

ANALYSIS OF FINANCIAL REPORT INTEGRITY IN GOVERNMENT COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study aims to analyse the integrity of financial reports in government companies in Indonesia. The independent variables examined in this research include independent commissioners, intellectual capital, audit committees, and audit tenure. The population comprises all of government companies listed on the Indonesia Stock Exchange during the period 2021–2023. Using purposive sampling, 20 companies were selected, resulting in a total of 60 observations analysed through panel data regression. Data analysis was conducted using EViews 12. The results indicate that the presence of independent commissioners has a positive and significant impact on financial report integrity. In contrast, intellectual capital shows a negative and significant influence. Meanwhile, the audit committee and audit tenure variables do not have a significant effect. The findings of this study are expected to assist potential investors in evaluating the quality of financial reporting as part of their decision-making process.

Keywords: *Independent Commissioner, Intellectual Capital, Audit Committee, Audit Tunure, Integrity.*

Introduction

Financial reports are a crucial component for a company because they serve as the primary tool for communicating the company's financial condition and performance to both internal and external parties. Financial reports prepared with high integrity are essential to support informed economic decision-making by stakeholders, such as investors, creditors, the government, and the public. According to the Indonesian Institute of Accountants (IAI, 2024), the integrity of financial reports is demonstrated through honest presentation, freedom from manipulation, and compliance with applicable financial accounting standards. This means that financial reports must objectively reflect the company's condition, without misleading manipulation. However, in practice, not all companies are able to present financial reports with a high level of integrity. When a company's financial condition deteriorates, management is encouraged to manipulate reports to maintain the company's image in the eyes of the public and investors, but this also impacts the integrity of the financial reports. This is a serious concern because it affects trust in published financial information. The lower the integrity of financial reports, the higher the risk of misleading information users (Qonitin & Yudowati (2018), Fajar & Nurbaiti (2020).

A recent phenomenon demonstrating the weak integrity of financial reporting occurred at PT Indofarma Tbk (INAF), Government Companies (BUMN). Reports from the Supreme Audit Agency (BPK) and media outlets such as CNBC Indonesia and Kontan.co.id revealed that Indofarma committed a number of serious irregularities, including the use of funds without underlying transactions, the use of company credit cards for personal use, and the recording of fictitious sales. This resulted in state losses of over IDR 370 billion. Although the company received an unqualified opinion in its 2020–2022 financial report, the report was deemed unrealistic and raised doubts about the integrity of the company's financial reporting. This phenomenon indicates that the monitoring and reporting system in Government Companies is not yet fully effective in ensuring the integrity of financial reports. Therefore, a deeper study is needed to identify factors that may influence financial report integrity, particularly in the context of Government Companies, which

play a strategic role in the national economy. While previous research has used numerous variables related to financial report integrity, this study only uses independent commissioners, intellectual capital, audit committees, and audit tenure. Independent commissioners are expected to oversee and direct management to implement good corporate governance. However, previous studies have yielded mixed results. Ayem et al. (2023) and Damayanti et al. (2023) found that independent commissioners negatively impact financial report integrity. Conversely, Pardede & Annisa (2023) showed that independent commissioners have a positive and significant impact. This inconsistency opens up opportunities for further research in different contexts, such as SOEs. Intellectual Capital (IC) is an intangible asset encompassing the knowledge, expertise, and innovation of human resources that contribute to a company's efficiency and effectiveness. Research by Purba & Fuadi (2023) indicates that IC has a positive influence on financial statement integrity, while Khairul & Herawati (2023) state that IC has no significant effect. This research gap indicates that the relationship between IC and financial statement integrity requires further investigation.

Meanwhile, an independent and competent audit committee is expected to strengthen oversight of financial reporting and prevent fraud. Research by Sagala et al. (2020) and Setiowati et al. (2019) indicates that audit committees have no significant effect on financial report integrity. However, Febrina & Rabaina (2019) and Ayem et al. (2023) found a different finding, stating that audit committees have a positive effect. This discrepancy in results presents an opportunity for further research. Another factor tested, audit tenure, or the length of the relationship between the auditor and the client, also plays a role in maintaining report integrity. Excessively long audit tenure can reduce auditor independence, but on the other hand, it can improve the auditor's understanding of the company. Research by Aprilia & Sulindawati (2022) and Selviana & Wenny (2021) found a significant and positive effect, while Dewi et al. (2019) and Istutik et al. (2022) found no significant effect. Based on this phenomenon and the inconsistency of previous research results (research gap), this study is important to re-examine the influence of independent commissioners, intellectual capital, audit committees, and audit tenure on financial report integrity, particularly in state-owned enterprises listed on the Indonesia Stock Exchange for the 2020–2022 period.

