

Factors Affecting the Integrity of Manufacturing Company Financial Statements in Indonesian Stock Exchange and Malaysian Stock Exchange

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Abstract: *This study aims to examine the effect of managerial ownership, auditors switching and intellectual capital on the integrity of financial statements with leverage and firm size as control variables. The study employed literature and observation study of the research object to obtain the research data. The research objects are manufacturing companies listed on IDX and MYX within the period of 2014-2017. Research data were analyzed using Eviews software with multiple linear regression analysis method. In this study the t statistical test is used to measure and assess the significance level of each independent variable (managerial ownership, auditor switching and intellectual capital) and control variables (firm size and leverage) on the dependent variable, namely the integrity of financial statements applied in Indonesia and Malaysia. The results showed that in the Indonesian manufacturing companies, managerial ownership, auditors switching and intellectual capital have a positive effect on the integrity of financial statements. Meanwhile, in the Malaysian manufacturing companies, from the three dependent variables used in the study, only managerial ownership has an effect on the integrity of financial statements. With regard to the control variables used, leverage and firm size are equally positive for the integrity of financial statements of companies just in Indonesia. This research is different from the previous study in that the objects of this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia (MYX) within the period of 2014-2017, which is a longer period of time. Further, the researchers add independent variables to managerial ownership, auditor switching, and intellectual capital*

Keywords: *Integrity of Financial Statements, Managerial Ownership, Auditor Switching, Intellectual Capital, Leverage, Firm Size.*

I. INTRODUCTION

Business management requires accountability so that suspicion does not emerge among business people involved. To provide accountability to parties who have an interest in a company, every year the company publishes financial statements. Financial statements are financial information of a company within an accounting period which can be used to describe the performance of a company.

Information available in financial statements is needed by

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users as a consideration for decision making that has an economic impact. Therefore, information in financial statements must have high integrity so that it does not mislead the users of financial statements. Financial statements which do not present accurate information are illegal and might result in public distrust [1]. Mayangsari in Jamaan [2] defines the integrity of financial statements as a measure of the extent to which the financial statements presented show honest and true information.

Good financial statements are presented based on the principle of integrity. Statement of Financial Accounting Concept (SFAC) No. 2 [3] explains that the integrity of financial statement information is information contained in financial statements presented fairly, unbiased and honestly. The integrity of financial statements is closely related to one of the characteristics required by IFRS, namely faithful representation. Financial information is useful in decision making if it is presented honestly and for what it is, so that the information reflects the actual situation.

Astria and Ardiyanto [4] reveal that many companies that publish financial reports with low integrity cause injustice to users of financial statements. One of the most current cases in Indonesia is PT. Inovisi Infracom, Tbk. The listing of PT. Inovisi Infracom, Tbk. on September 2017 was decided by the IDX to be delisted from the trading of the Indonesia Stock Exchange because of the mistatement in the financial statements presented by PT. Inovisi Infracom, Tbk. [5]. Also, the company no longer follows the rules set by the IDX by not reporting its financial statements for the past two years. In June 2017, the company just reported its 2014 financial statements and even there was a complicated misstatement (CNN Indonesia). As a result of the misstatement case, resulting in the removal of PT. Inovisi Infracom, Tbk. from stock exchange, many investors suffered heavy losses.

There are several things that might increase the integrity of financial statements. One of the factors is the amount of share ownership by the management of all share capital managed or referred to as managerial ownership. Managerial ownership is one of the important issues in agency theory proposed by [6]. The theory states that along with the increasing proportion of managerial ownership in a company, management will work harder to fulfil the interests of shareholders. So, with the presence of high managerial ownership, the integrity of financial statements will increase because the shareholders who are also included in the company's managerial

do not want anything to affect the smooth running of their business, including financial statements that do not have high integrity.

Auditor switching or auditor change can also possibly affect the integrity of a company's financial statements. Auditor switching is the turnover of public accounting firms (KAP) conducted by companies [7]. Substitution of KAP can be carried out compulsorily or voluntarily. This aims to maintain the independence of auditors so that they remain objective in carrying out their duties. The more often the auditor switching is done, the greater the likelihood that it will be difficult to cheat on financial statements. Thus, financial statements will be free of misleading information that will have a positive impact on the integrity of financial statements.

