Auditor Switching

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THE EFFECT OF AUDITOR SWITCHING AND MANAGERIAL OWNERSHIP ON FRAUDULENT FINANCIAL STATEMENT

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Abstract: - Fraudulent financial statements are one of the abandonment of deliberate amounts and disclosures with the intent of deceiving the user of financial statement. This becomes a serious issue and concern that needs to be quickly resolved. This study aims to examine the effect of audit quality and auditor switching on fraudulent financial statement. This study also examined the effect of managerial ownership as a moderating variable on the relationship of audit quality and auditor switching to fraudulent financial statement. Population in this research is listed on the Indonesia stock exchange in 2013-2017. The total sample use 90 fraud category companies and 100 non-fraud companies with criteria for industry similarity and total assets. Data analysis used descriptive statistical analysis and hypothesis testing using Logistic Regression analysis. The results of this study indicate that there is a significant negative influence between audit quality on fraudulent financial statement. There is a significant positive influence between auditor switching on fraudulent financial statement. Furthermore, the results of this study prove that managerial ownership is able to strengthen the relationship of audit quality to fraudulent financial statement. Managerial ownership is able to weaken the auditor switching relationship to fraudulent financial statement.

Key-Words: - Audit Quality, Managerial Ownership, Fraudulent Financial Statement.

1 Introduction

Financial statements are one of the benchmarks for internal and external parties that are useful in assessing company performance. One of the general objectives of financial statements is to be able to provide information on various corporate financial positions, cash flow and performance and management accountability. With performance appraisal, it is able to encourage management to always run the company's operational activities optimally. Thus, it is expected to be able to provide information to stakeholders that the company is in good health. However, the various efforts of the management actually tend to lead to fraudulent financial statements. There are several things that cause information contained in financial statements to be irrelevant to various stakeholders as one of the bases in decision making. An increase in fraudulent financial statement in public companies, makes the concerns of financial report users also higher as for auditors, investors, creditors and other users. one example is the collapse of international companies Enron into financial markets, financial information and the accounting profession worldwide (Jones, 2011).

An audit conducted effectively by a qualified auditor will be able to produce quality, relevant and reliable financial reports. Financial report users will be more confident in the financial statements that have been audited by qualified auditors, when compared to non-qualified auditors. This is assuming that in order to maintain its credibility, the auditor will be more careful in carrying out the audit process to detect misstatements in financial statements. So, a quality qualified auditor also conducts quality audits. The results of Guna and Herawaty's study (2010) were able to prove that audit quality has a significant influence on fraudulent financial statements. This is in line with the results of Krishnan's research, (2003) showing that Big Four auditors have better quality and ability to prevent fraudulent financial statements than Non-Big Four auditors. The results of this study are consistent with the research conducted by Gerayli et. al (2011) which resulted that a significant negative effect between the size of KAP as measured by the size of the Big Four and Non-Big Four, companies audited by large KAPs, proved to be able to limit managerial fraudulent behavior. This is due to the Big Four KAP with the quality, expertise and reputation that it has capable of guaranteeing higher audit quality compared to Non-Big Four KAPs. Thus, the use of quality KAP, namely the Big Four KAP can prevent publishers

from committing fraud in presenting irrelevant financial statements. However, it is different from the results of research conducted by Ratna (2009); Handayani and Rachadi (2009) produce that audit quality cannot significantly influence fraudulent financial statements.

Managerial ownership was chosen as the moderating variable in this study to dispel stakeholders' doubts about information on fraudulent financial statement of companies in Indonesia. By choosing managerial ownership as a moderating variable, it is expected to be able to strengthen the relationship between audit quality and fraudulent financial statement. Furthermore, it is also to weaken the auditor's relationship switching to fraudulent financial statement. Managerial ownership can be a good corporate governance mechanism. The good corporate governance mechanism is able to prevent by reducing fraud (Pamungkas, Ghozali, & Achmad, 2018). Companies in implementing a strong good corporate governance mechanism will be focused on company owners so that it will weaken the risk factors for fraudulent financial statement (Pamungkas, Ghozali, Achmad, Khaddafi, & Hidayah, 2018). Managerial ownership is also one of the good corporate governance mechanisms that can help resolve conflicts because of the information asymmetry between managers and company owners. With managerial ownership, managerial parties can directly feel the benefits of each decision chosen. Managers will try optimally to maintain going concern on financial aspects, one of which is by reducing fraudulent financial statement so that stakeholders' trust is maintained.