Literature review

Integrity

The Minister of State Apparatus Empowerment and Bureaucratic Reform Regulation (PermenPANRB) Number 38 of 2017 explains that integrity is consistently behaving in line with the values, norms and/or ethics of the organization, and being honest in relationships with management, colleagues, direct subordinates, and stakeholders, creating a high ethical culture, being responsible for actions or decisions and the risks that accompany them. A quality financial report is one that maintains integrity in its presentation. Integrity in presenting financial reports protects stakeholders' rights, as they can understand the true state of the company, rather than manipulated and misleading financial reports (Irawati, 2016).

Independent Commissioner

Independent Commissioner is a member of the board of commissioners who is not affiliated with the board of directors, other members of the board of commissioners and controlling shareholders and is free from business relationships or other relationships that may affect his ability to act independently or act solely in the interests of the company, Hasnati (2022). An independent commissioner according to Agoes & Ardana (2014) is someone who is appointed to represent independent shareholders (minority shareholders) and the appointed party is not in the capacity of representing any party and is solely appointed based on the background of knowledge, experience, and professional expertise that he has to fully carry out his duties in the interests of the company. Financial Services Authority Regulation No. 57/POJK/2015 explains that an independent commissioner is a member of the board of commissioners who comes from outside the securities company and meets the requirements as an independent commissioner. It states that companies listed on the Indonesia Stock Exchange must have an independent commissioner. In this regulation, the board of commissioners is required to consist of two people and the percentage of independent commissioners must be at least 30% of the total number of board of commissioners.

Intellectual Capital

Intellectual capital is a company resource consisting of knowledge, experience, and expertise that can create value and thus become a competitive advantage for the company. In Indonesia, disclosure of intellectual capital is still

voluntary. Until now, there has been no grouping of intellectual capital components that can be mutually accepted and there is no specific pattern for intellectual capital disclosure (Yunanto, 2010). However, there has been development of the concept of intellectual capital in Indonesia with the regulation, namely PSAK Number 19/2018, intangible assets are non-monetary assets identified without physical form, and non-monetary assets are assets owned in cash and received in cash, the amount of which is constant or can be determined. Disclosure of intellectual capital can build trust with employees and stakeholders, as well as prevent losses and rumors that affect the company's reputation. Trust is important in the long term for companies as a strategy in creating higher stakeholder commitment to the company's future (Bruggen, et al., 2009). Disclosure of information about intellectual capital can also be used by companies as a marketing tool. By disclosing intellectual capital, companies can provide evidence of the values implemented within the company and the company's ability to create wealth, thereby enhancing its reputation.

Audit Committee

The Financial Services Authority Regulation Number 55/POJK.04/2015 concerning the Establishment and Guidelines for the Implementation of the Audit Committee states that the audit committee is a committee established by the board of commissioners to assist in carrying out its duties and functions. The Financial Services Authority (OJK) requires all public companies or issuers to establish an audit committee consisting of at least three (3) members, including independent commissioners and individuals from outside the company. The existence of the audit committee is expected to support the board of commissioners in overseeing the financial reporting process. In addition, the role of the audit committee is crucial as it influences the quality of the company's performance disclosures in its financial statements. This information is essential for stakeholders, particularly investors and creditors, in evaluating the company. This demonstrates that corporate governance mechanisms can help reduce the occurrence of financial statement manipulation by management (National Committee on Governance Policy, 2006).

