Ownership Structure, Audit Committee, and Internal Control Disclosure: Indonesia and Philippines

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ABSTRACT

The aim of this study is to examine the effect of ownership structure and the audit committee on the internal control disclosure in different board system on one cluster of environment, i.e. French Civil Legal system, between Indonesia and the Philippines using the same disclosure of internal control index. The population of this research includes non-financial public companies/banks listed on the Indonesia Stock Exchange and the Philippines Stock Exchangebetween 2009-2013, with the purposive sampling. The results of multiple regression analysis demonstrate that 6 (six) hypotheses are accepted. This research also suggests that there is a difference between the effects of variable ownership and audit committee on the internal control disclosure between Indonesia and the Philippines. The ownership structure and membership of audit committees improve the internal control disclosure which may reflect the existence of good internal control. This causes the financial report to be reliable which can reduce the risk of the trust toward the incorrect financial information as received by stakeholders. Financial expertise of audit committee members is truly significant in relation to the complexity of the financial statements to reduce the restatement of financial statements. Audit committee members having more knowledge of financial reportin finance have a greater possibility of showing and detecting material misstatements. Audit committee members with financial expertise may also play a role in supervising the process of financial report more effectively, such as detecting the presence of material misstatement.

Keywords: internal control disclosure, ownership structure, and audit committees expertise.

1. INTRODUCTION

A high quality internal control system will improve the reliability of financial report and, therefore, it reduces the risk of trust over the incorrect financial information, as received by stakeholders (Moerland, 2007).

The quality of management disclosure can be improved through regulation, standard establishment, auditors, and other capital market intermediation (Healy and Palepu, 2001). Regulation and standard establishmentarerelated to the environmental and legal issues of a country. It is therefore necessary to know the law enforced in each country. LaPorta et al.

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(1998) have classified the governance system in accordance with the law applicable to each country based on Anglo Saxon legal tradition, French legal tradition, German legal tradition, and Skandinavian legal tradition.

There are differences in governance among nations as described by LaPorta et al. (1998), which is supported by Healy and Palepu's (2001) disclosure theory in the form of uniformity of regulations concerning the disclosure of internal controls in various countries having low environment regulation sources in French Civil Law.

The grouping of legal traditional corporate governance in several countries in Asia (LaPorta et al., 1998) classifies Indonesia and the Philippines as Asian countries that embrace French Legal Tradition, so that both countries have similarities in implementing corporate governance. However, there are differences in the rules of the board system, where the Philippines uses one-tier boards (the majority of boards are executives, two independent directors, and chairmen and CEOs who have the same ownership interests) (Rama et al., 2014).

Differences in governance practices in Asia as reported by World Bank (2003, 2004, 2005, and 2006) show different governance outcomes in 8 (eight) Asian countries: India, Korea, Malaysia, Pakistan, Thailand, the Philippines, Indonesia and Vietnam.

The Philippines uses one-tier boards (the majority of the boards are executives, two independent directors, and chairmen and CEOs who share a common interest for owners (Rama et al., 2014). The Philippine SEC Code of Corporate Governance (2002) mentions that a board of directors consists of at least five but no more than fifteen members elected by shareholders (World Bank, 2006a). Meanwhile, Indonesia uses a two-tier system, in which its functions areshared by boards of directors and boards of commissioners (World Bank, 2004b).

From the above description, the problem statement in this researchis the low disclosure of internal controls in Indonesia and the Philippines which needs driving factors that can affect managers in increasing the disclosure of internal controls and also the construction of a new index, i.e. Indonesia-the Philippines Index for Internal Control Disclosure.

The purpose of this study is to analyze the relationship between ownership structure and internal control disclosure in Indonesia and the Philippines. In addition, it also analyzes the relationship between the audit committees and internal control disclosure in Indonesia and the Philippines and examines differences in audit committees' influence, ownership structure on disclosure of internal controls in Indonesia and the Philippines.

2. LITERATURE REVIEW

Kinney and Daniel (1989) reveal that the weakness of internal control can lead to possible weaknesses in accounting disclosure. Ashbaugh-Skaife (2008) observes that the company making improvements to its internal control issues shows an accrual quality improvement, and the characteristics of its audit committee are closely related to the quality of internal controls.

"Management entrenchment" perspective by Morck et al. (1988), states that when the ownership of the manager increases or becomes stronger, at some points the manager is able to control the information. He then will make a decision to maximize his own wealth, in contrast to the purpose of maximizing the shareholders' wealth.

Empirical evidence presented by Ruland et al. (1990) indicates that managerial ownership is negatively related to disclosure. Eng and Mak (2003) argue that, based on the agency theory, there is a negative relationship between managerial ownership and voluntary

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disclosure. The reason for this is that if managerial ownership is low; and manager and owner have different interests, then managers may not act in the best interests of the company. For this reason also, Eng and Mak (2003) and Zourarakis (2009), based on their hypotheses, suggest that when managerial ownership is low, voluntary disclosure is high. Therefore, they argue that there is a negative relationship between managerial ownership and the level of voluntary disclosure.