Furthermore, another factor that might influence the level of integrity of a financial report is intellectual capital. Intellectual capital is a vital asset for a company even though it is classified as an intangible asset. Intellectual capital ownership can increase a company's performance to achieve competitive advantages [8]. In a study conducted by [8], intellectual capital was measured using the Intellectual Value Coefficient (VAIC™) method to produce information about the efficiency of value creation of tangible and intangible assets in the company. VAIC™ is an analytical procedure designed in order to enable management and shareholders to monitor and evaluate the efficiency of the added value of a company's total resources and each of the main resource components.

The global financial crisis in 2008 has made companies and business people around the world aware of their business and investment management. Financial statements with integrity are needed so that the information used for assessing the condition of a business is not wrong so that decisions taken are right. The integrity of financial statements affects not only business people in Indonesia, but also those Malaysia who also experienced it. In 2016, Malaysia was shocked by a case that struck the Malaysian government-owned company, 1Malaysia Development Berhad (1MDB) [9]. Until today, the case is still a topic of conversation. The case also received attention from the Wall Street Journal and the FBI which finally found the fact that there was a flow of corruption funds in the company.

The high integrity of financial statements financial statements will prevent fraud that can harm the company because reports with integrity will present transparent and honest information. Financial statements without integrity will result in errors in absorbing information, leading to errors in decision making for the users. The manufacturing sector grows significantly in the Indonesia and Malaysia Stock Exchanges [10].

Wardani [11] conducted a study to determine the effect of intellectual capital on the integrity of financial statements. The study involved manufacturing companies listed on the Indonesia Stock Exchange (IDX) within the period of 2012-2014. The independent variables in this study were VACE, VAHC, and VASC, while the dependent variable is the integrity of financial statements. The analytical model used is a multiple regression analysis model. The results showed that the VACE variable did not affect the integrity of

financial statements. On the other hand, the VAHC variables affect the integrity of financial statements. Furthermore, the VASC variable shows no influence on the dependent variable.

This research is different from the previous study in that the objects of this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia (MYX) within the period of 2014-2017, which is a longer period of time. Further, the researchers add independent variables to managerial ownership, auditor switching, and intellectual capital. According to the results of [12], managerial ownership has a positive effect on the integrity of financial statements, [13] state that auditor turnover has a significant effect on the integrity of financial statements. Further, [14] showed that intellectual capital has a positive effect on the quality of information presented in financial statements.

II. LITERATURE REVIEW AND HYPOTHESIS

Signaling theory suggests how companies should provide signals to users of financial statements. The signals are the information about what has been done by the management to realize the wishes of the owners. Signals can be in the form of promotions or other information stating that the company is better than other companies [2]. Signaling theory explains why companies have the urge to provide financial statement information to external parties, because there is information asymmetry between companies and outsiders. The company (agent) knows more information about the company and future prospects than outside parties.

Lack of information about the company causes them to protect themselves by giving low prices for the company. Companies can increase their value by reducing information asymmetry. One way that can be done to reduce information asymmetry is by giving signals to outsiders, such as reliable financial information, which will reduce uncertainty with regard to the prospects of the company. This is in line with the opinion of [15] that signal theory discusses the impetus of companies to provide information to external parties. This encouragement is caused by the occurrence of information asymmetry between management and external parties. To reduce information asymmetry, the company must disclose both financial and non-financial information.

Signaling theory explains that signaling is done by managers to reduce information asymmetry. Managers provide information through financial reports in which they apply conservatism accounting policies which produce higher profits because this principle will prevent companies from taking actions to increase profits and help users of financial statements by presenting profits and assets that are not overstated [2]. Signaling theory can also help companies (agents), owners (principals), and outside parties reduce information asymmetry by producing quality or integrity of financial statement information. To ensure parties who are interested in trusting the reliability of financial information conveyed by the company (agent), it is necessary to obtain opinions from other neutral parties to provide opinions about financial statements.