Audit Tenure

Audit tenure is the length of the engagement relationship or term of office of a Public Accounting Firm (KAP) in providing audit services to its clients. Provisions regarding audit tenure have been explained in the Regulation of the Minister of Finance of the Republic of Indonesia Number 17/PMK.01/2008 concerning Public Accounting Services Article 3. This regulation stipulates that the provision of general audit services on the financial statements of an entity is carried out by a KAP for a maximum of 6 consecutive financial years, and by a public accountant for a maximum of 3 consecutive years. Public accountants and KAPs may re-accept general audit assignments for clients after one financial year of not providing general audit services on the client's financial statements. According to Rosliana et al. (2019), audit tenure is a work period agreement between a Public Accounting Firm (KAP) and a client in providing audit services. This indicates that the existence of audit tenure between the auditor and the client (company) in examining the fairness of the company's financial statements requires the auditor to have independence, because independence has an impact on the quality of the audit provided by the auditor in reporting the results of his opinion on the fairness of the company's financial statements and is an important value for the company to gain public trust in the financial statements presented (Gine, 2020).

RESEARCH METHODOLOGY

Data

This study used a population of 27 Government companies listed on the Indonesia Stock Exchange for the 2021-2023 period. The sampling procedure used in this study was purposive sampling, resulting in a sample of 20 companies over a three-year period, resulting in 60 observations.

Operational Definition of Variables

Financial Report Integrity

In this study, the dependent variable is financial statement integrity. Financial statement integrity is a statement that accurately reflects a company's condition, without any cover-up or concealment (Savero et al., 2017). Financial statement integrity indicates the extent to which the financial statements presented present accurate and honest information. According to Rivandi & Pramudia (2022), the indicators used to measure financial integrity are as follows:

$$ILK = NI_{it} - CFO_{it}$$

Where :

ILK = Financial Report Integrity

NI_{it} = Net Profit

CFO_{it} = Cash Flow

Independent Commissioner

Financial Services Authority Regulation Number 57/POJK/2015 explains that an independent commissioner is a member of the board of commissioners who comes from outside the securities company and meets the requirements as an independent commissioner. According to Financial Services Authority Regulation Number 33/POJK.04/2015 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, the Board of Commissioners is tasked with supervising and is responsible for overseeing management policies, the general course of management, both regarding the Issuer or Public Company and the Issuer or Public Company's business, and providing advice to the Board of Directors. The Board of Commissioners must consist of at least 2 (two) members and 1 (one) of them is an Independent Commissioner. The number of Independent Commissioners must be at least 30% of the total number of members of the Board of Commissioners.(www.ojk.go.id)(Indrasti, 2020). In this study, the number of independent commissioners was calculated by dividing the number of independent commissioners by the number of board members.

Intellectual Capital

Intellectual capital is the knowledge and experience necessary to create wealth for a company (Jamian & Agus, 2023). When ideas and expertise are leveraged, intellectual capital is generated. Intellectual capital also plays a role in external parties, such as investors. Intellectual capital is made up of three components: Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), and Capital Employee Efficiency (Febrilyantri, 2020). The formula is presented as follows:

$$VAIC = HCE + SCE + CEE$$

Audit Committee

An audit committee is a committee formed by the board of commissioners tasked with carrying out independent oversight of the financial reporting and external audit processes (Pratika & Primasari, 2020). The existence of an audit committee is beneficial for ensuring transparency and openness of financial reports, fairness for all stakeholders, and disclosure of all information provided by management, even if there is a conflict of interest. Therefore, an audit committee within a company can be one effort to reduce manipulation in the presentation of accounting information, thereby increasing the integrity of financial reports. The audit committee is measured by the number of audit members employed within the company.

Tenure Audit

Audit tenure is the period of audit assignment between the auditor (Public Accounting Firm) and the company being audited continuously without changing other auditors. (Andriani & Nursiam, 2017) defines tenure as the audit engagement period between the KAP and its client related to the previously agreed audit services. The engagement period carried out by the KAP with the company, the longer the audit assignment period, the higher the level of audit quality due to high audit fees and carried out on the same client (Wibowo & Roessita, 2016). In this study, tenure is measured by a dummy variable where the assignment period of 3 years or more is symbolized by 0, and the assignment period of less than 3 years is symbolized by 1.

