THE INFLUENCE OF AUDIT COMMITTEE CHARACTERISTICS ON REAL EARNINGS MANAGEMENT

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ABSTRACT

Current study tests the impact of audit committees to the real earnings management.Using the manufacturing public listed companies from Indoensia Stock Exchange from 2012 until 2014, we found that that financial and accounting expertise of audit committee members and audit committee size have positive effect on real earnings management. Furthermore, we also found that the dual positions of the audit committee chairman have a negative effect on earnings management. The Tenure of audit committee chairman however, has no impact on real earnings management.

Keywords: real earnings management, characteristics of audit committee, good corporate governance, agency theory.

INTRODUCTION

Indonesia Stock Exchange (IDX) has required all listed companies to implement good corporate governance. This is because the good corporate governance is a tool to connect the company management with board of directors and stakeholders. Based on this, Indonesia Stock Exchange issued a regulation No: Kep-315 / BEJ / 06 / -2000 enhanced with regulations No .: Kep-339 / BEJ / 07 / -2001 on July 1, 2001 related to the establishment of an audit committee, independent commissioner and board secretary of listed companies. Indonesia Stock Exchange reconfirmed the rules with the issuance of Bapepam Chairman Decree No .: Kep-29 / PM / 2004, in which the contents of the decision requires companies listed on the Stock Exchange to have an audit committee. The regulations require a minimum of three independent people who make up the audit committee. One of the three members is from an independent commissioner who will be the chairman of the audit committee. In addition, one of the three members must have expertise and capabilities in the field of accounting and finance.

With three members, the board formed an audit committee in order to assist the

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commissioners in their duties. The audit committee has a role in helping commissioners in overseeing the management doing the financial reporting process. The role makes the audit committee is often linked to the quality of financial reporting. The existence of the audit committee should be able to improve the quality of financial reporting and company's internal control quality that aims to provide protection to shareholders.

Nevertheless, within the last ten years many scandals appeared related to financial reporting. That makes the effectiveness of audit committees in overseeing the financial reporting process in the company was often questioned (Vafeas in Putri, 2011). The collapse of several large companies that never happened raises questions related to supervision by the board of directors and the audit committee due to the manipulation of doing accounting records. Those manipulation activities are known as earnings management (earnings management).

According to Schipper (1989), earnings management is interference in the determination of earnings that is done deliberately for personal gain. Earnings management can occur for several reasons, such as to increase the manager compensation, boost stock prices, and get subsidies from the government (Subramanyam and Wild, 2013).

Earnings management can be categorized into the accrual earnings management and real earnings management, based on whether or not to have a direct impact on cash flow. Accrual management earnings are earnings manipulation using methods and accounting estimates that are not a direct impact on cash flow. Instead, the real earnings management is earnings manipulation using operational activities that directly affect to the cash flow. Real earnings management is known in the post Sarbanes Oxley Act (SOX) period. Compared by accrual earnings management, real earnings management has received little attention in the research literature. Therefore, this study focuses on real earnings management.

Roychowdhury (2006) comprehensively investigate earnings management through real activities. According to Roychowdhury (2006) earnings management through real activities is activity originating from normal operational practices, which encouraged manager desire to mislead some stakeholders as a general statement users into believing that certain financial reporting purposes has been fulfilled in a credible form of operational operation. Research results show that managers typically take three types of activity manipulation of real activity, namely (1) manipulation of the sale, (2) a reduction in discretionary costs (general and administrative expenses and cost of sales), and (3) excessive production (overproducing). Earnings management actions undertaken by management is the accounting reality that is difficult to accept by the user, can damage the credibility of financial reporting (Subramanyam and Wild, 2013).

The responsibility of the board of commissioners is to act as representatives of the shareholders in all respects, so the commissioners must supervise the manager to restrict the activity of the real manipulation. Although the audit committee plays a major role in the regulatory process of financial reporting, it is unclear whether the audit committee can effectively inhibit the activity of real earnings management.

Research related to the effectiveness of the audit committee have been done, but until now there are still few empirical evidences that founded about how the characteristics of the audit committee impact real earnings management. Visvanathan (2008) used data pre-SOX to examine the relationship between real earnings management and three characteristics of audit committee, specifically the independence of the audit committee, the audit committee size, and frequency of audit committee meetings. The results showed that the frequency of audit committee meetings negatively affect the real income related management discretionary cost reductions, but not for the manipulation of sales activity and activity overproducting. Mughni (2014) had a research related to the influence of the characteristics of the audit committee and audit quality on earnings management. The characteristics of the audit committee is used, which is a measure of the audit committee, financial expertise of audit committee members, the number of audit committee meetings. The results showed that only financial expertise that have a significant effect on earnings management.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Agency theory is a theory that describes the relationship between the agent and the principal. On the one hand manager have a role to be agent and on the other as the principal (owner of the company) (Hendriksen and Breda, 1992).