The integrity of financial statement information that reflects the value of the company is a positive signal that can affect the opinions of investors and creditors or other interested parties. Financial statements should provide information that is useful for investors and creditors to make investment, credit and similar decisions [2]. Therefore, a manager is obliged to give a signal about the condition of the company to the owner (principal). The signal provided can be delivered through the disclosure of accounting information such as financial statements. However, the information signal accepted by the principal sometimes is not in accordance with the conditions and measure of the company's actual success. This condition is known as information asymmetric described above.

Share ownership by the management is considered an effective mechanism to harmonize the interests of shareholders and management. A threat to shareholders is if the manager acts for his own interests, not for the benefit of shareholders. This condition is a consequence of the separation of management functions and ownership functions. However, these conditions will be different if the manager is also a shareholder of the company. Decisions and activities in companies with managerial ownership will certainly be different from companies without managerial ownership. In companies with managerial ownership, managers who are also shareholders will certainly align their interests with those of shareholders. Astria and Ardiyanto [4] state that managerial ownership plays a role in limiting deviant management behavior. Share ownership by the management will motivate managers to provide a high focus on company performance by prioritizing the interests of shareholders, including themselves in every decision making.

The same thing was also expressed by [13] in their research, that managerial ownership had a significant effect on the integrity of financial statements. Managerial ownership will have a direct impact on the integrity of financial statements. Managerial ownership will always intervene in financial statements carried out by management, so that the integrity of financial statements will always change according to the wishes of managerial owners. The integrity of the financial statements will be maintained because it will also affect the business and reputation of the company. Thus, the first hypotheses proposed in this study are:

H1a: Managerial ownership has a positive effect on the integrity of financial statements in manufacturing companies in Indonesia.

H1b: Managerial ownership has a positive effect on the integrity of financial statements in manufacturing companies in Malaysia.

Auditor switching, also known as auditor turnover, is the transfer of use of a public accounting firm (KAP) service performed by a company due to the obligation of auditor rotation and KAP. According to [16], auditor switching is a change in KAP conducted by the company. This auditor change can be mandatory or voluntary. [17] state that auditor turnover will improve the quality of information presented in financial statements. The auditor plays an important role in monitoring the contract between the agent and the principal. Auditors have a very large contribution in the presentation of financial statement information with integrity because before

being delivered to the public, the financial statements prepared by the management of the company will go through a series of checks by auditors under the auspices of KAP.

Auditors switching or auditor change on a regular basis is expected to further improve the integrity of financial statements because it will prevent fraud from presenting manipulated financial information. According to [13], auditor turnover has a significant effect on the integrity of financial statements, so that auditor replacement will have an impact on the high integrity of financial statements of a company, the ability of new auditors to make an added value to the supervision of the company's financial statements. Thus, the hypothesis that can be stated is:

H2a: Auditors switching has a positive effect on the integrity of financial statements in manufacturing companies in Indonesia.

H2b: Auditors switching has a positive effect on the integrity of financial statements in manufacturing companies in Malaysia.

Intellectual capital will be measured using the intellectual value coefficient (Value Added Intellectual Coefficient) to provide information about the efficiency of value creation from tangible and intangible assets in the company. VAIC™ is an analytical procedure designed to enable management, shareholders and other relevant stakeholders to effectively monitor and evaluate the efficiency of added value with the total resources of the company and each component of the main resource [8]. The VAIC™ method measures the efficiency of three types of company inputs, namely human capital, structural capital and physical and financial capital.

Intellectual capital owned by the company must be managed properly so that it can improve company performance. Quality intellectual capital will better understand information management so that reports compiled will have more integrity. [18] in their research revealed that Intellectual capital will have a positive influence on the integrity of financial statements. In line with the research conducted by [14] in airlines in Malaysia, intellectual capital can improve the quality of information in the company's financial statements.

Companies that have good intellectual capital will have an impact on the quality of work that is high so that they can produce financial report information with integrity. research conducted by [11] found that intellectual capital which was simultaneously tested between VACE, VAHC, and VASC jointly influenced the dependent variable, namely the integrity of financial statements. Thus, the hypothesis that can be stated is:

H3a: Intellectual Capital has a positive effect on the integrity of financial statements in manufacturing companies in Indonesia.

H3b: Intellectual Capital has a positive effect on the integrity of financial statements in manufacturing companies in Malaysia.