Various research results, proving that there is inconsistency of research Share ownership is considered by management to be able to harmonize the potential differences in interests between agents and principals (Jensen and Meekling, 1976). Ujiyantho and Scout (2007) stated that there was a significant negative influence between managerial ownership of fraudulent financial statements. Managerial ownership is expected to be able as a mechanism for good corporate governance, thereby reducing and minimizing any potential fraud. Based on the phenomenon and research gap, fraudulent financial statements are a very interesting topic to explore and do further research. So the purpose of this study was to examine the effect of audit quality and audit changes on fraudulent financial statements. Examine the influence of managerial ownership as moderating the relationship of audit quality and audit transition to fraudulent financial statement.

2 Problem Formulation

2.1 Audit Quality on Fraudulent Financial Statement

DeAngelo, (1981) defines audit quality as the probability that the auditor finds and reports about a violation in his client's accounting system. The appointment of an independent auditor by a company audit committee can conduct an independent audit to avoid conflicts of interest and maintain integrity in the audit process. Audit quality research concentrated on differences in audit service selection, namely between companies that use BIG Four KAP (Deloitte, PWC, Ernst & Young, KPMG) and Non-BIG Four KAP.

KAP BIG Four is considered to have a more reliable ability to detect and uncover fraud committed by the management of the company compared to Non-Big Four KAP. This is also evidenced by the research conducted by (Smaili & Labelle, 2009) which shows that auditors working on KAP BIG Four have more ability to detect fraud when compared to non-BIG Four KAP. Companies with KAP BIG Four or high quality auditors will be able to detect and prevent issuers from cheating financial reporting that is irrelevant to the public and users of financial statements. Therefore, high audit quality acts as a deterrent and reduces the effective opportunity to commit fraudulent financial statement. Management's reputation will collapse and the company's value will decrease if this fraud is detected and revealed. The higher the audit quality of a company, the more fraudulent financial statement will be. Vice versa, if the lower the audit quality of a company, the fraudulent financial statement will become higher. Based on the description, the hypothesis of this study:

H1: Audit Quality has a Negative Effect on Fraudulent Financial Statement

2.2 Auditor Switching on Fraudulent Financial Statements.

Rationalization of fraud triangle theory according to SAS No.99 and AICPA (2002) in addition to auditing opinion that is the turn of the auditor which states that the effect of auditor changes that have high frequencies can be an indication of fraud. The management company is more likely to switch auditors to cover and anticipate some of the agency's problems (DeFond 1992). Chen and Elder (2007) suggest that companies with auditors who have high switching rates are more associated with fraudulent financial statements. According to Lou and Wang (2009), auditor switching is a trick in reducing the financial statements of fraudulent auditors. The

previous auditor can detect any possibility of fraud committed by management directly or indirectly. However, with auditors switching the possibility of fraudulent financial statements will increase. Schewartz and Menon (1985) argue that companies that tend to cheat will be more voluntary switching auditors than healthier companies.

The results of research by Kurniawati (2012) have resulted that auditor switching has an effect on fraudulent financial statements. A significant factor in influencing auditor's opinion, it is shown in Chow and Rice (1982) that firms tend to the auditor switchingafter receiving a qualified opinion. This is supported by Hudaib and Cooke (2005) that receives a qualified audit opinion. Opinion of a qualified auditor may be due to the detection of non-conformity or fraud in the presentations of financial statements. Defond (1992) states that the determination of income should involve judgment and wisdom, giving managers an opportunity to manipulate high revenues and opportunities to manipulate income that leads to auditor switching. Auditors who have audited the company can find out the opportunities for financial statements.

