

ABSTRACT

This research aims to investigate the effectiveness of the characteristics of audit committee to hamper real earnings management. Audit committee characteristics are the special attribute of audit committee that can be used to restrain real earnings management. While real earnings management is an activity that conducted by the management of the companies to change the structuring of normal operation activity to boost current period earnings. Dependent variable that used in this research are real earnings management which is done by three major activities, i.e. sales manipulation, reduction of discretionary expenses, and overproduction. Independent variable in this research are financial expertise, tenure, additional directorships, size, and number of meetings of audit committee.

This research utilized the secondary data from annual report and financial statements that issued by public companies. This study uses a sample of 65 companies with a total observation study of 260 companies and with the research period from 2011 - 2014. The Companies that are used as the sample is a manufacturing company that has been listed on the Indonesia Stock Exchange. This study uses a purposive sampling method and multiple regression analysis.

This research found that audit committee characteristics, especially tenure of audit committee, have an impact on real earnings management. Tenure of audit committee negatively affect earnings management through real activities by overproduction. The audit committee with a long period of tenure would be able to understand and get into any part of the company deeply, so that the audit committee is able to identify and suppress earnings management through real activities.

Keywords : Real Earnings Management, Committee Audit Characteristics, and Corporate Governance.