COSTING:Journal of Economic, Business and Accounting
Volume 7 Nomor 4, Tahun 2024
e-ISSN : 2597-5234

THE INFLUENCE OF MANAGERIAL OWNERSHIP, FINANCIAL DISTRESS, AND EARNINGS MANAGEMENT ON THE INTEGRITY OF FINANCIAL STATEMENTS

PENGARUH KEPEMILIKAN MANAJERIAL, FINANCIAL DISTRESS, DAN MANAJEMEN LABA TERHADAP INTEGRITAS LAPORAN KEUANGAN

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ABSTRACT
This research aims to examine the effects of managerial ownership, financial distress, and earnings management on the integrity of financial reports. The population consists of all property and real estate companies listed on the IDX in 2018-2021. This research used purposive sampling for sampling, which resulted in a total of 10 companies being observed over a 4 year period, collecting a total of 40 research data. Research findings show that managerial ownership and financial distress have a significant and negative influence on the integrity of financial reports. On the other hand, there is no significant influence of earnings management on the integrity of financial statements. Overall, when these factors are evaluated, managerial ownership, financial distress and earnings management simultaneously have an influence on the integrity of financial statements.
Keywords: *Managerial Ownership, Financial Distress, Earnings Management, and Financial Statement Integrity*

ABSTRAK
Penelitian ini bertujuan untuk menguji pengaruh kepemilikan manajerial, financial distress, dan manajemen laba terhadap integritas laporan keuangan. Populasi terdiri dari seluruh perusahaan properti dan real estate yang terdaftar di BEI pada tahun 2018-2021. Penelitian ini menggunakan purposive sampling untuk pengambilan sampel, yang menghasilkan total 10 perusahaan yang diamati selama periode 4 tahun, mengumpulkan total 40 data penelitian. Temuan penelitian menunjukkan bahwa kepemilikan manajerial dan financial distress memiliki pengaruh yang signifikan dan negatif terhadap integritas laporan keuangan. Di sisi lain, tidak ada pengaruh signifikan dari manajemen laba terhadap integritas laporan keuangan. Secara keseluruhan, ketika faktor-faktor tersebut dievaluasi, kepemilikan manajerial, financial distress dan manajemen laba secara simultan memiliki pengaruh terhadap integritas laporan keuangan.
Kata Kunci: Kepemilikan Manajerial, Financial Distress, Manajemen Laba, dan Integritas Laporan Keuangan

INTRODUCTION

A company is very closely related to financial statements, this will be a part that is difficult to separate from the company every year. Companies are required to publish financial reports every period. Financial reports present information in a correct, accurate and honest manner based on the company's financial position and company performance which has been structured. such information useful for stakeholders so that it can make it easier to make decisions related to the company's economy (Damayanti et al., 2021) . If the presentation of the company's financial statements is accurate, honest, and contains actual conditions, then it can be said to have integrity. Financial reports with integrity reflect a company's avoidance of fraud in the preparation process. However, several companies manipulate financial statements, this identifies fraud. So that there are many cases of large companies that have not been able to report company financial information with integrity.

The phenomenon regarding the integrity of financial reports in (Liliany & Arisman, 2021) , namely in 2017 PT. Tiga Pilar Sejahtera Food (AISA) manipulated financial statements to increase the company's share price. Starting with its subsidiary, PT Indo

Beras Unggul (IBU), it collects farmers' rice subsidized by the government for processing and repackaging into premium rice. In 2018 an Extraordinary General Meeting of Shareholders (EGMS) was held by shareholders who submitted an investigation of the financial statements and appointed PT Ernst & Young Indonesia (EY) as the auditor again for the 2017 financial statements. According to (Wulandari et al., 2021) on March 12 2019, there were results of an investigation by Ernst and Young Indonesia (EY) into the new management of PT. Tiga Pilar Sejahtera Food (AISA), that there is evidence of the old directors implementing a budget increase of IDR 4,000,000,000,000 and an alleged increase in income of IDR 662,000,000,000 and 329,000,000,000 in the ETIBDA post. Another finding in the Ernst and Young Indonesia (EY) report predicted a relationship with the old management with a budget flow of IDR 1,780,000,000,000. The group PT. Tiga Pilar Sejahtera Food (AISA) uses the funds to liquidate debt from a number of banks, withdraw time deposits, transfer bank account budgets, and finance expenses (cnbcindonesia.com) .