III. RESEARCH METHODS

In the selection of samples and data collection, the research used secondary data in the form of audited annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia (MYX). The sampling technique employed purposive sampling.

The sample taken is a sample chosen based on certain criteria that have been previously set, namely:

1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia (MYX) within the 2014-2017 period.
2. Manufacturing companies that do not publish annual reports on the Indonesia Stock Exchange (IDX) and Bursa Malaysia (MYX) during the 2014-2017 period.
3. The companies have complete data related to the variables used in this study.
4. Indonesian manufacturing companies that present financial statements in rupiah (Rp.) and Malaysian manufacturing companies that present financial statements in Malaysian Ringgit (RM) in 2014-2017.

Table 1: Sample Selection of Indonesian and Malaysian Manufacturing Companies.

Criteria	Indonesia	Malaysia
Total manufacturing companies listed on the Exchange.	150	364
Companies that do not publish annual reports on the Exchange in full during the period 2014-2017.	(49)	-199
Manufacturing companies that do not use local currency units.	(24)	0
Manufacturing companies that do not have complete variable data used.	(27)	-29
Total companies that meet the criteria	50	544
Total research sample	200	364

Source: Data processed.

The data presented were analysed by testing descriptive statistics, then testing panel data estimation which consisted of model testing (Common effect, Fixed effect, and Random effect) where the research was conducted to see which model was the best for this study. After testing the 3 regression models, then the Chow test regression method (to choose the best regression method between the common effect method and the fixed effect method) and the Hausman test (to find out the best regression method between Fixed effects and Random effects) were conducted. Then, the classic assumption test (normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test) was performed. After that, hypothesis testing was carried out. In this study the t statistical test is used to measure and assess the significance level of each independent variable (managerial ownership, auditor switching and intellectual capital) and control variables (firm size and leverage) on the dependent variable, namely the integrity of financial statements applied in Indonesia and Malaysia. This study uses the E views 9 program.

Testing of the hypothesis in this study used a multiple regression analysis tool. The use of regression is intended to see the effect of each independent variable on the dependent variable. In addition, multiple regression analysis was also

used to see the extent of the influence of the interaction of independent variables on the dependent variable. The multiple regression equations used are as follows:

$$Y1 = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4C1 + \beta 5C2 + e$$

$$Y2 = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4C1 + \beta 5C2 + e$$

Where:

- Y1 = integrity of financial statements Indonesia
- Y2 = integrity of financial statements Malaysia
- α = constant
- $\beta 1, \beta 2, \beta 3$ = multiple regression coefficient
- X1 = managerial ownership
- X2 = auditor switching
- X3 = intellectual capital
- C1 = leverage
- C2 = firm size
- e = standard error.

IV. RESULTS AND DISCUSSION

Based on data obtained from the official IDX website, www.idx.co.id and MYX's official website, www.bursamalaysia.com, the population of manufacturing companies registered during 2014 to 2017 was 50 companies in Indonesia and 136 companies in Malaysia.

The following are the results of descriptive statistical analysis that has been carried out on the sample of manufacturing companies listed on the Indonesia Stock Exchange and Bursa Malaysia.

Table 2. Descriptive Statistics of Indonesia and Malaysia

Indonesia						
	Y	X1	X2	X3	C1	C2
Mean	1,627	3,013	0,545	7,729	0,434	28,532
Maximum	5,935	33,580	1,000	33,788	1,068	33,320
Minimum	-1,835	0,000	0,000	-3,405	0,041	25,295
Std. Dev.	2,084	6,635	0,499	6,498	0,229	1,632
Observations (N)	200	200	200	200	200	200
Malaysia						
	Y	X1	X2	X3	C1	C2
Mean	0,987	0,138	0,358	2,364	0,335	19,657
Maximum	6,229	0,970	1,000	16,719	0,945	24,227
Minimum	0,037	0,000	0,000	-66,449	0,010	16,809
Std. Dev.	0,747	0,170	0,479	4,457	0,178	1,427
Observations (N)	544	544	544	544	544	544

Source: Data processed.

