

# Earnings Management, Audit Committee effectiveness and The Role of Auditor Characteristics

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## ABSTRACT

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This research aims to provide empirical evidence regarding the effect of auditor characteristics on the relationship between audit committee effectiveness and earnings management. Mechanisms of good corporate governance can limit and control the opportunistic actions of management. The higher level of effectiveness of the audit committee will reduce the tendency of companies to practice earnings management. In addition to the Audit Committee as an internal party that oversees the credibility of financial statements, it is also necessary to supervise external parties, namely external auditors. So that with an effective audit committee and the function of the external auditor it is expected to reduce earnings management. Agency theory is used as a theoretical framework to provide a robust theoretical framework for investigating manager behavior in various companies. In this perspective, agency theory provides a clear understanding of the effectiveness of audit committees and the characteristics of auditors, and recognizes this as the most crucial oversight mechanism that reduces agency costs, manages conflicts of interest, and mitigates earnings management. The contribution of this research to the existing literature both theoretically and empirically. Theoretically, it will add governance theory about the interaction between the audit committee and external auditors in ensuring the quality of financial reporting. Empirically, the results of research on corporate governance and reporting quality reveal that the majority of them have been conducted in countries with advanced capital markets. In contrast, studies conducted in countries with developing capital markets are still scarce.

**Keywords:** Audit Committee, Earnings Management, Auditor, Audit Quality