Hypothesis 1: Managerial ownership negatively affects the disclosure of internal controls in Indonesia and the Philippines.

Agency issues can be reduced by involving substantial shareholders in monitoring or controlling potentially problematic activities (Shleifer and Vishny, 1986; Huddart, 1993; Noe, 2002). Ashbaugh et al. (2007) test and find that concentrated institutional ownership is positively related to the disclosure of Internal Control Deficiencies prior to SOX404. Michelon et al. (2009) find evidence that a monitoring role is typically aimed at institutional investors, whose role in ownership is negatively related to the disclosure of the Internal Control System.

Hypothesis 2: Institutional ownership positively affects the disclosure of internal controls in Indonesia and the Philippines.

Zhang et al. (2007) find that companies having audit committees with financial expertise (especially financial accounting skills) have a positive impact on internal control issues. Research on internal control by Zhang et al. (2007) examines the truth of the relationship between audit committee quality, auditor independence, and disclosure of internal corporate control weakness after SOX was established. Companies that have audit committees with financial expertise, especially financial accounting skills, are less likely to experience internal control issues. Dewayanto et al. (2017) in their research find that audit committee expertise has a positive impact on the disclosure of internal controls.

Hypothesis 3: Audit committees with financial expertise have a positive impact on the disclosure of internal controls in Indonesia and the Philippines.

Kalbers and Fogarty (1993) explain that the power of expertise is closely related to the effectiveness of financial report. Similarly, McMullen and Raghunandan (1996) provide evidence that firms with financial report issues tend to have few CPAs in their audit committees. Several recent studies examine the relationship between the audit committee's financial expertise and profit management, although the definition of financial expertise varies. Xie et al. (2003) and Be'dard et al. (2004) provide evidence that the complexity of financial issues controlled by boards and audit committees is an important factor in limiting the manager's inclination to get involved in profit management. Defond et al. (2005) conduct a study with a sample of firms with financial accounting expertise and non financial accounting skills in their audit committee and find a positive stock market reaction to those showing financial accounting expertise.

Hypothesis 4: Audit committees with an accounting background have a positive impact on the disclosure of internal controls in Indonesia and the Philippines.

DeZoort (1998) provides support for this statement with his findings, stating that audit committee members with special experiences similar to the auditor make an assessment of internal control more like auditors than members with certain experiences that are less similar to the auditor. Kalbers and Fogarty (1993) find that the power of expertise is closely related to the effectiveness of financial report. Similarly, McMullen and Raghunandan (1996) provide evidence that firms having problems with financial report tend to lack CPAs in their audit committees.

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Hypothesis 5: Audit committees with experiences as external auditors positively affect the disclosure of internal controls in Indonesia and the Philippines.

Two-tier board models are based on structures that separate the steps in decision making. Decision management is delegated to managing directors in executive management boards. Decision control lies in the hands of non-executive supervising directors in supervising boards (Daily and Dalton, 1992). One-tier boards are officially based on structures that integrate the four steps in decision making. In other words, one-tier boards officially combine decision management with decision control. In addition, the difference between decision management and decision control is useful for understanding the role of the board in decision making (Maassen, 2002).

Hypothesis 6: There is a difference in the influence of the audit committee and the ownership structure on the disclosure of internal controls in Indonesia and the Philippines.

Based on the above framework, the model is schematically described as follows:

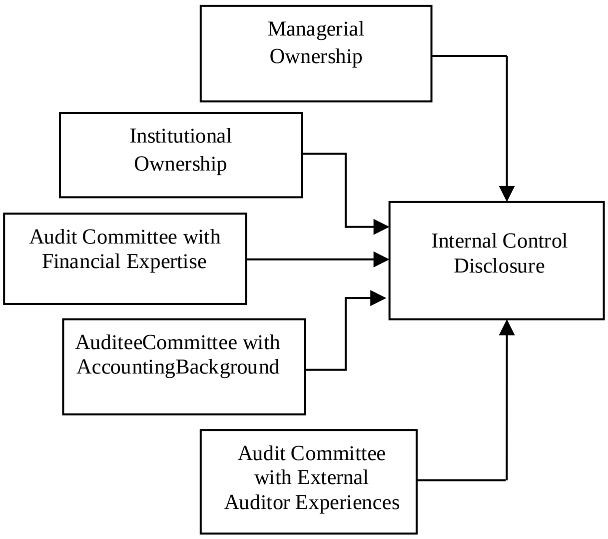

Figure 1: Research Scheme

Source: Developed by the researcher

3. RESEARCH METHOD

Variable Operationalization

A. Managerial ownership is ownership controlled by the managerial by measuring the percentage of share ownership owned by Board of Commissioners, Directors, and CEO (Huafang and Jianguo, 2007).

B. Institutional ownership is ownership controlled by the institution by measuring the proportion of ownership of a government institution, financial institution, legal entity, foreign institution and other institutions (Deumes&Knechel, 2008).

