

ABSTRACT

Earning management practices emerge as the impact of agency problems that occur due to the lack of interest between the shareholders (principal) and the management company (agent). The principal are motivated to enter a contract for his prosperity by increasing profitability while the agent is motivated to maximize the fulfillment of economic and psychological needs, such as in obtaining investment, loan, or compensation contract. To prevent earning management, the Indonesian government through Bapepam has issued Good Corporate Governance system.

This study aims to analyze the influence of Good Corporate Governance mechanism consisting of audit quality, audit committee, institutional ownership and independent director on earning management at manufacturing company listed in Indonesia Stock Exchange (BEI) for 2012-2016. This study uses quantitative method. The technique of selecting sample using purposive sampling technique. The sample in this research are 32 samples in the period of 5 years so that obtained 160 total sample. Methods of data analysis of this study is panel data regression analysis using EViews9.0 as the software.

The results of this study indicate that earnings management practices that occur is the type of income decreasing. Simultaneously, audit quality variables proxied with KAP size, tenure of KAP and tenure auditor; audit committees proxied with independence and expertise; institutional ownership and independent directors significantly influence on earning management type of income decreasing. Partially, audit quality variables proxied to the size of KAP and independent director variables have a negative effect on income decreasing. While the independence of the audit committee has a positive effect on income decreasing. Furthermore, audit quality variables proxied by KAP tenure and auditor tenure; audit committees proxied with expertise, and institutional ownership have no effect on earning management type of income decreasing.

Based on the results of the study, to limit the practice of earning management and increase investor and public trust, companies should use the services of Big Four KAP to obtain that their financial statements have good quality. Furthermore, companies need to improve the independence of audit committees because independent audit committees can provide maximum supervision in limiting opportunistic management actions leading to earning management practices.

Keywords: *earning management, audit quality, audit committee, institutional ownership, independent director, income decreasing*