This phenomenon shows that there are many company financial reports that do not have integrity, and do not have accountability in their preparation. This also reflects that the financial statements are still biased for the parties who will use the financial statements themselves. The above phenomenon also shows that low integrity of financial statements will affect the decrease in the confidence of users of financial reports.

The percentage of share ownership by company management can be called managerial ownership (Atiningsih & Suparwati, 2018) , with this share ownership managers can participate in making decisions. High management share ownership can encourage management to work harder in fulfilling the wishes of stakeholders. By keeping the wishes of the stakeholders , it guarantees the future of the company (Damayanty et al., 2021) . Managerial ownership has an impact on the integrity of financial reports because performance accountability by management will be more secure because it has the obligation to achieve all stakeholder interests .

The condition for financial distress is when the company is unable to pay its liabilities (Liliany & Arisman, 2021) . The cause of not having the ability to pay is financial difficulties reflecting the company went bankrupt (Damayanty & Masrin, 2013) . This unfavorable financial situation indicates that the company's performance has decreased, but it can still be avoided by improving its financial situation. The integrity of financial statements is affected by financial distress when a company experiences a situation of inability to pay its liabilities. When a company experiences financial distress , it will result in a change in management due to poor management performance. So that companies experiencing financial distress will affect the decrease in the integrity of a financial report.

Profit management in practice occurs because agents (managers) have detailed and complete information compared to principals (investors or shareholders) about the actual situation and condition of the company and the opportunities that exist in the future. This information necessary for interested parties to make decisions and measure management performance (Oktaviyanti & Damayanty 2021) . However, the information obtained from management does not guarantee that the financial statements presented are in accordance with the actual conditions of the company (Ayem & Yuliana, 2019) . Meanwhile, the company's economic condition must contain relevant and open information (Damayanty, Ayuningtyas, et al., 2020) . This will have an impact on a decrease in trust and the occurrence of inappropriate decision-making by the public and interested parties, the cause of which is that the data and information contained in the financial reports do not have integrity.

Based on the background that has been described, the researchers conducted a study with the title: **"The Influence of Managerial Ownership, Financial Distress , and Earnings Management on the Integrity of Financial Statements"**

LITERATURE REVIEW AND HYPOTHESIS

Agency Theory (*Agency Theory*)

According to (Wulandari et al., 2021) Agency theory assumes that principals, namely shareholders, in making decisions transfer authority to agents, namely management . The cause of agency problems is the relationship between principal and agent resulting from a conflict of interest. With this interest, it will make the company's financial statements lack integrity, because there has been a lot of interference and changes in order to maintain profits.

Signal Theory (*Signalling Theory*)

According to (Anggita & Pohan, 2022) *signaling* theory is the company's way of conveying instructions to stakeholders through financial report information. This information can contain management's efforts to generate profits presented in the statement of financial position (Ayuningtyas & Damayanty, 2021) . The existence of company pressure in conveying information is caused by information asymmetry, where the company can know future conditions compared *external* parties (Damayanty, Djadang, et al., 2020) . Signal theory provides an explanation of how signals given by managers are carried out so that information asymmetry is reduced.

Financial statements

According to (Haq et al., 2018) , financial reports are reports of a condition and financial position of a company that are required to report due to responsibility to interested parties.

Financial Report Integrity

According to (Khatijah, 2019) the integrity of financial reports is financial reports that are presented correctly, honestly and without bias, information must be true and must be accountable to shareholders. The use of the formula to perform the calculation is:

$$\mathbf{ILKit} = \frac{\textbf{stock market price}}{\textbf{book value of shares}}$$

Managerial Ownership

(Atiningsih & Suparwati, 2018) states that managerial ownership is the large number of votes acquired related to share ownership and options by company managers and directors. The use of the formula to perform the calculation is:

$$\text{KM} = \frac{\text{the number of shares owned by management}}{\text{number of shares outstanding}}$$