C. Audit committees with financial expertise are audit committees with experiences as investment bankers and financial analysts measured by the number of personnel with financial expertise (Defond et al.,2005).

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D. The audit committee with accounting background is an audit committee having formal accounting education, measured by the number of personnel with accounting background (Krishnan &Visvanathan, 2008).

E. The audit committee with experiencesas external auditors is an audit committee that has experiences as external auditors at a public accounting firm, measured through the number of personnel with experiences as external auditors at the public accounting firm (Dhaliwal et al., 2010).

F. Internal Control Index is measured by 11 items: Internal Communication, Internal Accuracy, Compliance, Financial Report, Operational and Strategic Business Objective, Identification and Evaluation of Risks, Monitoring of Controls, Management of Specific Risks, Effectiveness Conclusion, Overall Process, and Safeguarding of assets (The Vienot Report, 1995; Peters Committee, 1997;Deumes and Knechel, 2008; Van-de-Poel&Vanstraelen, 2011).

The population in this research is non-financial and non banking companies listed between 2009 and 2013 in Indonesia Stock Exchange (1,792 companies) and the Philippines (1,457 companies). The number of sample for Indonesia is 277 companies and for the Philippines is353 companies. The sample technique used is purposive sampling with the following criteria:

1. Companies are registered in Indonesia and the Philippines Stock Exchangebetween 2009 and 2013.
2. The companies have complete available data (on managerial ownership, institutional ownership, audit committees of finance, audit committees with accounting background, and audit committees with external auditor experiences).

The 6 (six) hypotheses were tested using Multivariate Statistics Analysis with multiple regression techniques. This multivariate technique is used because the independent variable is more than one.

The regression model is as follows:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + e$, in which:

A = Constanta,

B = Regression Coefficient,

Y = Internal control disclosure index,

X1 = Managerial Ownership,

X2 = InstitutionalOwnership,

X3 = Committee with Financial &Acounting Expertise,

X4 = Audit Committee with Accounting Background,

X5 = Audit Committee with External Auditor Background.

4. FINDINGS AND DISCUSSION

The test results of the 6 hypotheses can be seen in the following table:

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Table 1: Test Result of Linear Multiple Regression Analysis of Indonesia Data

	Beta Coefficient	Statistic Value	p Score
Manajerial Ownership	- 0,108	-1.985	.048
Institutional Ownership	0.215	3.988	.000
Audit Committee with Financial Expertise	0.252	4.428	.000
Audit Committee with Accounting Background	0.301	5.503	.000
Audit Committee with External Auditor Background	0.116	2.057	.041

F = 14.422; Sig.F = 0,000, R^2 = 0,210; Adjusted R^2 = 0,196; F count = 14,422
N (number of sample) = 277

Tabel 1: Test Result of Linear Multiple Regression Analysis of the Philippines Data

	Beta Coefficient	Statistic Value	p Score
Manajerial Ownership	- 0,187	-3,908	0,00
Institutional Ownership	0,203	4,257	0,00
Audit Committee with Financial Expertise	0,177	3,008	0,003
Audit Committee with Accounting Background	0,163	3,064	0,002
Audit Committee with External Auditor Background	0,263	4,616	0,00

Sig.F = 0,000, R^2 = 0,225; Adjusted R^2 = 0.214;F count = 20,152
N (number of sample) = 353

The result of hypothesis1 test, i.e. the influence of managerial ownership on the disclosure of internal controls, proves to be negative and significant. This indicates that the more managerial ownership in Indonesia and the Philippines, the disclosure of internal control decreases. These findings indicate that managerial ownership needs to be restricted because high managerial ownership result in managers' having high personal interests, so that managers do not act in the best interest of the company, but for their self-interest. It can be concluded that voluntary disclosure of internal control may be a substitute for monitoring costs.

The result of hypothesis 2 test, i.e. the influence of institutional ownership in Indonesia and the Philippines on the disclosure of internal controls, proves to be negative and significant. It shows that with more institutional ownership, the disclosure of internal control increases. This explains that institutional investors play a dominant role in supervision because they have the majority of voting rights. In addition, institutional investors can have access to management through privileged information channels in order to gain disclosure to the company's operations. Meanwhile, individual investors in public companies have little incentive to monitor management.

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The result of hypothesis 3 test shows that the influence of financial audit committees has a positive impact on the disclosure of internal controls. This finding explains that firms are more likely to be identified as having weaknesses in internal controls if the audit committees are weak in financial accounting expertise. Firms having audit committees with financial expertise/financial accounting backgrounds have a positive impact on the handling of internal control issues.

To conclude, that companies that have financial experts in their audit committee will encourage management to disclose internal controls, thereby reducing agency costs in monitoring activities.

The results of hypothesis 4 test,i.e. the influence of the audit committee with accounting background on the disclosure of internal controls proves to be positive and significant.