Financial report integrity variable (Y) for the Indonesian manufacturing companies has an average value of 1.627. The maximum value of the financial statement integrity variable in Indonesia of 5.935 is owned by PT. Charoen Pokphand Indonesia, Tbk. in 2014. Meanwhile, the minimum value of -1.835 was obtained by PT. Nusantara Inti Corporate, Tbk. The results for the standard deviation show a value of 2.084 which is above the average value.



Managerial ownership variable (X1) for the Indonesian manufacturing companies has an average value of 3.013%.

The maximum value of 33.58% is owned by PT. Intanwijaya Internasional, Tbk. in the period of 2016 and 2017. Meanwhile, the minimum value of 0% is owned by most manufacturing companies which are the samples of this study; one of which is PT Asahimas Flat Glass Tbk. The results for the standard deviation show a value of 6.635% above the average value.

The auditor switching variable (X2) for the sample of Indonesian manufacturing companies is a dummy variable in this study. Value 1 is given if there is an auditor change in one period, while a value of 0 is given if there is no auditor change from the previous period. The frequency of auditor turnover in the sample of manufacturing companies in the sample in this study was 109 auditor changes in the entire sample and study period.

The intellectual capital variable (X3) for the sample of Indonesian manufacturing companies has an average value of 7.729. The maximum value of 33,788 is owned by PT. Asahimas Flat Glass, Tbk in 2014. While the minimum value of -3,405 is owned by PT. Keramika Indonesia Association, Tbk in 2017. The standard deviation shows a value of 6.498 below the average value.

The leverage variable (C1) for the sample of Indonesian manufacturing companies has an average value of 0.434. The maximum value of the leverage of 1.068 is owned by PT. Argha Karya Prima Industry, Tbk in 2014 while the minimum value of 0.041 is owned by PT. Jaya Parl Steel, Tbk in 2014. The results for the standard deviation show a value of 0.229 below the average value.

Firm size variables (C2) for the Indonesian manufacturing companies have an average value of 28,532. The maximum value of 33.32 is owned by PT. Astra International, Tbk in 2017 while the minimum value of 25,295 is owned by PT. Kedaung Indah Can, Tbk. in 2014. Then, for the standard deviation, the value of 1.581 is below the average value.

The financial statement integrity variable (Y) for the Malaysian manufacturing companies has an average value of 0.987. The maximum value is 6,229 owned by Hup Seng Industries Berhard in 2015 while the minimum value is 0.037 obtained by HB Global Limited in 2014. The results for the standard deviation show a value of 0.747 above the average value.

Managerial ownership variable (X1) for the Malaysian manufacturing companies has an average value of 0.138. The maximum value of 0.970 is owned by Tien Wah Press Holdings Berhad in 2016 while the minimum value is 0. These results are owned by most manufacturing companies including TPC Plus Berhad. The results for the standard deviation show a value of 0.170 above the average value.

The auditor switching variable (X2) for the Malaysian manufacturing companies is a dummy variable. The frequency of auditor turnover in the sample of manufacturing companies in this study was 195 times the auditor turnover in the entire sample and the study period.

The intellectual capital variable (X3) for the Malaysian manufacturing companies has an average value of 2.364. The maximum value of 16,719 is owned by CN Asia Corporation BHD in 2014. Meanwhile, the minimum value of -66,449 is owned by China Ouhua Winery Holdings Limited in 2015. The standard deviation shows a value of 5,022 above the average value.

The leverage variable (C1) for the Malaysian manufacturing companies has an average value of 0.335. The maximum leverage value of 0.945 is owned by Lii Hen Industries BHD in 2015. The minimum value of 0.010 is owned by China Ouhua Winery Holdings Limited in 2017. The results for the standard deviation show a value of 0.178 below the average value.

Firm size variables (C2) for the Malaysian manufacturing companies have an average value of 19,657. The maximum value of 24,227 is owned by Petronas Chemicals Group Berhad in 2017. Meanwhile, the minimum value of 16,809 is owned by Aturmaju Resources Berhad in 2017. Then, the standard deviation shows a value of 1.427 below the average value.

Selection of Data Panel Regression Methods

The Chow test is a test to choose the best model between the Common Effect and Fixed Effect. If the value of Chi Square < 0.05 tables, the Fixed Effect model is better than the Common Effect and vice versa [19]. After the Chow test, Hausman test will be carried out and if needed, a Lagrangian test will be conducted to determine the best method to be used in this study.