Data Analysis Methods

The data in this study will be processed using panel data regression with the help of EViews software. Before the data is regressed, classical assumption tests are first performed, namely the normality test, heteroscedasticity test, multicollinearity unit test, and autocorrelation test. After that, to select the appropriate model, the Chow and Hausman tests are used. The Chow test is to choose between the CEM or FEM model, while the Hausman test is to choose between

the FEM or REM model with a chi-square probability of 0.05. The panel data regression modeling is explained in the following model (Basuki & Yuliadi, 2015):

$$Y = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon$$

Information:

Y = Financial Report Integrity Variable

α = Constant

X1 = Independent Commissioner Variable

X2 = Intellectual Capital Variable

X3 = Audit Committee Variable

X4 = Audit Tenure Variable

To determine the influence of each independent variable on the dependent variable, a partial test (t-test) is used, indicated by the p-value. If the p-value is <0.10, then the hypothesis is accepted, meaning there is a significant influence between the independent variable and the dependent variable, and vice versa.

RESEARCH RESULT

1. Descriptive Statistical Analysis

Descriptive statistical analysis provides an overview of the dependent and independent variable data. The dependent variable in this study is Financial Report Integrity, and the independent variables are Independent Commissioners (X1), Intellectual Capital (X2), Audit Committee (X3), and Audit Tenure (X4). The results of the descriptive statistical analysis in this study are as follows:

Table 1
Descriptive Statistical Analysis Results

| Variable | Oobservation | Mean | MEdian | Maximum | Minitial | Std. Dev. |
|----------|--------------|---------|----------|----------|-----------|-----------|
| X1_KI | 60 | 0,46560 | 0,472222 | 0,700000 | 0,250000 | 0,131491 |
| X2_IC | 60 | 0,87961 | 0,873224 | 1,393084 | -0,137334 | 0,397474 |
| X3_KA | 60 | 4,26666 | 4,000000 | 8,000000 | 3,000000 | 1,400565 |
| X4_AT | 60 | 0,40000 | 1,000000 | 1,000000 | 0,000000 | 0,494032 |
| Y_ILK | 60 | 0,19509 | 0,194794 | 0,225030 | 0,150271 | 0,016954 |

Source: Processed Data (2024)

Based on the descriptive statistical analysis data presented in the table above, which has been processed using statistical tools, it can be explained that in general the variables used are found to have relatively good data and low levels of fluctuation. This is because there are four variables that have a Mean value > Std. Deviation. Only the Audit Tenure variable has high fluctuation because the Mean value < Std. Deviation.

2. Panel Data Regression Model Selection

The selection of this research model was conducted using three tests, namely the Chow test, the Hausman test, to determine the appropriate model. The Chow test was conducted to determine the most appropriate model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). To see which model is best of the two models, it can be seen from the chi-square cross-section probability value. The following are the results of the Chow test presented in Table 2 as follows:

Table 2
Chow Test Results

| Redundant Fixed Effects Tests | | | |
|----------------------------------|-------------|---------|--------|
| Equation: Untitled | | | |
| Cross-section fixed effects test | | | |
| Effects Test | Sstatistics | df | Prob. |
| Cross-section F | 6,523760 | (19.36) | 0.0000 |
| Cross-section Chi-Square | 89.481083 | 19 | 0.0000 |

Source: Processed Data (2024)

Based on the results of the Chow test in the table above, the Cross-Section Chi-Square probability figure is 0.0000. This result indicates that the Cross-Section Chi-Square probability value is less than 0.05 ($0.0000 < 0.05$), which means the selected model is the Fixed Effect Model (FEM). Therefore, the estimation is continued with the Hausman test. The Hausman test is then conducted to determine the most appropriate model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The best model can be determined by assessing the Cross-Section Random probability value. The Hausman test results are presented in Table 3 as follows:

Table 3
Hausman Test Results

| Correlated Random Effects – Hausman Test | | | |
|--|-------------------|------------|--------|
| Equation: Untitled | | | |
| Cross-section random effects test | | | |
| Test Summary | Chi-Sq. Statistic | Chi-Sq. df | Prob. |
| Cross-section Random | 6.772929 | 4 | 0.1484 |

Source: Processed Data (2024)

Based on the results of the Hausman test in Table 3, the random cross-section probability figure is 0.1484. This means that the probability value is greater than 0.05 ($0.1773 > 0.05$), so the best model used is the Random Effect Model (REM). Based on the results of the two tests, namely the Chow Test and the Hausman Test, there is no better model selection between the two tests, so the model selection must still be done using the Lagrange multiplier test.