Sorenson et al., (1983) show that the possibility of auditor switching clients can reduce the possibility of fraud detection of financial reporting. this is reinforced by the results of the study of Loebbecke et al., (1989) which found that a large number of indications of financial reporting fraud were contained in the auditor's sample in the first two years of the auditor's tenure. The auditor is an important supervisor in the financial statements. Based on the auditor's information, it is expected to be able to find companies that commit financial statement fraud. Companies that commit fraudulent financial statements have more frequent auditor turnover frequency. This is done with the aim of reducing the possibility of detecting fraudulent financial statements by the company. Sorenson et al., (1983) stated that companies can conduct auditor switching to reduce the possibility of detecting fraudulent financial statements by auditors (Lou and Wang, 2009). Loebbecke et al., (1989) showed that 36 percent of cheating in their sample resulted in an estimate in the first two years of auditor change. The same was found by Krishnan and Krishnan (1997); Shu (2000) found evidence that auditor resignation was positively related to likelihood of likelihood (Lou and Wang, 2009).

H2: The Auditors Switching Significantly Positive Effect on Financial Reporting Fraud.

2.3 Managerial Ownership and Audit Quality on Fraudulent Financial Statements.

The proportion of share ownership held by managerial parties in the company shows conformity between management and shareholders (Faizal, 2004). Efforts to increase the percentage of ownership are expected to be motivated managers to improve company performance and be more fully responsible for improving the welfare and prosperity of shareholders. Managers must focus more on optimizing investment activities, not just running company activities to achieve company goals. Herawaty (2008) also explains that managerial ownership structures can function as one of the mechanisms of corporate governance. Thus it is expected to reduce the actions of managers to commit fraudulent financial statement. Managerial ownership is a corporate governance mechanism and an effective monitoring tool that can lead to higher quality reporting. The managerial ownership structure is high, so the incentives for possible managerial opportunistic behavior will decrease. Managerial ownership can be interpreted as the percentage of total shares owned by the management of the company. When share ownership is low, it is possible that there are opportunistic behaviors or actions to be taken by the management of the company.

H3: Managerial Ownership strengthens the influence of audit quality on fraudulent financial statement.

2.4 Managerial Ownership and Aauditor Switching on Fraudulent financial Statement

Management and responsibility to shareholders that is related to information disclosure to financial statements, according to Lou and Wang (2009) make the auditor switching in the hope of getting the maximum audit results. The goal is to avoid undesirable financial statements directly or indirectly by the auditor. This decision was taken because the worry manager was detected by the auditor. These concerns are triggered by management's participation in decision-making. If the decision is taken wrong then the management who bear the loss. SAS No.99 (AICPA, 2002) explains the effects of auditor turnover in a company that can make an indication of fraud. The auditor previously had information and the possibility of being able to detect potential fraud committed by the company management directly and indirectly. However, the existence of auditor switching caused an indication of an increase in fraudulent financial statement.

The results of the study by Kurniawati (2012) confirm that resignation or auditor switching can influence the possibility of fraudulent financial statement. Based on agency theory, problems will always arise between the company and company management because there are various interests in the company. A problem that becomes interesting when intensively supervising company performance (Jensen and Meckling, 1976). Managerial ownership is considered capable of overcoming agency problems that always occur. With a high managerial ownership structure, managers will be eager to always increase the value of the company and motivate managers to work in accordance with the interests of shareholders. The results of the study by Boediono (2005) show that managerial ownership has a negative effect on the occurrence of fraudulent financial statement. The greater the level of managerial ownership, the more likely fraudulent financial statement will be. This is because managers also have a role as shareholders. Thus managers will work in accordance with the interests of shareholders.

H4: Managerial Ownership weakens the influence of Switching Auditors on Financial Reporting Fraud.