To determine which regression method will be used in the regression sample of Indonesian companies, then a Chow test and a Hausman test are carried out with the following results.

Table 3. Results of the Chow test and Hausman test for Indonesian companies

Chow test Results			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	67.527950	(49,145)	0.0000
Cross-section Chi-square	634.103351	49	0.0000
Hausman test Results			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	20.583522	5	0.0010

Source: Data processed.

In table 3, it can be seen that the P-value Chi-square < 0.05. So, it can be concluded that for the Indonesian companies, the Fixed effect method is better than the Common effect. After the results are known, then a Hausman test is conducted to determine the best regression method between fixed effect and random effect.

From the results of the Hausman test presented in table 3, it can be seen that P-value < 0.05 so that for the Indonesian companies, the method to be chosen is the fixed effect method. The Fixed effect model uses the ordinary least square (OLS) approach in the estimation technique. Testing which is the main requirement must be fulfilled in the OLS approach or often referred to as the BLUE requirement (Best Linear Unbias Estimator) is a multicollinearity test and heteroscedasticity test. However, [20] mentioned that regression using panel data has advantages compared to time series or cross section data, which are not necessary to test classical assumptions. Classical assumption testing is only used to support the validity of sample data.

The following are the results of the Chow test and Hausman test that have been done to



determine which regression method will be used in the regression sample of Malaysian companies.

Table 4. Results of the Chow test and Hausman test for Malaysian companies

Chow test Results			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	25.264607	(534,4)	0.0030
Cross-section Chi-square	4419.348509	534	0.0000
Hausman test Results			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	40.900737	5	0.0000

Source: Data processed.

In **Table 4**, it can be seen that the P-value Chi-square is <0.05. So, it can be concluded that for the sample of Malaysian companies, the Fixed effect method is better than the Common effect. From the results of the Hausman test presented in table 4, it can be seen that the P-value <0.05 so that the method to be chosen is fixed on the Fixed effect method.

The next analysis is testing the coefficient of determination of Indonesian manufacturing companies and Malaysian manufacturing companies which can be seen in **Table 5**.

Table 5. Test results of the coefficient of determination in Indonesian and Malaysian companies

Indonesia	
R-squared	0.983628
Adjusted R-squared	0.977530
Malaysia	
R-squared	0.999716
Adjusted R-squared	0.961440

Source: Data processed.

Table 5 presents the results of the test of the coefficient of determination. It can be seen that for the Indonesia companies, the adjusted R2 value is 0.977530. Only about 2.25% of other factors can affect the integrity of financial statements that cannot be explained by the independent variables used in the study for the Indonesian sample.

Likewise for the Malaysian sample, the adjusted R2 value is 0.961440. It can be concluded that the ability of the independent variable to explain the dependent variable provides a lot of information needed to predict the dependent variable, which is equal to 96.144%. Further, around 3.85% of other factors that can affect the integrity of financial statements that cannot be explained by the independent variables used in this study using a sample of Malaysian manufacturing companies.

In this study, the t statistical test is used to measure and assess the significance level of each independent variable (managerial ownership, auditor switching and intellectual capital) and the control variable (firm size and leverage) on the dependent variable, namely the integrity of financial statements. Significance testing of individual parameters (t test) is done by looking at the probability value of the test results. If the probability is less than 0.05, the independent variables individually affect the dependent variable (supported hypothesis). Then, if the probability is more than 0.05, the independent variable individually does not affect the

dependent variable. The following are the testing results of the significance of individual parameters with the sample of IDX manufacturing companies.

