

ABSTRACT

This research aims to examine the effect of the implementation of corporate governance mechanisms to detect earnings management through real activity is through the provision of discounts to temporarily increase sales, overproduction to report lower cost of sales and discretionary cost reductions to increase profits. The variables tested in this research consisted of commissioners characteristics (size, number of meetings, independence), audit committee characteristics (size, number of meetings, competence in the field of accounting and finance), the quality of external auditors and earnings management through real activities introduced by Roychowdhury (2006).

This research was conducted by performing an analysis of the implementation mechanisms of corporate governance and real earnings management practices during 2008 to 2009 at companies listed in Indonesia Stock Exchange and then analyzed with multiple regression. Then the proxy-proxy for corporate governance mechanisms were analyzed by partial about the impact on real earnings management.

The results showed that the size of the board of commissioners, the number of board meetings, audit committee size, number of meetings of audit committee and auditor quality no significant effect on earnings management through real activities manipulation. However, the independence of the board of commissioners and competence of audit committee would have a positive significant effect on earnings management through real activities manipulation. Implication of this research indicate that companies in Indonesia suspected of earnings management through real activities manipulation, but the mechanisms of corporate governance required by the regulator (Bapepam) proved unable to prevent it.

Keywords : corporate governance, board of directors, audit committees, auditor quality, earnings management through real activities manipulation.