3 Problem Solution

This research is a quantitative method. This study uses secondary data, namely the annual reports of companies that have been audited and listed on the Indonesia Stock Exchange. The method of data collection in this study uses annual reports obtained from the websites of each company, the site www.idx.co.id and the Indonesian Bloomberg database in 2013-2017. The sampling technique uses purposive judgment sampling method. This technique is sampling based on criteria that can reverse the population. Following are some sampling criteria in this study:

1. Companies in the manufacturing sector listed on the Indonesia Stock Exchange and have published audited annual reports in 2013-2017;
2. Companies categorized as fraud use report data from Otoritas Jasa Keuangan (Financial Services Authority: OJK) with information based on article VIII.G.7 concerning guidelines for presenting financial statements, namely companies that have been proven to violate OJK regulations, as well as being exposed to emergencies and violations containing fraud.
3. Companies categorized as non-fraud must have similarities to the type of industry and the number of assets that are comparable.
4. Financial statements expressed in the form of Indonesian Rupiah (Rp), thus the value will not be affected by fluctuations in the rupiah exchange rate against the dollar;
5. Companies in the manufacturing sector with complete data and related to research variables, namely managerial ownership variables, during the year 2013-2017.

The research sample was obtained by 90 companies in the fraud category in financial reporting from 2013 to 2017. The companies included in the fraud category based on the annual report and the 2013-2017 OJK press release, namely in the announcement section violating article VIII.G.7. regarding guidelines for presentation of financial statements and has an audit and reporting committee. Furthermore, this study takes the data of non-fraud companies as control companies in companies that have similarities in the type of industry and the number of assets, resulting in a sample of 100 companies. Hypothesis testing is done using the logistic regression analysis model using SPSS software to test the relationship between fraudulent financial statement (Y) as the dependent variable in this study which is a nominal data-scale dichotomy with two categories. This study uses dummy variables that are categorized into two, namely 1 (one) code for fraud companies and 0 (zero) for non-fraud companies.

3.1 Operational Variables

3.1.1 Fraudulent Financial Statement (Dependent Variable)

Fraudulent financial statement is measured using dummy variables categorized into two, namely code 1 (one) for companies that have proven to have committed fraud because they committed several violations of OJK regulations containing errors and measurements and 0 (zero) for the company-companies that do not commit fraud (non-fraud). Companies that are categorized as fraudulent financial statements are based on annual reports and OJK press release in 2013-2017.

3.1.2 Audit Quality and Switching Auditors (Independent Variables)

Audit quality according to various sources is interpreted as feasibility in carrying out audit practices according to audit standards or general standards and field work standards and reporting standards. Audit quality variables in this study used a scale of measurement with a proxy dummy variable. The dummy variable is the author using a value of 1 and 0. If the entity uses an auditor with the Big Four KAP, it is given a value of 1. If the

entity uses an auditor with a non-Big Four then it is given a value of 0. This research uses Auditor Switching as an effort to eliminate traces of fraudulent practices which has been found by the old auditor or the previous auditor. Some reasons can be a driving force for companies to make changes to independent auditors, with the aim of hiding fraud at the company. Thus, this study measures auditor switching with a dummy variable, value 1 is given when the company's auditor performs auditor changes for two years before fraud occurs, is given a value of 0 if there is no auditor turnover for two years (Lou & Wang, 2009).

3.1.3 Managerial Ownership (Moderating Variable)
Managerial ownership is a moderating variable in this study. Managerial ownership is share ownership held by shareholders (Directors and Commissioners) management who actively participate in the process of making all company decisions. Ownership of several shares by the management of the company can be useful as a control of fraudulent financial statement (Skousen & Wright, 1995). Manaherial ownership ratio (OSHIP) is 100% (Skousen & Wright, 1995). OSHIP = (total outstanding shares by management) / (extraordinary total shares) X100%.

3.1.4 Company Size (Control Variable)
The control variable used is the size of the company, which is the total assets. Participants conducted (Lou & Wang, 2009), this study uses the total value of assets that are transformed through the logarithmic process as a controlling variable in carrying out variables that affect several financial reporting proxy factors. This study uses a control variable in the form of company size. The size of the company is a large scale small company. Firm size often affects fraudulent financial statement.