This means that the more frequent the presence of an audit committee with accounting background, the better the disclosure of internal controls. The results of this study explain that all audit committee members are required to have accounting and auditing expertise. All members of the audit committee must understand finance in order to work effectively. The appointment of accounting experts in an audit committee is expected to improve corporate governance through better supervision.

The results of hypothesis 5 test, i.e. the influence of audit committees with external auditors experiences on the disclosure of internal controls, proves to be positive and significant. This means the more frequent the presence of an audit committee with external auditor experiences, the better the disclosure of internal controls.

This finding explains that the audit committee’s expertise as an auditor provides an effective way to monitor the financial report practices of the management and reduce agency costs, thereby improving their effectiveness in corporate governance mechanism. The conclusion that can be drawn is that the higher the existence of the audit committees with external auditor experiences,the better the disclosure of internal controls.

The result of hypothesis 6 test suggests that there are differences of influence of audit committee and ownership structure on the internal control disclosure in Indonesia and the Philippines, as seen in table 3 below:

Table 3: Calculation of Chow test Data of Indonesia and the Philippines

No.	Sample	*Sum of squared residual*(SSR)	Number of Sampel	Number of Variabel(k)
1	Indonesia	2232,296	n1= 277	5(five)
2	The Philippines	1386,372	n2=353	5(five)
	Total (Indonesia & the Philippines)	3742,990	n1+n2-2k=620	10(ten)

where the value of F count is calculated with the following formula:

$$\mathrm{F} = \frac{RRS3 - (RRS2 + RRS1)/k}{RRS3/(n-2k)}$$

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$$F = \frac{3742{,}990 - (2232{,}296 + 1386{,}372)/5}{3742{,}990/(630 - 10)}$$

F = 500,1186
F table = 4,371
where:

SSR3: Sum of squared residual – restricted regression (regression with total observation),
SSR1 : Sum of squared residual - unrestricted regression (number of SSR, Indonesia data),
SSR2 : Sum of squared residual - unrestricted regression (number of SSR, the Philippines data),
n : Number of observation, and
k : Number of estimated parameters.

The value of F arithmetic (500,12)> F table (4,371). Thus it rejects the null hypothesis and concludes that it is different or, in other words, the prediction model is not the same.

This difference is attributed to the prevailing regulations in the Philippines which emphasizes codes as the basis for corporate governance. Meanwhile differences in the use of board system from both countries can not explain the role of the existing boards. The Philippines uses one-tier board system while Indonesia uses two-tier board system. Boards can be viewed as a monitoring tool that helps align the interests of the CEO and the interests of shareholders.

With these six hypotheses tested, it can be explained that the internal control disclosure index can be used as a complementary model of corporate governance that functions as a monitoring device. The internal control index disclosure instrument built in this study may disclose further information to the annual report in order to reduce the agency costs in the monitoring activities.

5. LIMITATION AND FUTURE RESEARCH

The results of this study can generate a new internal control disclosure index that can become a tool of internal control that reflects more reliable and qualified financial report, thereby reducing the risk of trust in false financial information.

5.1 *Limitations of the Research*

Perry (2002) states that research limitations need to be addressed in each study result because many things can not be captured in the research model. The limitations of this study include:

1. Based on the results of statistical test, it is known that the value of R2 or coefficient of determination for data in Indonesia is 0.196 and for the Philippines data is 0.199.It means that the free variables do not really explain the internal control disclosure variables. According to Kline (2004), the square multiple correlation coefficient (R2) less than 0.2 or <20% indicates weak explanatory power of independent variables (ownership structure and audit committee) of the dependent variable (disclosure of internal control).

2. The operationalization of internal control disclosure variables in this study uses an index through a descriptive calculation in the form of score. It turns out that after the existing index is deciphered descriptively, it does not really explain its stages and details.

5.2 *Future research agenda*

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The results of the research and the limitations found in this study can be used as sources of ideas for the future development of this research:

1. Future research should add other independent variables that have a probability of affecting the disclosure, such as the independence of external auditors and the existence of foreign directors. It is expected that these variables become the topics of the future research agenda.

2. Future research should not only develop observation of the data from Indonesia and the Philippines, but also data from Japan, South Korea, and China. The reason for these three countries to be included as research subjects is because they adhere to the Two-Tier Board System.

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2.14 - Ownership Structure, Audit

by Leon Akbar

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The grouping of legal traditional corporate governance in several countries in Asia (LaPorta et al., 1998) classifies Indonesia and the Philippines as Asian countries that embrace French Legal Tradition, so that both countries have similarities in implementing corporate governance. However, there are differences in the rules of the board system, where the Philippines uses one-tier boards (the majority of boards are executives, two independent directors, and chairmen and CEOs who have the same ownership interests) (Rama et al., 2014).

Differences in governance practices in Asia as reported by World Bank (2003, 2004, 2005, and 2006) show different governance outcomes in 8 (eight) Asian countries: India, Korea, Malaysia, Pakistan, Thailand, the Philippines, Indonesia and Vietnam.

