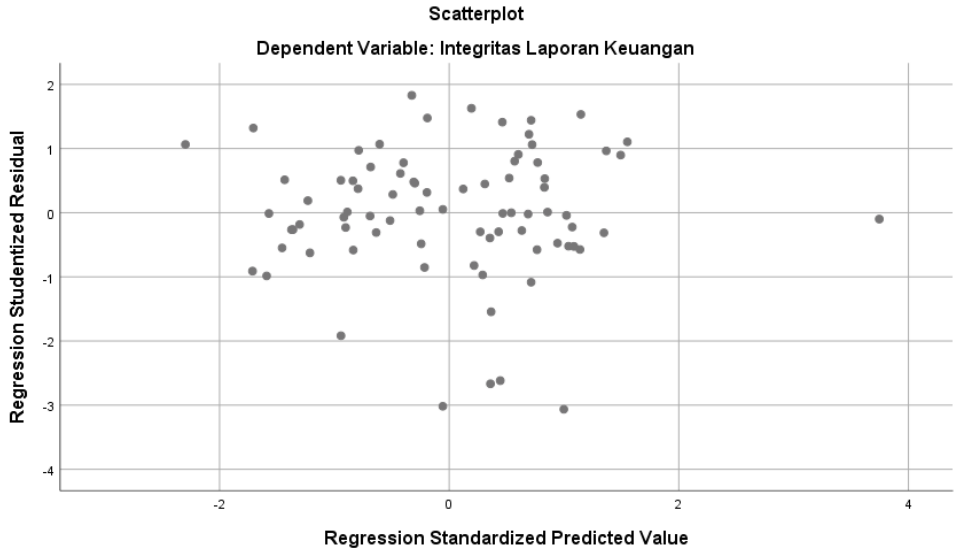
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		80
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.02757205
Most Extreme Differences	Absolute	.058
	Positive	.050
	Negative	-.058
Test Statistic		.058
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Multicollinearity Test Results

Coefficients[a]				
Model		Sig.	Collinearity Statistics	
			Tolerance	VIF
1	(Constant)	.000		
	NPL	.822	.505	1.981
	ROA	.000	.424	2.359
	NIM	.083	.446	2.243
	CAR	.000	.278	3.598
	LLP	.133	.618	1.619
	Audit Quality (AQ)	.806	.853	1.172
	Firm Size (SZ)	.455	.405	2.468
	Earnings Management	.032	.876	1.142
a. Dependent Variable: Financial Statements Integrity				

Heteroscedasticity Test Results



Autocorrelation Test Results

Runs Test	
	Unstandardized Residual
Test Value[a]	.00511
Cases < Test Value	27
Cases >= Test Value	27
Total Cases	54
Number of Runs	28
Z	.000
Asymp. Sig. (2-tailed)	1.000
a. Median	

Determination Coefficient (R^2) Results Model 1

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.819[a]	.671	.621	.041925
a. Predictors: (Constant), Firm Size, NIM, Audit Quality, NPL, LLP, ROA, CAR				
b. Dependent Variable: Earnings Management				

Determination Coefficient (R^2) Results Model 2

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.854[a]	.729	.698	.023998
a. Predictors: (Constant), Firm Size, NIM, Audit Quality, NPL, LLP, ROA, CAR, Earning Management				
b. Dependent Variable: Financial Statements Integrity				