Based on with the predefined sample criteria, then obtain 190 sample from manufacturing companies for the period 2013-2017. Results of data processing presented in the following Table 1.:

Table 1. Descriptive Statistics Result

Variable	N Statistic	Range Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Error	Std Statistic	Variance Statistic
SIZE	190	.29	9.01	9.30	9.1692	0.1141	.08463	.007
Audit Quality	190	1.00	.00	1.00	.4909	0.6803	.50452	.255
Auditor Switching	190	1.00	.00	1.00	.5091	0.6803	.50452	.255
Magagerial Ownership	190	.28	.00	.28	.0730	.01139	0.8449	.007
Fraudulent Financial Statement	190	1.00	.00	1.00	.4545	0.6776	.50252	.253
Valid N (listwise)	190							

Source: Secondary data are processed (2019)

Table 2. Hypothesis Test Result

Path	Direct Effect Coeficient	p-value	Result
Audit Quality → Fraudulent Financial Statament	-1.336	0,029**	H1 Accepted
Auditor Switching → Fraudulent Financial Statament	1.688	0,005***	H2 Accepted
Audit Quality → Managerial Ownership → Fraudulent Financial Statement	-13.762	0,037**	H3 Accepted
Auditor Switching → Managerial Ownership → Fraudulent Financial Statement	-11.360	0,085*	H4 Accepted

Source: Logistic Regression Processing Results, 2019
Note: *, **, and *** show significance at 0.10; 0.05; and 0.01.

3.2 Result and Discussion
Based on the results of testing the hypothesis in Table 2, the information presented shows that the significance value of the test of auditor switching influence on financial reporting fraud is 0.029 and the beta value indicates a negative number which is -1.336, thus it can be concluded that hypothesis 1 is accepted. Management will tend to replace its auditors with the aim of anticipating some agency problems that may arise (DeFond 1992). Chen and

Elder (2007) explain that companies with high switching auditor levels will tend to commit financial reporting fraud. Schewartz and Menon (1985) suggest that companies that are not successful in managing a company well have a higher tendency to change auditors, compared to companies that are healthier. Furthermore, they also said that if an unsuccessful company changes the auditor's company, then has the preference to replace the public accounting firm with lower quality or tends to reduce the quality of the auditor's company. This is due to the Big Four auditors having better abilities and expertise that focuses on the audit and accounting fields. So that the BIG Four auditors have a higher quality in assessing objectively in the process of auditing financial statements. With high audit quality, it can detect fraudulent financial statement carried out by company managers. Companies that use Big Four auditors are considered to have higher and better audit quality because auditors are equipped with various training and procedures and have been provided with more sophisticated and updated audit programs compared to non-big four auditors (Herawaty, 2010).

Based on the information that has been presented in Table 2, the significance value of the test of the effect of auditor switching switching on financial reporting fraud 0.005 with a positive beta value of 1.688, then that hypothesis is accepted. Thus it is concluded that the higher auditor switching frequency also affects the fraudulent financial statement that is getting higher. According to SAS No. 99 that the auditor switching effect conducted by the company can be one indication of the occurrence of fraud. Auditor switching occurs when the company agrees to replace the auditor and provides a new assignment to the next auditor (Gagola, 2011).

The auditor is an examiner and a very important monitor in the financial statements. Information and expertise of the auditor, will know that some companies do fraud or do not practice fraud. Companies that have done one form of eating fraud will do higher switching auditors. This is done in order to reduce the possibility of fraud being detected, fraudulent actions on financial statements carried out by the management of the company. Sorenson et al., (1983) assert that companies can replace auditors to minimize the possibility of detecting financial records that are audited by auditors. The company's management has a tendency to replace its auditors to prevent some agency problems that can arise (DeFond 1992). Chen and Elder (2007) state that companies with higher auditor switching, the higher the level of fraudulent financial statement tendencies. Schewartz and Menon (1985) suggest that companies that fail to manage their companies will tend to have higher frequencies to make auditor changes compared to healthier companies.

Lou and Wang (2009) argue that 36 percent of fraudulent company financial reporting is sampled in the first two years of the auditor's tenure. Various research results have shown that there have been many audit failures after the company made auditor changes. The number of auditors replaced in the current year as a proxy for auditor turnover, Lou and Wang (2009) estimate that auditor switching has a significant positive effect on the possibility of fraudulent financial statement. The findings of this study are in Kurniawati (2012) that switches, it will affect the possibility of fraudulent financial statements. Theoretically when management ownership is low, the incentives for possible opportunistic behavior of managers will increase. The results of Ujiyantho and Pramuka (2007) found that managerial ownership has a negative relationship with fraud.