The Philippines uses one-tier boards (the majority of the boards are executives, two independent directors, and chairmen and CEOs who share a common interest for owners (Rama et al., 2014). The Philippine SEC Code of Corporate Governance (2002) mentions that a board of directors consists of at least five but no more than fifteen members elected by shareholders (World Bank, 2006a). Meanwhile, Indonesia uses a two-tier system, in which its functions areshared by boards of directors and boards of commissioners (World Bank, 2004b).

From the above description, the problem statement in this researchis the low disclosure of internal controls in Indonesia and the Philippines which needs driving factors that can affect managers in increasing the disclosure of internal controls and also the construction of a new index, i.e. Indonesia-the Philippines Index for Internal Control Disclosure.

The purpose of this study is to analyze the relationship between ownership structure and internal control disclosure in Indonesia and the Philippines. In addition, it also analyzes the relationship between the audit committees and internal control disclosure in Indonesia and the Philippines and examines differences in audit committees' influence, ownership structure on disclosure of internal controls in Indonesia and the Philippines.

2. LITERATURE REVIEW

Kinney and Daniel (1989) reveal that the weakness of internal control can lead to possible weaknesses in accounting disclosure. Ashbaugh-Skaife (2008) observes that the company making improvements to its internal control issues shows an accrual quality improvement, and the characteristics of its audit committee are closely related to the quality of internal controls.

"Management entrenchment" perspective by Morck et al. (1988), states that when the ownership of the manager increases or becomes stronger, at some points the manager is able to control the information. He then will make a decision to maximize his own wealth, in contrast to the purpose of maximizing the shareholders' wealth.

Empirical evidence presented by Ruland et al. (1990) indicates that managerial ownership is negatively related to disclosure. Eng and Mak (2003) argue that, based on the agency theory, there is a negative relationship between managerial ownership and voluntary

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disclosure. The reason for this is that if managerial ownership is low; and manager and owner have different interests, then managers may not act in the best interests of the company. For this reason also, Eng and Mak (2003) and Zourarakis (2009), based on their hypotheses, suggest that when managerial ownership is low, voluntary disclosure is high. Therefore, they argue that there is a negative relationship between managerial ownership and the level of voluntary disclosure.

Hypothesis 1: Managerial ownership negatively affects the disclosure of internal controls in Indonesia and the Philippines.

Agency issues can be reduced by involving substantial shareholders in monitoring or controlling potentially problematic activities (Shleifer and Vishny, 1986; Huddart, 1993; Noe, 2002). Ashbaugh et al. (2007) test and find that concentrated institutional ownership is positively related to the disclosure of Internal Control Deficiencies prior to SOX404. Michelon et al. (2009) find evidence that a monitoring role is typically aimed at institutional investors, whose role in ownership is negatively related to the disclosure of the Internal Control System.

Hypothesis 2: Institutional ownership positively affects the disclosure of internal controls in Indonesia and the Philippines.

Zhang et al. (2007) find that companies having audit committees with financial expertise (especially financial accounting skills) have a positive impact on internal control issues. Research on internal control by Zhang et al. (2007) examines the truth of the relationship between audit committee quality, auditor independence, and disclosure of internal corporate control weakness after SOX was established. Companies that have audit committees with financial expertise, especially financial accounting skills, are less likely to experience internal control issues. Dewayanto et al. (2017) in their research find that audit committee expertise has a positive impact on the disclosure of internal controls.

Hypothesis 3: Audit committees with financial expertise have a positive impact on the disclosure of internal controls in Indonesia and the Philippines.

Kalbers and Fogarty (1993) explain that the power of expertise is closely related to the effectiveness of financial report. Similarly, McMullen and Raghunandan (1996) provide evidence that firms with financial report issues tend to have few CPAs in their audit committees. Several recent studies examine the relationship between the audit committee's financial expertise and profit management, although the definition of financial expertise varies. Xie et al. (2003) and Be'dard et al. (2004) provide evidence that the complexity of financial issues controlled by boards and audit committees is an important factor in limiting the manager's inclination to get involved in profit management. Defond et al. (2005) conduct a study with a sample of firms with financial accounting expertise and non financial accounting skills in their audit committee and find a positive stock market reaction to those showing financial accounting expertise.

Hypothesis 4: Audit committees with an accounting background have a positive impact on the disclosure of internal controls in Indonesia and the Philippines.

DeZoort (1998) provides support for this statement with his findings, stating that audit committee members with special experiences similar to the auditor make an assessment of internal control more like auditors than members with certain experiences that are less similar to the auditor. Kalbers and Fogarty (1993) find that the power of expertise is closely related to the effectiveness of financial report. Similarly, McMullen and Raghunandan (1996) provide evidence that firms having problems with financial report tend to lack CPAs in their audit committees.

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Hypothesis 5: Audit committees with experiences as external auditors positively affect the disclosure of internal controls in Indonesia and the Philippines.