Agency theory occurs because of a conflict of interest between the principal (owner) and agent (management). In the agency theory all individuals are assumed to do things just based on their self-serving. The owners (principals) are assumed to be mainly interested in the acquisition of the yield on the investment that the owners do on a company. While management (agent) is assumed to receive compensation that is derived from a monthly compensation and also compensation gained from involvement in an agency relationship (Anthony and Govindarajan, 2011).

This conflict of interest raises the existence of information asymmetry. Asymmetry of information is an imbalance gained between information of manager as a provider of information to the shareholders and stakeholders in general as consumers of information. There are two kinds of information asymmetry, namely:

Adverse selection, which is compared with the shareholders, the management is know more information about the situation and prospects of company.That condition can cause the information given to the principal does not fully rendered by the agent.

Moral hazard, which is shareholders doesn't know all the activities doing by the management, so that management can take action beyond the knowledge of shareholders. Such actions constitute a breach of contract and not ethically.

Implementations of basic earnings management can be explained by the theory agency. Earnings management occurs because of a conflict of interest between the principal andagents. Management has more information than shareholder so that it can trigger asymmetric information.Asymmetry information involve management to have motivation and strong chance to practice earning management. User of financial report difficult to accept earning management practice by management. Earning management can decrease credibility of financial reporting.

Schipper (1989) contend that earning management is management's interference for determining of company's profit to gain individual motive. There are several reasons from management doing earnings management, among which is to raise stock prices by increase profits, increasing manager compensation, and to get subsidies from the government.

Roychowdhury (2006) comprehensively investigate earnings management through real activities. His research states that the management usually doing three types of activity manipulation of real activity, namely:

Sales Manipulation

Manipulation is defined as the sales manager effort to increase sales during the years for the purpose of achieving profit targets. Management generates additional sales by offering a limited discount price and by offering soft credit terms. As a result, sales volume increased and resulted in higher income for the year but the cash flow decreased due to smaller cash inflows due to credit sales and discounts offered.

Reducing Discretionary Expenses

Management can increase profits by reducing discretionary costs. Cost discretionary companies consist of cost of sales, R & D costs, marketing costs, and general and administrative expenses.

Overproducing

Manufacturing companies can carry out large-scale production (overproducing) is to produce the goods in larger quantities than is needed in order to achieve the expected demand so that profit will increase. With this excessive production of fixed overhead costs divided by the number of units of goods in large quantities would bring the cost per unit and the cost of goods sold decreased. The decline on cost of goods sold will result increasing operating margins.

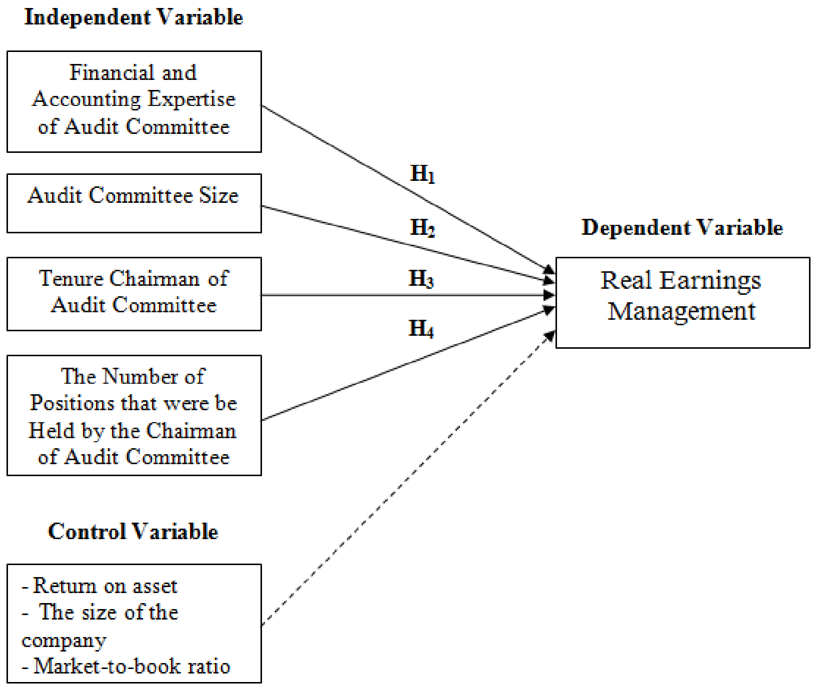
Company should strive to reduce their earning manipulation with doing implementation of good corporate governance. Good corporate governance achievable with formed an audit committee.