3. Panel Data Regression Analysis

The model chosen for this study is the Random Effects Model (REM). This is also evident from the results of the determination test. The panel data model estimation method used in this study is shown in the following table. The regression model chosen is the Random Effects Model (REM), the data processing results of which are presented in the following table.

Table 4
Panel Data Regression Results with Random Effect Model (REM)

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|--------|
| C | 0,193118 | 0,012294 | 15,70833 | 0,0000 |
| _KI | 0,024070 | 0,014033 | 1,715278 | 0,0919 |
| _IC | -0,018581 | 0,006243 | -2,976454 | 0,0043 |
| _KA | 0,001965 | 0,001566 | 1,254660 | 0,2149 |
| _AT | -0,003177 | 0,002871 | -1,106539 | 0,2733 |

Source: Processed Data (2024)

Based on the table above, the regression equation obtained is as follows:

$$Y = 0.193118Y + 0.024070X1 - 0.018581X2 + 0.001965X3 - 0.003177X4$$

Based on the equation above, it shows that the constant value is 0.197777 if the Independent Commissioner (X1), Intellectual Capital (X2), Audit Committee (X3), and Audit Tenure (X4) do not have a value, then the dependent variable (Financial Report Integrity) has a fixed (constant) value of 0.193118. He continued, the Independent Commissioner Coefficient (X1) has a positive value of 0.024070, which means that if the X1 variable decreases, the Y variable will increase by 0.024070. The Intellectual Capital Coefficient (X2) has a negative value of -0.018581, which means that if the independent commissioner variable decreases, the Y variable will decrease by -0.018581. The Audit Committee Coefficient (X3) is positive at 0.001965, meaning that if variable X3 increases, variable Y will increase by 0.01965. The Audit Tenure Coefficient (X4) is negative at -0.003177, meaning that if variable X4 decreases, variable Y will decrease by -0.003177.

4. Partial Test Results

Based on table 4 can be seen that the significant value of the Independent Commissioner variable (X1) is 0.0919 < 0.10, so it can be concluded that the Independent Commissioner has a significant effect on the Integrity of Financial Reports. The Intellectual Capital variable (X2) is 0.0043 < 0.10, so it can be concluded that Intellectual Capital has a significant effect on the Integrity of Financial Reports. The Audit Committee variable (X3) is 0.2149 > 0.10, so it can be concluded that the Audit Committee does not have a significant effect on the Integrity of Financial Reports. Meanwhile, the Audit Committee Tenure variable (X4) is 0.2733 > 0.10, it can be concluded that H4 is rejected, meaning that Audit Tenure does not have a significant effect on the Integrity of Financial Reports.

DISCUSSION

Influence of Independent Commissioners on the Integrity of Financial Reports

Based on the test results, the Independent Commissioner variable has an independent commissioner probability value of 0.0919 < 0.10. This can be concluded that supervision from independent commissioners influences the integrity of financial statements. The existence of independent commissioners in the company has shown a significant influence on the integrity of financial statements. The function of independent commissioners is to assess the company's overall performance by supervising management performance to create a company with good corporate governance. In addition, with the presence of independent commissioners, it is expected that the financial statements presented by management have high integrity and can be accounted for, as well as transparency in the presentation of financial statements in accordance with the applicable Statement of Financial Accounting Standards (PSAK) so as not to mislead users of financial statements.

This also shows that the number of independent commissioners on the board of directors affects the integrity of financial statements. The presence of independent commissioners does not impact the quality and integrity of financial statements. The number of independent commissioners in a company will not affect the quality and integrity of the company's financial statements. Companies with a high proportion of independent commissioners are not necessarily more risk-averse than companies with a low proportion. The results of this study are in line with Pardede & Annisa, (2023) who found a positive influence between independent commissioners and the integrity of financial reports and different from Damayanti et al (2023), Ayem et al (2023), who found a negative influence and also different from the results of research by Pratika & Primasari (2020), Istutik, et al., (2021), and Nurjannah & Pratomo (2014) who stated that Independent Commissioners do not have a significant effect on the Integrity of Financial Reports.