Two-tier board models are based on structures that separate the steps in decision making. Decision management is delegated to managing directors in executive management boards. Decision control lies in the hands of non-executive supervising directors in supervising boards (Daily and Dalton, 1992). One-tier boards are officially based on structures that integrate the four steps in decision making. In other words, one-tier boards officially combine decision management with decision control. In addition, the difference between decision management and decision control is useful for understanding the role of the board in decision making (Maassen, 2002).

Hypothesis 6: There is a difference in the influence of the audit committee and the ownership structure on the disclosure of internal controls in Indonesia and the Philippines.

Based on the above framework, the model is schematically described as follows:

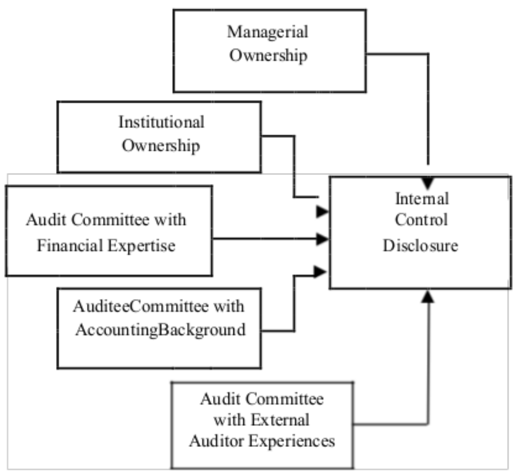

Figure 1: Research Scheme

Source: Developed by the researcher

3. RESEARCH METHOD

Variable Operationalization

A. Managerial ownership is ownership controlled by the managerial by measuring the percentage of share ownership owned by Board of Commissioners, Directors, and CEO (Huafang and Jianguo, 2007).

B. Institutional ownership is ownership controlled by the institution by measuring the proportion of ownership of a government institution, financial institution, legal entity, foreign institution and other institutions (Deumes&Knechel, 2008).

C. Audit committees with financial expertise are audit committees with experiences as investment bankers and financial analysts measured by the number of personnel with financial expertise (Defond et al.,2005).

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D. The audit committee with accounting background is an audit committee having formal accounting education, measured by the number of personnel with accounting background (Krishnan &Visvanathan, 2008).

E. The audit committee with experiencesas external auditors is an audit committee that has experiences as external auditors at a public accounting firm, measured through the number of personnel with experiences as external auditors at the public accounting firm (Dhaliwal et al., 2010).

F. Internal Control Index is measured by 11 items: Internal Communication, Internal Accuracy, Compliance, Financial Report, Operational and Strategic Business Objective, Identification and Evaluation of Risks, Monitoring of Controls, Management of Specific Risks, Effectiveness Conclusion, Overall Process, and Safeguarding of assets (The Vienot Report, 1995; Peters Committee, 1997;Deumes and Knechel, 2008; Van-de-Poel&Vanstraelen, 2011).

The population in this research is non-financial and non banking companies listed between 2009 and 2013 in Indonesia Stock Exchange (1,792 companies) and the Philippines (1,457 companies). The number of sample for Indonesia is 277 companies and for the Philippines is353 companies. The sample technique used is purposive sampling with the following criteria:

1. Companies are registered in Indonesia and the Philippines Stock Exchangebetween 2009 and 2013.
2. The companies have complete available data (on managerial ownership, institutional ownership, audit committees of finance, audit committees with accounting background, and audit committees with external auditor experiences).

The 6 (six) hypotheses were tested using Multivariate Statistics Analysis with multiple regression techniques. This multivariate technique is used because the independent variable is more than one.

The regression model is as follows:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + e$, in which:

A = Constanta,

B = Regression Coefficient,

Y = Internal control disclosure index,

X1 = Managerial Ownership,

X2 = InstitutionalOwnership,

X3 = Committee with Financial &Acounting Expertise,

X4 = Audit Committee with Accounting Background,

X5 = Audit Committee with External Auditor Background.

4. FINDINGS AND DISCUSSION

The test results of the 6 hypotheses can be seen in the following table:

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Table 1: Test Result of Linear Multiple Regression Analysis of Indonesia Data

	Beta Coefficient	Statistic Value	p Score
Manajerial Ownership	- 0,108	-1.985	.048
Institutional Ownership	0.215	3.988	.000
Audit Committee with Financial Expertise	0.252	4.428	.000
Audit Committee with Accounting Background	0.301	5.503	.000
Audit Committee with External Auditor Background	0.116	2.057	.041

F = 14.422; Sig.F = 0,000, R^2 = 0,210; Adjusted R^2 = 0,196; F count = 14,422 N (number of sample) = 277

Tabel 1: Test Result of Linear Multiple Regression Analysis of the Philippines Data

	Beta Coefficient	Statistic Value	p Score
Manajerial Ownership	- 0,187	-3,908	0,00
Institutional Ownership	0,203	4,257	0,00
Audit Committee with Financial Expertise	0,177	3,008	0,003
Audit Committee with Accounting Background	0,163	3,064	0,002
Audit Committee with External Auditor Background	0,263	4,616	0,00

Sig.F = 0,000, R^2 = 0,225; Adjusted R^2 = 0.214;F count = 20,152
N (number of sample) = 353

The result of hypothesis1 test, i.e. the influence of managerial ownership on the disclosure of internal controls, proves to be negative and significant. This indicates that the more managerial ownership in Indonesia and the Philippines, the disclosure of internal control decreases. These findings indicate that managerial ownership needs to be restricted because high managerial ownership result in managers' having high personal interests, so that managers do not act in the best interest of the company, but for their self-interest. It can be concluded that voluntary disclosure of internal control may be a substitute for monitoring costs.