Financial Distress

Financial distress is a condition where a company experiences a decline accompanied by many events that end up being an inability to pay its obligations. (Liliany & Arisman, 2021) . The use of the formula to perform the calculation is:

$$\mathbf{Z = 1{,}2X_1 + 1{,}4X_2 + 3{,}3X_3 + 0{,}6X_4 + 1{,}0X_5}$$

Profit Managament

According to (Sucitra et al., 2021) earnings management means that management chooses to determine the use of accounting techniques in reporting company profits by using its authority which causes company performance to increase through profit reporting. The use of the formula to perform the calculation is:

$$DA_{it} = (TAC_{it} / A_{it-1}) - NDA_{it}$$

Thinking Framework and Hypotheses

One of the factors that affect the integrity of a company's financial statements is managerial ownership. With ownership of company shares , managers have the right to participate in making company decisions. Decisions taken by management must be aimed at increasing the company's resources that have been entrusted by investors. This shows that management will behave like one of the stakeholders in the company. Financial distress is a condition where a company experiences a financial decline caused by poor management performance or tends to decline. With this condition of financial decline, it is very possible for companies to be unable to finance their debts or liabilities. This makes it difficult to identify related business continuity in the future . So that companies experiencing financial distress will affect the decrease in the integrity of financial statements. Earnings management occurs when management is unable to meet its profit target determination . Management will intervene with the authority it has to increase the company's profits through information on financial reports that will be published. In this condition the company's financial statements are not based on actual conditions and are not accurate. So that this earnings management practice will affect the integrity of a company's financial statements.

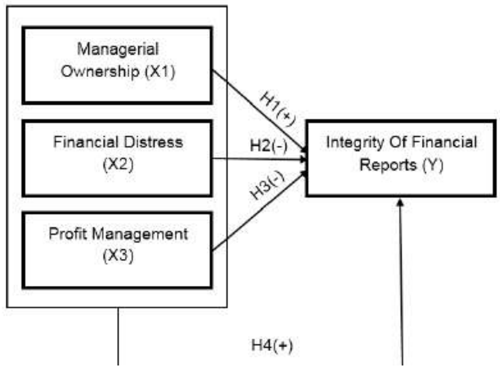

Figure 1. Thinking Framework

Based on the research framework data above, the formulation of the hypothesis can be concluded as follows:

H 1 : Managerial Ownership has a significant positive effect on the Integrity of Financial Statements

H 2 : Financial Distress has a significant negative effect on the Integrity of Financial Statements

H 3 : Earnings Management has a significant negative effect on the Integrity of Financial Statements

H 4 : Managerial Ownership, Financial Distress and Profit Management simultaneously have a significant effect on the Integrity of Financial Statements

RESEARCH METHODS

Research design

The method used in this study is a quantitative method using secondary data taken through the Indonesian Stock Exchange (IDX) website, namely www.idx.co.id and the official website of each company. The population in this study are property and real estate companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021, totaling 81 companies. As well as taking samples using purposive sampling method , with the following sample criteria:

(1) Properties and real estate companies listed on the Indonesia Stock Exchange in 2018-2021;
(2) Property and real estate companies that are not delisted in the 2018-2021 observation period;
(3) Property and real estate companies that publish annual reports for 2018-2021;
(4) Properties and real estate companies that publish financial reports in the 2018-2021 rupiah currency;
(5) Property and real estate companies that have complete data required related to research;
(6) Data Outliers.

Variable Measurement

Table 1. Definisiton, Operationalozatopn And Measurement Of Variables

Variable	Definition	Indicator	Measure Scale	Unit of Measure
Report Integrity Finance (Y)	The integrity of financial reports is financial reports that are presented fairly which show information from actual conditions and are not biased. (Goddess and Son, 2016 in (Saad & Abdillah, 2019)	*Market to Book Ratio*	ILKit $= \frac{\text{harga pasar saham}}{\text{nilai buku saham}}$	Ratio
Managerial Ownership (X1)	Managerial ownership is the number of shares owned by management (managers and directors) entrusted by investors. (Atiningsih & Suparwati, 2018)	Managerial ownership	KM= (number of shares owned by management) / (number of outstanding shares)	Ratio
Financial Distress (X2)	The company's condition experienced a decline accompanied by many incidents that ended up being an inability to pay its obligations. (Liliany & Arisman, 2021)	*Altman Z-score*	Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5	Ratio
Profit Management (X3)	Management's choice in choosing the accounting technique used to report company profits by using their authority which aims to improve company performance through reported profits. (Sucitra et al., 2021)	*Jones* Modified Model	DAit = (TACit / Ait-1) - NDAit	Ratio

(Source: Data processed by researchers)