2. The Influence of Intellectual Capital on the Integrity of Financial Reports

Based on data analysis, the Intellectual Capital variable has a coefficient of -0.018581 and a probability value of 0.0043 < 0.10. This indicates that Intellectual Capital has a positive effect on the integrity of financial statements. Intellectual Capital, which is considered a company's tangible intangible asset, can implement integrity in the presentation of financial statements. Furthermore, knowledge management in the formation of intellectual property and experience that can be used to create profitability for a company can also run well. Intellectual capital is also known as knowledge and experience that contribute to the formation of intellectual property and can be utilized to create value for the company. Intellectual capital development aims to increase human productivity. This increased productivity will provide added value to the company, making it more effective, efficient, and competitive. The impact will also be seen

in the company's profitability. Investors tend to place a higher value on companies with strong intellectual resources compared to those with weak intellectual resources. In the current era of globalization, companies are required to compete by shifting their business strategies from labor-based to knowledge-based businesses. The results of this study align with Febrilyantri (2020), Purba & Fuadi (2023), and Palebangan & Mujidah (2021), who stated that Intellectual Capital has a significant effect on Financial Report Integrity.

3 Influence of the Audit Committee on the Integrity of Financial Reports

Based on the results of data analysis, the Audit Committee variable, measured by the number of audit committees within the company, has a coefficient of 0.001965 and a probability value of $0.2149 > 0.10$. This value indicates that the audit committee does not significantly influence the integrity of financial statements. In this study, the existence of an audit committee within a company cannot provide evidence that a higher audit committee and audit quality will further improve the integrity of financial statements. The more independent the audit committee, the more it can prevent financial statement manipulation, and ultimately, the financial statements presented have a high level of integrity. In terms of financial reporting, the audit committee cannot play a role and is responsible for monitoring and supervising financial statement audits and ensuring that applicable accounting standards and financial policies are not met. The results of this study are in line with Setiowati (2022), Sagala & Jumiadi (2020), and Nurjannah & Pratomo (2014) who stated that the Audit Committee does not significantly influence the Integrity of Financial Statements.

4 Effects of Audit Tenure on the Integrity of Financial Reports

Test results The Audit Tenure variable has a coefficient value of -0.003177, with a significant value of 0.2733, which is above the significance level of 0.10. This can be concluded that audit tenure does not significantly affect the integrity of financial statements. This condition indicates that audit tenure cannot guarantee the length of the relationship between the company and the KAP (Public Accounting Firm) to not manipulate or mislead financial statements and act honestly in presenting financial statements. Therefore, the integrity of financial statements with a long-term relationship between the auditor and the client who have a close relationship, as well as reducing independence so that it influences the auditor in providing opinions in the financial reporting process is not always correct. A long-standing relationship between a client and an auditor can often lead to the perception that the auditor struggles to maintain independence. A long engagement period can lead to auditors becoming overconfident in their audit approach. As a result, auditors may not update or innovate their audit strategy, which can reduce audit quality. Therefore, this study used a measure that examines the relationship between the public accounting firm and the company. This measurement, it turns out, cannot ensure the auditor's independence from the company using their services. The results of this study align with those of Istutik et al. (2022), Purba & Fuadi (2023), and Palebangan & Mujidah (2021), who stated that audit tenure has no significant effect on financial statement integrity.

CONCLUSION

Based on the research results, it can be concluded that independent commissioners have a positive and significant influence, meaning that independent commissioners have performed their functions well, thereby improving the integrity of financial reports. Furthermore, the Intellectual Capital variable has a negative and significant influence on report integrity. This condition indicates that Intellectual Capital is not yet effective enough to improve the integrity of a Company's financial reports, because the better the intellectual capital in a Company, the more it can undermine the integrity of the Company's financial reports. Meanwhile, the Audit Committee and Audit Tenure variables do not have a significant effect on the integrity of financial reports in state-owned companies listed on the Indonesia Stock Exchange for the observation period 2020-2022. From this conclusion, it is recommended that further research can add other variables and more observations, so that the results obtained are relatively better.

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