The result of hypothesis 2 test, i.e. the influence of institutional ownership in Indonesia and the Philippines on the disclosure of internal controls, proves to be negative and significant. It shows that with more institutional ownership, the disclosure of internal control increases. This explains that institutional investors play a dominant role in supervision because they have the majority of voting rights. In addition, institutional investors can have access to management through privileged information channels in order to gain disclosure to the company's operations. Meanwhile, individual investors in public companies have little incentive to monitor management.

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The result of hypothesis 3 test shows that the influence of financial audit committees has a positive impact on the disclosure of internal controls. This finding explains that firms are more likely to be identified as having weaknesses in internal controls if the audit committees are weak in financial accounting expertise. Firms having audit committees with financial expertise/financial accounting backgrounds have a positive impact on the handling of internal control issues.

To conclude, that companies that have financial experts in their audit committee will encourage management to disclose internal controls, thereby reducing agency costs in monitoring activities.

The results of hypothesis 4 test,i.e. the influence of the audit committee with accounting background on the disclosure of internal controls proves to be positive and significant.

This means that the more frequent the presence of an audit committee with accounting background, the better the disclosure of internal controls. The results of this study explain that all audit committee members are required to have accounting and auditing expertise. All members of the audit committee must understand finance in order to work effectively. The appointment of accounting experts in an audit committee is expected to improve corporate governance through better supervision.

The results of hypothesis 5 test, i.e. the influence of audit committees with external auditors experiences on the disclosure of internal controls, proves to be positive and significant. This means the more frequent the presence of an audit committee with external auditor experiences, the better the disclosure of internal controls.

This finding explains that the audit committee's expertise as an auditor provides an effective way to monitor the financial report practices of the management and reduce agency costs, thereby improving their effectiveness in corporate governance mechanism. The conclusion that can be drawn is that the higher the existence of the audit committees with external auditor experiences,the better the disclosure of internal controls.

The result of hypothesis 6 test suggests that there are differences of influence of audit committee and ownership structure on the internal control disclosure in Indonesia and the Philippines, as seen in table 3 below:

Table 3: Calculation of Chow test Data of Indonesia and the Philippines

No.	Sample	*Sum of squared residual*(SSR)	Number of Sampel	Number of Variabel(k)
1	Indonesia	2232,296	n1= 277	5(five)
2	The Philippines	1386,372	n2=353	5(five)
	Total (Indonesia & the Philippines)	3742,990	n1+n2-2k=620	10(ten)

3−(2+1)/

where the value of F count is calculated with the following formula:

$$F = \frac{\qquad}{3/(-2)}$$

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$$F = \frac{3742{,}990 - (2232{,}296 + 1386{,}372)/5}{3742{,}990/(630 - 10)}$$

F = 500,1186
F table = 4,371
where:

SSR3: Sum of squared residual – restricted regression (regression with total observation),
SSR1 : Sum of squared residual - unrestricted regression (number of SSR, Indonesia data),
SSR2 : Sum of squared residual - unrestricted regression (number of SSR, the Philippines data),
n : Number of observation, and
k : Number of estimated parameters.

The value of F arithmetic (500,12)> F table (4,371). Thus it rejects the null hypothesis and concludes that it is different or, in other words, the prediction model is not the same.

This difference is attributed to the prevailing regulations in the Philippines which emphasizes codes as the basis for corporate governance. Meanwhile differences in the use of board system from both countries can not explain the role of the existing boards. The Philippines uses one-tier board system while Indonesia uses two-tier board system. Boards can be viewed as a monitoring tool that helps align the interests of the CEO and the interests of shareholders.

With these six hypotheses tested, it can be explained that the internal control disclosure index can be used as a complementary model of corporate governance that functions as a monitoring device. The internal control index disclosure instrument built in this study may disclose further information to the annual report in order to reduce the agency costs in the monitoring activities.

5. LIMITATION AND FUTURE RESEARCH

The results of this study can generate a new internal control disclosure index that can become a tool of internal control that reflects more reliable and qualified financial report, thereby reducing the risk of trust in false financial information.

