

ABSTRACT

This study aims to examine the effect of surplus free cash flow, audit quality, and the interaction between surplus free cash flow and audit quality on earnings management in the bank companies in 5 countries of founder ASEAN. This study uses secondary data from annual reports and financial statements on bank companies listed on the Indonesia Stock Exchange, Malaysia Stock Exchange, Stock Exchange of Singapore, Philippines Stock Exchange, and The Stock Exchange of Thailand in 2012-2013.

The sampling method used is purposive sampling. The total number of samples in this study were 84 samples, but after going through the stages of data processing, there are 18 of data outliers that should be excluded from the sample. Thus, the total number of eligible final sample was observed that 66 data. Variable earnings management, surplus free cash flow, audit quality, and the interaction between surplus free cash flow and audit quality analyzed by multiplied regression.

The results of this study indicate that the activeness of the surplus free cash flow and audit quality are significantly positive effect on earnings management. However, the interaction between surplus free cash flow and audit quality significantly negative effect on earnings management. This finding suggests that both variables functioning jointly within the firm would indicate potential decreasing earnings management.

Keywords: free cash flow, audit quality, earnings management, discretionary accruals.