The audit committee is a committee formed by the board of directors in order to help carry out its duties and functions. According Tugiman (1995) the audit committee is a group of people elected by a larger group to do a particular job or to perform specific tasks or the number of commissioners of client companies are responsible to assist the auditor in maintaining their independence from management. Their audit committee is expected to be able to improve the quality of financial reporting produced by management and is also expected to be able to improve the company's internal control aimed at giving protection to shareholders.

This study examineanything of the characteristics of audit committee that can reduce the activity of earnings management. Characteristics of the audit committee are independent variables in this study. Characteristics of the audit committee used that is expertise financial accounting and audit committee members, the size of the audit committee, tenure the chairman of the audit committee, and the number of positions that were held by the chairman of the audit committee. The framework in this study, namely:

Picture 1.1

Research Framework



Hypothesis Development

Financial and AccountingExpertise of Audit Committee Member

The first characteristic of audit committee is financial and accounting expertise of audit committee members. Members with financial and accounting expertise can enhance the supervisory function owners of the company (the principal) on the management (agent) in order not to harm the owner of the company. Based on the Decree of Chairman of Bapepam Number: Kep-29 / PM / 2004 stating that one of the three members of the audit committee must have an educational background in accounting or finance. Knowledge in the field of accounting and finance can be used as the basis for audit committee members in their duties. Financial and accounting expertise of audit committee members are expected to reduce a material misstatement in presenting financial statements so as to reduce the activity of earnings manipulation by management. Thus, the greater the audit committee members with expertise in accounting and finance make the quality of financial reporting for the better and secure.

Previous research showed that the accounting and financial expertise of audit committee members can facilitate the audit committee to be more effective in controlling the financial reporting process.Bedard et al., (2004) showed that aggressiveness earningmanagementnegatively affected with accounting and financial expertise of audit committee members. Krishnan and Visvanathan (2008) found that accounting conservatism is positively related with financial and accounting expertise of audit committee members. Based on the above explanation, the first hypothesis, that is:

H1: Financial and accounting expertise of audit committee members has negative effect on real earnings management.

Audit Committee Size

The second characteristic of audit committee is audit committee size. Audit committee size help oversee the management (agent) that does not harm the owner (the principal). The larger of the audit committee size oversight of management (agents) in the conduct of financial reporting becomes more increased. Based on the Decree of Chairman of Bapepam Number: Kep-29 / PM / 2004 which requires the contents of the audit committee consisting of at least three independent people.

The amount of audit committees are more likely to have members with expertise varied to monitor the practices of financial reporting done by management (agent) is more effective, so that the owner (principal) was reporting produced have good quality and guaranteed (Baxter and Cotter, 2009). Thus, the larger of the audit committee size is expected to reduce their earning manipulation activities by management. Based on the above explanation, the second hypothesis, that is:

H2: Audit committee size negatively affect to the real earnings management.

Tenure Chairman of Audit Committee

The third characteristic of audit committee istenure chairmanof audit committee. Tenure chairmanof audit committeewith a long tenure can improve owner's company (principal) supervision toward the management (agent). Chairman of the audit committee with a long tenure has greater the experience and expertise oversight of financial reporting, so we can easily find misstatements made by management. The longer tenure chairman of the board can gain relevant knowledge related to chairman's job from time to time to improve the performance of their work (Fiedler, 1970 in Sun and Lan 2014). Beasley (1996) found that manipulation of financial statements has possible lower value than the company had an average longer tenure chairman of the board. Therefore, the chairman of audit committee with a long tenure is expected to be more effective in overseeing the management compared than chairman of the audit committee who has shorter tenure, so that the resulting financial reporting will be more qualified. Based on this explanation, the third hypothesis is:

H3: Tenure chairman of the audit committee negatively affect toward the real earnings management.