Companies do auditor switching as a form of eliminating traces of fraud discovered by previous auditors. this tendency will encourage companies to conduct auditor switching to cover up fraudulent financial statement carried out by the company (Septriani, 2018). Some of these studies show that fraudulent financial statement increases when auditor switching increases. This is because auditors who get new assignments have not been able to understand the condition of the company well or as a whole and have a limited audit process period. Thus, this is an obstacle to the audit process in detecting fraudulent financial statement. So, if the higher frequency of company management performs auditor switching, financial reporting fraud will also be higher. Likewise, vice versa, if the lower frequency of company management performs auditor switching, fraudulent financial statement will be lower.

Based on the results of testing the hypothesis in Table 2, shows the results of the study with a significance value of 0.037, it is concluded that hypothesis 3 is accepted. Summers and Sweeny (1998) argue that clients can use mechanisms such as audit switching with the aim of minimizing the possibility of fraudulent financial statement. In harmony, Sorenson et al (1983) explained that clients are also able to replace auditors to reduce the possibility of fraudulent financial statement. The replacement public accounting firm, when first auditing a company needs to make an adequate

understanding of the client's core business, internal controls, organizational structure, and so on. Understanding of the auditor is useful as the basis for the implementation of the audit. Managerial ownership can improve the quality of the financial reporting process, this is because when managers also have a share of ownership, they will act the same as their common shareholders and ensure that the financial statements are fairly presented and disclose the company's real conditions (Kouki et al., 2011).

Jensen & Meckling, (1976) argued that managerial ownership must be able to harmonize the interests of managers and shareholders. Managerial ownership is one mechanism that can be taken by the company to minimize the existence of agency problems from the manager's side to the shareholders. The percentage level of managerial ownership in the company can indicate management compatibility with shareholders. Managerial ownership is a percentage of the total shares owned by the management of the company. There is a possibility that ownership by managerial parties will be lower, the management of the company tends to have high opportunistic behavior, opportunistic behavior can be done by the management of the company. Increasing managerial ownership has the authority to determine and change its independent auditor. By changing or improving the audit quality of the company, it will be easier to find fraudulent financial statement that has occurred. So that with a higher level of managerial ownership, audit quality is also getting higher, so, fraudulent financial statements be lower.

Based on table 2, the research findings prove that the value of 0.085 then the hypothesis 4 is accepted. This means that managerial ownership is able to weaken the influence of the auditors switching against fraudulent financial statements. The findings of this study are in the hypotheses and theories. Managerial ownership acts as a watchdog, the manager managers have participation in the company, the manager will be more careful in the decision-making because the decision will be taken to affect the company and shareholders who are none other than himself. So when the manager will do the auditor switching with the aim to avoid detection of fraudulent financial statements then In general, managerial ownership is able to solve agency problems that have occurred. This is because high managerial ownership is able to make managers more eager to increase company value while motivating managers to always be able to work in accordance with the interests of shareholders.

Management integrity is one of the main determinants of the quality of financial statements. Independent auditors are also important supervisors in financial reporting. The relationship between the management of the company and the auditor shows the rationalization of the management of a company. The external auditor is the mechanism of the company in monitoring and controlling management related to the company's financial reporting. Standard Statement of Auditor No. 70 explains that there is a serious relationship between management and the auditor in charge and the auditor who received prior assignment as an indication of fraudulent financial statement. Summers and Sweeny (1998), explain that corporate clients may use an audit change mechanism aimed at minimizing the possibility of detecting fraudulent financial statement by company management. Sorenson et al., (1983) also suggested that corporate clients can conduct auditor switching to reduce the possibility of detecting fraudulent financial statement. The risk of failure in the audit process and the risk of further litigation in early involvement is higher when compared to subsequent years (Stice, 1991). The results of the research of Krishnan and Krishnan (1997); Shu (2000) produces that the auditor's resignation has a significantly positive effect on litigation. Studies conducted by Stice (1991) and St. Pierre and Anderson (1984) produce that auditor switching can occur for legitimate reasons, there is a risk of audit failure and subsequent litigation will be higher than in the following years.