RESULTS AND DISCUSSION

Research data

The purpose of this research is to analyze the influence of managerial ownership, *financial distress* and earnings management, the total sample is 40 . The criteria for determining the sample are as follows:

No	Criteria	Amount
1.	*Properties* and *real estate* company listed on the Indonesia Stock Exchange in 2018-2021.	81
2.	*Properties* and *real estate* companies that were delisted in the 2018-2021 observation period.	(0)
3.	*Properties* and *real estate* companies that do not publish annual reports for 2018-2021.	(4)
4.	*Property* and *real estate* companies that do not issue financial reports in the 2018-2021 rupiah currency	(3)
5.	*Properties* and *real estate* companies that do not have the necessary data related to research.	(57)
6.	Outliers Data	(14)
7.	**Number of research samples**	**10**
8.	**Number of years of research**	**4**
9.	**Total research sample**	**40**

Descriptive Statistical Analysis

Table 2. Descriptive Statistical

Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
Managerial ownership	40	,001	71,020	8.96985	20.602418
Financial Distress	40	-.09	12.67	3.1708	2.85435
Profit management	40	-,074149194524363	,307577381312083	,014361869243117	,060641011194339
Financial Report Integrity	40	-1.40	1.95	,7780	,64847
Valid N (listwise)	40				

Source: Data processed in SPSS V.26

a. This study has a total sample of 40 for the 2018-2021 period. The financial statement integrity variable (Y) has a minimum value of -1.40 and a maximum value of 1.95 and an average of 0.7780 with a standard deviation of 0.64847, where the standard deviation value is smaller than the average value. it was concluded that the distribution of the data was not that wide because the data integrity of the financial statements was grouped or did not vary.
b. The managerial ownership variable (X1) has a minimum value of 0.001 and a maximum value of 71.020 and an average of 8.96985 with a standard deviation of 20.602418 , where the standard deviation value is greater than the average value. It can be concluded that the data distribution is wide because managerial ownership data varies.
c. financial distress variable (X2) has a minimum value of 0.09 and a maximum value of 12.67 and an average of 3.1708 with a standard deviation of 2.85435, where the standard deviation value is smaller than the average value. It can be concluded that the distribution of the data is not that wide because the financial distress data is grouped or does not vary.
d. Earnings management variable (X3) has a minimum value of -0.074149194524363 and a maximum value of 0.307577381312083 and an

average of 0.014361869243117 with a standard deviation of 0.060641011194339, where the standard deviation value is greater than the average value it can be concluded that the data distribution is wide because the earnings management data varies.

Classical Assumption Test Results

Table 3. Heteroscedasticity Test Results

Coefficients a

Model		Unstandardized Coefficients B	std. Error	Standardized Coefficients Betas	t	Sig.
1	(Constant)	,424	,067		6,342	,000
	Managerial ownership	,002	,002	. 175	1,064	,294
	Financial Distress	-.026	,014	-,294	-1,804	.080
	Profit management	,328	,646	,079	,508	,615

a. Dependent Variable: abs_res1
Source: Data processed in SPSS V. 26

Based on the table above, the results of the heteroscedasticity test using the Glesjer test show the results of each independent variable ≥ 0.05, so there is no heteroscedasticity in this model. This can be seen from the results of the significance of managerial ownership of 0.294, financial distress of 0.080, and earnings management of 0.615. It can be concluded that by carrying out the Glejser test, the data is said to be normally distributed or there is no heteroscedasticity problem.

Table 4. Multicollinearity test Results

Table 4. Multicollinearity Test Results

Coefficients a

Model		Unstandardized Coefficients B	std. Error	Standardized Coefficients Betas	t	Sig.	Collinearity Statistics tolerance	VIF
1	(Constant)	1,231	,129		9,541	,000		
	Managerial ownership	-.023	,004	-,717	-5,831	,000	,876	1.142
	Financial Distress	-.087	,028	-,381	-3,119	,004	,887	1.127
	Profit management	1,636	1,247	, 153	1.312	,198	,974	1.027

a. Dependent Variable: Integrity of Financial Statements
Source: Data processed in SPSS V. 26

Based on the table above, it can be seen that the tolerance value of each independent variable has a result of >0.10 and a VIF value <10. The tolerance value of managerial ownership variable is 0.876, financial distress is 0.887, and earnings management is 0.974. Then the VIF value of managerial ownership is 1.142, financial distress is 1.127, and earnings management is 1.027. So it can be concluded that there is no multicollinearity between independent variables in the regression model.

