

ABSTRACT

This study aims to examine the effect of earning management and audit committee on annual report readability. This study also examines the moderator effect of audit committee on the relationship between earning management and annual report readability. Annual report readability was measured by Gunning Fog Index formula, while earning management was measured with Jones Modified (Dechow et al., 1995) and audit committee was divided into 3 proxies, those are audit committee expertise, audit committee size and audit committee meetings

This study used companies that listed on LQ45 Index on Indonesia Stock Exchange in period of 2017-2019. Purposive sampling method was used to select the sample of this study. The data that used was a secondary data and obtained from the annual report that available on Indonesia Stock Exchange's website and company website. Regression linear test was employed to find earning management and audit committee's effects on annual report readability and Moderated Regression Analysis was employed to find moderating effect of audit committee on earning management and annual report readability relationship.

According to statistical results, this study shows a negative and significant effect of earning management and audit committee expertise on Fog value which implies that addition of earning management and audit committee expertise existence can improve the annual report readability, while the audit committee size and audit committee meeting has no significant effect on annual report readability. this study cannot find the moderating effect of audit committee on the relationship between earning management and annual report readability.

Keywords: Annual Report Readability, Gunning Fog Index, Earning Management, Audit Committee, Accounting Expertise, Financial Expertise, Audit Committee Size, Audit Committee Meetings.