Table 6. Results of t-test on samples of Indonesian and Malaysian companies

Indonesia			
Variable	Coefficient	Prob.	Conclusion
C	-5.705236	0.0000	
Managerial Ownership (X1)	0.00913	0.0019	Hypothesis Received
Auditor Switching (X2)	0.00047	0.0023	Hypothesis Received
Intellectual Capital (X3)	0.01903	0.0000	Hypothesis Received
Leverage (C1)	0.34559	0.0000	Hypothesis Received
Firm Size (C2)	0.25611	0.0153	Hypothesis Received
Malaysia			
Variable	Coefficient	Prob.	Conclusion
C	-19.50288	0.5009	
Managerial Ownership (X1)	11.72924	0.0044	Hypothesis Received
Auditor Switching (X2)	0.208322	0.1057	Hypothesis Rejected
Intellectual Capital (X3)	0.062778	0.6090	Hypothesis Rejected
Leverage (C1)	0.984398	0.4041	Hypothesis Rejected
Firm Size (C2)	0.931706	0.5168	Hypothesis Rejected

Source: Data processed.

Hypothesis test results in **Table 6** show that the first hypothesis about managerial ownership in manufacturing companies in Indonesia has a probability value of 0.0019 and in Malaysia it has a probability value of 0.0044. Then, the Managerial ownership variable has a positive effect on the integrity of financial statements in manufacturing companies in Indonesia and Malaysia for the 2014-2017 period because the greater the proportion of managerial ownership in a company, the management will work harder to fulfill the interests of shareholders who are themselves. The management will also be more focused on increasing the value of the companies because the management control holders who also own shares in the company. They do not want to suffer losses. [4] explain that managerial ownership can play a role in limiting deviant management behavior. [13] and [12] results also show that managerial ownership has a positive effect on the integrity of financial statements.

[21] show different results, that managerial ownership variables do not affect the integrity of financial statements. The difference in the results of this study is most likely due to differences in sample companies and years of observation used.

The second results regarding auditor switching variables in manufacturing companies in Indonesia shows a probability value of 0.0023 and in Malaysia, it shows a probability value of 0.1057. So, it can be seen that auditor switching in Indonesia has a positive effect on the integrity of financial statements while in Malaysia, the auditor switching does not affect the integrity of financial statements.

[17] in their research stated that auditor turnover will improve the quality of information presented in financial statements. Auditors play an important role in monitoring contracts between agents and principals.

They have a very large contribution in the presentation of financial statement information that has integrity because the financial statements prepared by the management of the company will go through a series of intensive checks by auditors who are under the auspices of public accounting firms before reaching the public. Auditor turnover can be a guarantee to the public to reduce information asymmetry and give a signal to the public that the report provided to the public is an audited report that is independent without any manipulation, as stated by [15] as one fulfillment of signal theory at auditor turnover.

Routine auditor change is expected to be able to improve the integrity of financial statements because the change will prevent fraud from presenting manipulated financial information. Independent auditors are expected to provide objective views so that they can be accepted by all interested parties [22]. The results of this study also support the results of research that has been conducted by [13] which indicate that auditor turnover has a significant effect on the integrity of financial statements, so that auditor changes will have an impact on improving the integrity of financial statements of a company. The ability of new auditors will give an added value to the supervision carried out in the presentation of the company's financial statements.

However, the results of this study are different from the results of previous research conducted by [7] showing that auditor turnover does not affect the integrity of financial statements. The difference in terms of the results is most likely due to differences in the sample of the company used and also the difference in years of observation. The previous research used a sample of non-financial companies within an observation period of 2008 to 2011.

In the Malaysian companies, auditor changes have not been able to help improve the integrity of the companies' financial statements. Based on the results of hypothesis testing presented in table 6, it can be seen that the third hypothesis concerning the intellectual capital variable in manufacturing companies in Indonesia has a probability value of 0.000 and Malaysia has a probability value of 0.6090. So, it can be seen that the intellectual capital hypothesis in Indonesia has a positive effect on the integrity of financial statements while in Malaysia, intellectual Capital does not affect the integrity of financial statements.

[14] in their study demonstrated that intellectual capital has a positive influence on the quality of information presented in financial statements. Intellectual capital owned by a company must be managed properly so that it can improve the performance and quality of the company. Quality intellectual capital will further improve information management so that reports compiled will have more integrity. Companies that have good intellectual capital will have an impact on high quality work so that they can produce financial report with good integrity. The results of this study also align with the research of [18] and [11], showing that intellectual capital tested simultaneously between VACE, VAHC, and VASC together has a positive effect on the dependent variable, namely the integrity of financial statements.