Table 5. Autocorrelation Test Results Run Test

	Unstandardized Residuals
Test Value a	,05976
Cases < Test Value	20
Cases >= Test Value	20
Total Cases	40
Number of Runs	16
Z	-1,442
asymp. Sig. (2-tailed)	,149

a. Median
Source: Data processed in SPSS V. 26

Based on the table above, the results of the autocorrelation calculation using the *run test* show a value (Asymp. Sig 2-tailed) of 0.149, which means that the value is more than a significance of 0.05. This shows that there are no signs of autocorrelation.

Multiple Linear Regression Analysis

Table 6. Results of Multiple linear Regression Analysis

Coefficients a

Model		Unstandardized Coefficients B	std. Error	Standardized Coefficients Betas	t	Sig.
1	(Constant)	1,231	,129		9,541	,000
	Managerial ownership	-.023	,004	-,717	-5,831	,000
	Financial Distress	-.087	,028	-,381	-3,119	,004
	Profit management	1,636	1,247	. 153	1.312	,198

a. Dependent Variable: Integrity of Financial Statements
Source: Data processed in SPSS V. 26

Based on the results of the analysis that can be seen in the table above, the following equation can be formed:

$$Y = 1.231 - 0.023\,(X_1) - 0.087\,(X_2) + 1.636\,(X_3) + \varepsilon$$

a. A constant value (α) of 1.231 means that if the variable values of managerial ownership, financial distress and earnings management have a zero value, then the value of the financial statement integrity variable is 1.231.
b. The managerial ownership regression coefficient (X1) is -0.023 indicating that for every one unit increase in the independent variable of managerial ownership, the integrity of financial statements will decrease by 0.023 assuming that the other independent variables in the regression model are constant.

c. The regression coefficient of financial distress (X2) is -0.087 indicating that for every increase of one unit of the independent variable of financial distress , the integrity of the financial statements will decrease by 0.087 assuming that the other independent variables from the regression model are constant.
d. The earnings management regression coefficient (X3) is 1.636 indicating that for every one unit increase in the independent variable of earnings management, the integrity of financial statements will increase by 1.636 assuming that the other independent variables in the regression model are constant.

Hypothesis Test Results

Table 7. Statistical T Test Results (Partial)

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients std. Error	Standardized Coefficients Betas	t	Sig.
1	(Constant)	1,231	,129		9,541	,000
	Managerial ownership	-,023	,004	-,717	-5,831	,000
	Financial Distress	-,087	,028	-,381	-3,119	,004
	Profit management	1,636	1,247	, 153	1.312	,198

a. Dependent Variable: Integrity of Financial Statements

Source: Data processed in SPSS V. 26

a. First Hypothesis Test

The t test results are -5.831 and t_{table} is 2.02809, so 5.831 > 2.02809 with a significance value of 0.000 which means less than 0.05. It can be concluded that managerial ownership has a significant negative effect on the integrity of financial statements, which means that the first hypothesis **(H_1) is rejected** .

b. Second Hypothesis Test

The result of the t test $_{is}$ -3.119 and t_{table} is 2.02809, so 3.119 > 2.02809 with a significance value of 0.004 which means less than 0.05. It can be concluded that financial distress has a significant negative effect on the integrity of financial statements, which means that the second hypothesis **(H_2) is accepted** .

c. Third Hypothesis Test

Count test are 1.312 and t_{-table} 2.02809, so 1.312 <2.02809 with a significance value of 0.198 which means greater than 0.05. It can be concluded that earnings management has no significant positive effect on the integrity of financial statements, which means the third hypothesis **(H_3) is rejected** .

Table 8. F test Results (Simultaneous)

ANOVA[a]

Model		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	8,581	3	2,860	13,170	,000[b]
	residual	7,819	36	,217		
	Total	16,400	39			

a. Dependent Variable: Integrity of Financial Statements

b. Predictors: (Constant), Profit Management, Financial Distress, Managerial Ownership

Source: Data processed in SPSS V. 26

Calculated value of f_{count} 13.170 and f_{table} of 2.859, so 13.170 > 2.859 with a significance value of 0.000 <0.05 and shows the results H_0 is rejected and H_a is accepted. So it can be concluded that managerial ownership, *financial* distress, and earnings management have a simultaneous effect on the integrity of financial statements, this means that **H_4 is accepted** .