5.1 *Limitations of the Research*

Perry (2002) states that research limitations need to be addressed in each study result because many things can not be captured in the research model. The limitations of this study include:

1. Based on the results of statistical test, it is known that the value of R2 or coefficient of determination for data in Indonesia is 0.196 and for the Philippines data is 0.199.It means that the free variables do not really explain the internal control disclosure variables. According to Kline (2004), the square multiple correlation coefficient (R2) less than 0.2 or <20% indicates weak explanatory power of independent variables (ownership structure and audit committee) of the dependent variable (disclosure of internal control).

2. The operationalization of internal control disclosure variables in this study uses an index through a descriptive calculation in the form of score. It turns out that after the existing index is deciphered descriptively, it does not really explain its stages and details.

5.2 *Future research agenda*

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The results of the research and the limitations found in this study can be used as sources of ideas for the future development of this research:

1. Future research should add other independent variables that have a probability of affecting the disclosure, such as the independence of external auditors and the existence of foreign directors. It is expected that these variables become the topics of the future research agenda.
2. Future research should not only develop observation of the data from Indonesia and the Philippines, but also data from Japan, South Korea, and China. The reason for these three countries to be included as research subjects is because they adhere to the Two-Tier Board System.

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Judul Karya Ilmiah (artikel)	:	Ownership Structure, Audit Committee, and Internal Control Disclosure : Indonesia and Philippines.
Jumlah Penulis	:	4 Orang (Totok Dewayanto, **Djoko Suhardjanto**, Bandi, Iwan Setiadi)
Status Pengusul	:	~~Penulis pertama~~ / penulis ke 2/ ~~penulis korespondasi**~~
Identitas Jurnal Ilmiah	:	a. Nama Jurnal : **Review of Integrative Business and Economics**
		b. Nomor ISSN : **2304-1013 (Online); 2414-6722 (Print)**
		c. Volume,nomor,bulan,tahun : **Vol. 6, Issue 4, 2017**
		d. Penerbit : **GMP Press&Printing**
		e. DOL artikel (jika ada) :
		f. Alamat web Jurnal : http://buscompress.com/uploads/3/4/9/8/34980536/riber_6-4_27b17-139_353-363.pdf
		g. Terikdeks di Scimagojr/Thomson Reuter ISI knowledge atau di…………**

Kategori Publikasi Jurnal Ilmiah (beri ˇ pada kategori yang tepat) :
- ☐ Jurnal Ilmiah Internasional / Internasional bereputasi.**
- ☐ Jurnal Ilmiah Nasional Terakreditasi
- ☐ Jurnal Ilmiah Nasional/Nasional terindeks di DOAJ, CABI, COPERNICUS**

Hasil Penilaian *Peer Review* :

	Komponen Yang Dinilai	Nilai Maksimal Jurnal Ilmiah 20			Nilai Akhir Yang Diperoleh
		~~Internasional/~~ Internasional bereputasi** ☐	Nasional Terakreditasi ☐	Nasional *** ☐	
a.	Kelengkapan unsur isi artikel (10%)	2			2
b.	Ruang lingkup dan kedalaman pembahasan (30%)	6			5
c.	Kecukupan dan kemutahiran data/informasi dan metodologi (30%)	6			5
d.	Kelengkapan unsur dan kualitas terbitan/jurnal (30%)	6			6
	Total = (100%)	**20**			**18**
	Nilai Pengusul = (40% x 18) / 3 = 2,4 (Penulis Kedua)				

Catatan Penilaian artikel oleh Reviewer :

a. Kelengkapan dan kesesuaian unsur isi artikel :

Isi artikel sudah lengkap dan memenuhi standar publikasi jurnal internasional. Kelengkapan unsur isi tersebut dibuktikan dari struktur penulisan yang sistematis mulai dari pendahuluan, perumusan hipotesis, metode penelitian, hasil analisis dan simpulan.

b. Ruang lingkup dan kedalaman pembahasan :

Tema penelitian sesuai dengan ruang lingkup jurnal dan bidang ilmu akuntansi. Isu atau permasalahan penelitian sudah dijelaskan dengan baik. Pembahasan hasil penelitian juga sudah detail dan mendalam baik secara teori maupun praktik.

c. Kecukupan dan pemutakhiran data/informasi dan metodologi :

Kecukupan dan kemutahiran data sudah terpenuhi dengan baik. Teknik sampling dan metode analisis data juga sudah tepat dan sesuai dengan tujuan penelitian. interpretasi hasilnya juga sudah detail.

d. Kelengkapan unsur dan kualitas terbitan :

Hasil penelusuran di laman jurnal menunjukkan bahwa jurnal sudah memnuhi kategori jurnal internasional. Selain itu, jurnal tersebut juga sudah terindeks di data base internasional.

e. Indikasi Plagiat :

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f. Kesesuaian bidang ilmu :

Sesuai dengan bidang ilmu akuntansi.

Surakarta, ……18 JUN 2020……

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Jabatan	: Guru Besar
Pangkat,Gol Ruang	: Pembina Utama Madya / IV/d
Unit Kerja	: Fakultas Ekonomi dan Bisnis
Bidang Ilmu	: Akuntansi

*Dinilai oleh dua Reviewer secara terpisah