However, with regard to the results obtained for the Malaysian sample, intellectual capital that is too high and uncontrolled can also harm the company, such as the occurrence of corporate fraud committed by employees.

Table 6 shows that the leverage control variable in the Indonesian manufacturing companies has a probability value

of 0.000 and that in the Malaysian companies has a probability value of 0.4041. So, it can be seen that the leverage variable in Indonesia has a positive effect on the integrity of financial statements while in Malaysia, the leverage does not affect the integrity of financial statements.

The research results for the Indonesian sample are in line with the results of research conducted by [23] and [21]. The results of their study also indicated that leverage has a positive influence on the integrity of financial statements. This is because the leverage ratio is used to measure how many assets a company has from debt, so that this ratio can determine the company's position and obligations. The level of leverage ratio reflects the condition of the company in general regarding assets owned by the company.

The results of the study for the Malaysian sample are in line with the research conducted by [24] which showed that leverage does not affect the integrity of financial statements. The leverage ratio is used to measure how many assets the company has from debt, so that this ratio can determine the company's position and obligations. The level of leverage ratio reflects the condition of the company in general regarding assets owned by the company. However, this is not enough to have a good impact and it has not been able to improve the integrity of financial statements, because the amount of assets owned by the company is not a determinant of the quality of reporting. It is precisely the property of a large company that will invite many people to commit fraud if it is not properly monitored [27,28].

Table 6 shows that firm size control variables in manufacturing companies in Indonesia have a probability value of 0.0153 and Malaysia has a probability value of 0.5168. So, the size of the company in Indonesia has a positive effect on the integrity of financial statements while in Malaysia, the size of the company does not affect the integrity of financial statements.

The research results for the Indonesian sample are in line with [25], [23], and [12] studies. This is because the size of the company proxied by the total assets of the company provides an overview of the assets owned by the company, and that the company's assets can be a benchmark for the quality of a company, including the integrity of the financial statements produced. Companies that have large assets also tend to attract public attention so that the need for information disclosure is also considered very important to continue to get trust from the public. The size of the company is a variable that has a very close relationship with the integrity of financial statements, because basically large-sized companies will definitely pay close attention to every report that will be conveyed to the public. Large companies tend to be very careful in reporting because they do not want their reputation to be bad.

The results of the study for the Malaysian sample support the research conducted by [26] which states that firm size does not affect the integrity of financial reports.

V. CONCLUSION

This study aims to examine the influence of independent variables and control variables on the dependent variable.



Based on the results of research that has been statistically analyzed using multiple linear regression, the following conclusions can be drawn:

The independent variable of managerial ownership has a positive effect on the integrity of financial statements in manufacturing companies in Indonesia and Malaysia. The Auditor Switching variable has a positive effect on the integrity of financial statements in manufacturing companies in Indonesia. Meanwhile, auditor switching does not affect the integrity of financial statements in manufacturing companies in Malaysia. The intellectual capital variable has a positive effect on the integrity of financial statements in the Indonesian companies. On the other hand, the intellectual capital variable does not have a positive effect on the integrity of financial statements in Malaysian manufacturing companies.

Leverage control variables have a positive effect on the integrity of financial statements in manufacturing companies in Indonesia. Meanwhile, the Leverage variable does not affect the integrity of financial statements in manufacturing companies in Malaysia. The control variable of company size has a positive effect on the integrity of financial statements in manufacturing companies in Indonesia. Meanwhile, company size does not have a positive effect on the integrity of financial statements in manufacturing companies in Malaysia.

The limitations of this study are as follows:

This study only involved Indonesian and Malaysian manufacturing companies within the period of 2014-2017. So, the results of the study cannot be generalized to all types of companies. In this study, only three independent variables (managerial ownership, auditor switching, and intellectual capital) and two control variables (leverage and firm size) were used. Therefore, they still have some disadvantages in estimating and explaining the dependent variable, namely the integrity of financial statements.

Suggestions that must addressed by future researchers in order to obtain better results are as follows:

Further research should be able to expand the object of research and extend the period of observation, so that it can further develop the results of the research from various sectors and be more accurate in analyzing the integrity of financial statements. Further research is recommended to add variables in the study in order to be more accurate in estimating what factors most significantly influence the level of integrity of a company's financial statements.

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