Table 9. Test Results For The Coefficient Of Determinations

Summary Model[b]

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	,723[a]	,523	,484	,46604

a. Predictors: (Constant), Profit Management, Financial Distress , Managerial Ownership

b. Dependent Variable: Integrity of Financial Statements

Source: Data processed in SPSS V. 26

Based on the table above, it indicates that the result of Adjusted R^2 is 0.484 or 48%, meaning that 48% of the dependent variable, namely the integrity of financial statements, can be explained by independent variables, namely managerial ownership, financial distress , and earnings management. Meanwhile, the remaining 52% is explained by other variables not examined in this study.

Discussion

Based on the results of managerial ownership testing in this study, the results of hypothesis testing in the statistical test t -5.831 with $t_{count} > t_{table}$, namely 5.831 is greater than 2.02809 and a significance of 0.000 <0.05, indicating a significant negative effect on the integrity of financial statements. The results of this study are supported by research (Liliany & Arisman, 2021) research shows that managerial ownership has a significant negative effect on the integrity of financial statements . The level of management share ownership, both large and small, will affect the integrity of a company's financial statements. Ownership of management shares in a company will function as someone who manages the company as well as a shareholder.

In addition, management is a party that knows more about a company's information compared to other *shareholders* , so that the existence of this share ownership will affect the integrity of a company's financial statements. Company managers who have high shares will find it easy to manipulate the company's financial statements, this causes the financial statements to have low integrity.

financial distress variable obtained a hypothesis test in the statistical test t of -3.119 with $t_{count} > t_{table}$, namely 3.119 greater than 2.02809 and a significance value of 0.004 <0.05 indicating that *financial distress* has a significant negative effect on the integrity of financial statements . The results of this study are supported by research conducted by (Herada & Dwijayanti, 2022) , (Liliany & Arisman, 2021) and (Wulandari et al., 2021) which state that *financial distress* has a significant negative effect on the integrity of financial reports.

Companies that are in a financial crisis result in more capital needed to finance their company's activities and capital to pay off debts, this causes higher debt levels. When a company is in financial distress , management can try to cover up the actual condition of the company by making changes to the financial statements . In addition, managers will take the stage of reducing the level of accounting conservatism, this will affect the low integrity of financial statements. So according to (Wulandari et al., 2021) the higher the company's financial distress , the lower the integrity of the company's financial reports.

Finally, earnings management variable earns hypothesis testing in the statistical test t is 1.312 with $t_{count} < t_{table}$, namely 1.312 < 2.02809 and a significance value of 0.198 > 0.05, indicating that earnings management has an insignificant positive effect on the integrity of financial statements. The results of this study are in line with research (Lubis et al., 2018) , (Khatijah, 2019) , and (Cintia & Khairani, 2022) stating that earnings management has no effect on the integrity of financial statements.

In practice, management intervenes in reporting earnings through its authority to increase company profits. Information conveyed through earnings management is very beneficial information for the company and its shareholders. According to (Lubis et al., 2018) earnings management aims to show that the company has good performance for shareholders, but the effect is immaterial to the financial statements.

CONCLUSION

Based on the results of research and discussion regarding the effect of managerial ownership, financial distress, and earnings management on the financial statements of property and real estate companies on the Indonesia Stock Exchange in 2018-2021 which have been described previously, it can be concluded as follows:

1. Managerial ownership has a significant negative effect on the integrity of financial statements, which means that the first hypothesis (H1) is rejected. This shows that the level of managerial ownership affects the integrity of financial reports. The higher the level of managerial ownership, the lower the integrity of the company's financial statements.
2. Financial Distress has a significant negative effect on the integrity of financial statements, which means that the second hypothesis (H2) is accepted. This shows that the level of financial distress of a company affects the integrity of financial statements. The higher the level of financial distress, the lower the integrity of the company's financial statements.
3. Profit management has no significant positive effect on the integrity of financial statements, which means the third hypothesis (H3) is rejected. This shows that the level of earnings management does not affect the integrity of financial statements. This is because the information submitted does not affect the company's financial statements as a whole.
4. Managerial ownership, financial distress, and earnings management have an effect simultaneously on the integrity of financial statements, this means that the fourth hypothesis (H4) is accepted. This shows that all independent variables can explain the dependent variable.

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