According to Loebbecke et al., (1989) there were several frauds that occurred during their assessment and observation period in the first two years of auditor tenure. SAS No. 99 and Albrecht (2004), argue that auditor switching is related to fraudulent financial statement. Switching auditors conducted by companies can result in a period of transition and stress periods that occur in the company. The existence of the auditor switching in the second year may be an indication of fraud occurrence. Managerial ownership is the ownership of shares by the management company. The proportion of share ownership by the managerial party will affect the position as manager of the company as well as the shareholder. Thus, it is a parallel between the interests of shareholders and managers, because managers directly benefit from the decisions taken and managers who bear the risk that there are losses that arise as a consequence of wrong decision making. This mechanism will add to investor confidence that the behaviour of managers to take action to manipulate earnings can be

minimized. Jensen and Meckling (1976) argue that a convergence of interest between managers and owners can be achieved by providing share ownership to managers. If managers have shares in the company, they will have interests that tend to be equal to other shareholders. With the unification of interests of the agency, conflict managers are motivated to improve the company's performance and shareholder wealth. Ujiyantho and Scout Research (2007) stated that managerial ownership has a significant negative effect on management. Their results are similar to those of Nuryaman (2008) which conclude that ownership concentration negatively affects earnings management.

The higher managerial ownership, management, which at the same time becomes the owner of the company, can make decisions and determine policies to reduce fraudulent financial statement by increasing the quality of auditors so that they can detect fraudulent financial statement and fraudulent levels of financial reporting. Share ownership by management as a form of ownership motivation to increase company value, so that fraud problems can be controlled. With higher managerial ownership, it is expected that monitoring in each management decision can be more harmonious. The shareholding structure that is owned by the managerial side of the company is capable of being a controller to prevent fraudulent financial statement (Skousen & Wright, 1995). Higher managerial ownership can also play a role in pressing auditor switching because they feel as the owner of the company. By pressing the auditor switching frequency, it is expected that fraudulent financial statement will be detected and revealed. Thus, if the company is going to commit fraud requires a lot of consideration and becomes afraid that it will be revealed so that fraudulent financial statement will decrease and it will not even happen again. Based on the results of statistical tests, it shows that the firm size control variable shows a significance number of 0.621 or greater than 0.05. This concludes that the firm size control variable does not affect the companies that commit fraudulent financial statement. Thus, the size of the company that is getting bigger or smaller will not affect the company doing or not committing financial reporting fraud.

4 Conclusion

According to agency theory, there are agency problems between the company's shareholders and company management due to various corporate interests. The problem that becomes interesting is intensive monitoring of the performance of company management (Jensen & Meckling, 1976). A high managerial ownership structure is believed to be able to resolve and minimize the occurrence of agent problems that are always present in a company. with managerial ownership, managers who also own the company's shares will act in accordance with other shareholders in working to run the company's operations with the interests of shareholders and the interests of the company's management, so as to increase the value of the company. Increasing managerial ownership shows that management as well as being a company owner is getting higher. Management can reduce the occurrence of auditor switching that is increasing. With the auditor switching decreasing or there is no change of auditor during the contact period, the old auditor can find out the potential and even fraudulent financial statement that occurred. Thus fraudulent financial statement can be revealed so that it will reduce and reduce the level of fraudulent financial statement at the company. The higher the percentage of managerial shareholding structure, the lower the level of financial reporting fraud.

The conclusion of this study is that audit quality has a significant negative effect on fraudulent financial statement, auditor switching has a significant positive effect on fraudulent financial statement. Good corporate governance mechanisms such as managerial ownership structures are capable of being moderating variables that weaken the influence of audit quality on fraudulent financial statement. Furthermore, managerial ownership can also be a moderating variable in strengthening the influence between auditors switching to fraudulent financial statement. The theoretical implications of this study are that the results of this study can support existing theories. While the practical implications of the results of this study are the importance of the role of the good corporate governance mechanism, namely a high managerial ownership structure capable of being an effective supervisor and monitor in preventing fraudulent financial statement.

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