The Number of Positions that were be Held by the Chairman of Audit Committee

The fourth characteristic of audit committee is the number of positions that were is held by the chairman of audit committee. The chairman of audit committee has double positions outside the company can gain experience and greater expertise in monitoring managers (Bedard et al., 2004). Another that, the chairman of audit committee may also have a great reputation to motivate his members so that it can work better (Shivdasani, 1993 in Sun and Lan 2014).

A large number of positions that were be held by the chairman of audit committee should be able to reduce earnings management activities conducted by the management (agent), so that owner's company (the principal) can feel confident about the financial reporting because it has better quality. Bedard et al., (2004) proved earnings management is negatively related to the average number of positions that were be held by the chairman of audit committee outside the company. The results showed that the number of positions that were be held by the chairman of audit committee outside the company more effective to detain the earnings management. Based on the above explanation, the fourth hypothesis is:

H4: The number of positions that were be held by the chairman of audit committee negatively affects toward the real earnings management.

RESEARCH METHODS

Population and Sample

The population in this research is manufacturing companies listed in Indonesia Stock Exchange in period 2012-2014. The reason for using a manufacturing company as a population is because the population in the manufacturing sector is more than other sectors. In addition, the data contained in the financial statements on manufacture companies is more complete and complex. The data used are the financial statements and annual reports for three years from 2012 to 2014. The reason for using the data for 2012-2014 is because the data year 2012-2014 provide an overview of the current condition of the company which is the latest data of the company.

The sampling technique used in this research is purposive sampling, is a technique commonly used in the sampling process based on certain criteria predetermined. The criteria were used: (1) Company listed on the Stock Exchange and issued financial statements and annual reports in a row and complete for the period ended December 31, 2012 to 2014; (2) manufacturing company issued financial statements using the currency of rupiah; and (3) the company used as a sample is a company with full information relating to the calculation indicators and variables used in this study.

Table 1
Purposive Sampling

Explanation	Amount
Manufacturing companies listed in Indonesia Stock Exchange in period 2012-2014	688
Companies that do not meet the criteria	(544)
Companies thatmeet the criteria	144
Outlier	(33)
Total samples within 3 years	111

Source : Secondary data were processed, 2016

Measurement of Real Earnings Management

This study uses real earnings management as the dependent variable. Real earnings management is earnings manipulation by using the operations that directly impact on cash flow. Based on previous research, measurement of real earnings management in this study uses the calculation concept of Royhowdhury (2006) which uses three approaches, specifically: the abnormal production cost caused by manipulation of the manufacturing process, the abnormal operating cash flow caused by manipulation of sales activity, and discretionary expenses caused by the manipulation of operating expenses.

The first step is calculating the cost of normal production (PROD),discretionary expense (DISX), and operating cash flow (CFO) following the results of the regression for each company. The second step is calculating the normal rate on PROD, CFO, and DISX separately.

The concept for the calculation of the normal level of production costs (PROD), normal levels of operating cash flow (CFO), and normal levels of discretionary expense (DISX), are:

Normal Level of Production Costs (PROD)

$$PROD_t/A_{t-1} = \alpha_0 + \beta_1 \, 1/A_{t-1} + \beta_2 \, S_t/A_{t-1} + \beta_3 \, \Delta S_t/A_{t-1} + \beta_4 \, \Delta S_{t-1}/A_{t-1} +$$

which:

A_{t-1} = total asset inyear t-1

S_t = Net sales in year t

ΔS_t = variance of net sales from year t-1 to t

$PROD_t$ = production cost in year t

α_0 = Constanta

β_{1-4} = Coefisien

ε = error

Normal Level of Operating Cash Flow (CFO)

$$CFO_t/A_{t-1} = \alpha_0 + \beta_1 \, 1/A_{t-1} + \beta_2 \, S_t/A_{t-1} + \beta_3 \, \Delta S_t/A_{t-1} + \varepsilon_t$$

Dimana:

CFOt = operating cash flow in year t

Normal Level of Discretionary Expense (DISX)

$$DISX_t/A_{t-1} = \alpha_0 + \beta_1 \, 1/A_{t-1} + \beta_2 \, S_{t-1}/A_{t-1} + \varepsilon_t$$

Which:

DISXt = discretionary expense in yeart (selling expense, general and administrative expense)

The third step is calculating the abnormal PROD (APROD), abnormal CFO (ACFO), and abnormal DISX (ADISX). Abnormal value is calculated by subtracting the actual value with the predicted abnormal value (Cohen et al., 2008). The concept of the calculation is as follows:

Abnormal Level of Cost Production

$$APROD_t = PROD_t/A_{t-1} - [\beta_1 \, 1/A_{t-1} + \beta_2 \, S_t/A_{t-1} + \beta_3 \, \Delta S_t/A_{t-1} + \beta_4 \, \Delta S_{t-1}/A_{t-1}]$$

Which:

$APROD_t$=Abnormal Level of Cost Production in year t

Abnormal Level of Operating Cash Flow

$$ACFO_t = CFO_t/A_{t-1} - [\beta_1 \, 1/A_{t-1} + \beta_2 \, S_t/A_{t-1} + \beta_3 \, \Delta S_t/A_{t-1}]$$

Which:

$ACFO_t$ =abnormallevel of operating cash flow in year t

AbnormalLevel of Discretionary Expense

A 〖DISX〗_t = 〖DISX〗_t/A_(t-1) □(-) [β_(1) 1/A_(t-1) + β_(2) S_(t-1)/A_(t-1)]

Which:

A 〖DISX〗_t =abnormal level of discretionary expense in year t

Companies that seek to manipulate earnings tend to have higher APROD, while ACFO and ADISX lower.The final step is combining three sizes of real earnings manipulation into a proxy named RM. The concept of the calculation is as follows:

〖RM〗_t =□(〖APROD〗_t- 〖ACFO〗_t- 〖ADISX〗_t)

which:

〖RM〗_t = Real earning management in year t

Analysis Method

Hypothesis testing used multiple linear regression analysis (multiple regression). Multiple linear regression analysis aimed to test hypothesis whether there is influence between the independent variable on the dependent variable. In general, multiple linear regression analysis model can be written as follows:

│RMt│=α+β_1 ACEXPt+β_2 ACSIZEt+β_3 ACTENt+β_4 ACOTHt+β_5 ROAt+β_6 SIZEt+β_6 MBt+ ε_(i,t)

which:

RMt : real earning management

α : constanta

β_(1-6) : coefisien

ACEXPt : Financial and accounting expertise of audit committee members, as measured by number of members who have expertise or experience in the field of accounting and finance.

ACSIZEt : Audit committee size, measured by the number of audit committee members that exist in every company.

ACTENt : Tenure chairmanof the audit committee, as measured by the number of tenure of the chairman of the audit committee since the first appointment until the period of the study

ACOTHt : The number of positions that were held by the chairman of the audit committee, measured by the number of positions that are concurrently chairman of the audit committee, both within and outside the company.

SIZEt : The size of the company, based on the natural logarithm of market value.

ROAt : Return on asset

MBt : Market-to-book ratio

According to Krishnan and Visvanathan (2008), accounting expertise and financial shared by members of the audit committee can be interpreted as directors who are or who have been included in one of the members of the following groups: graduates from accounting, auditor, certified public accountant (CPA), principal or chief financial officers (CFO), controller, and principal or chief accounting officers (CAO).

RESULTS AND DISCUSSION

Table 2 shows the results of descriptive statistic tests. The results showed that the number of samples (N) is 111. The maximum value for the variable of real earnings management (RMt) is1.242, while the minimum value is 0.004. The average value is 0.346. Standard deviation of real earnings management variable is 0.256 can shows the variation of the value of inter-company from year to year.

For variable accounting and financial expertise on audit committee members (ACEXPt) minimum value is 1.0 and a maximum value is 3.0 with an average value is 2.261. This suggests that most companies listed on the Indonesia Stock Exchange in the year 2012-2014 has been implement the requirement of the Capital Market Supervisory Agency and Financial Institution (BAPEPAM LK), that is at least 1 member who has accounting and financial expertise.The standard deviation is 0.747 indicates a variation contained in the audit committee financial accounting expertise.

For the variable size of the audit committee (ACSIZEt) minimum value is 3.0 and a maximum value is 4.0 with an average value is 3.063. This suggests that most manufacturing companies have implementation requirements of the Capital Market Supervisory Agency and Financial Institution (BAPEPAM LK) is a minimum have 3 members of audit committee. The standard deviation is 0.244 indicates a variation contained in the variable size of the audit committee.

For variable tenure chairman of the audit committee (ACTENt) minimum value is 0.0 and a maximum value is 13.0. The average value is 5.243 that are shows the majority of the company's audit committee chairman on manufacture serves more than one period. The standard deviation is 4.110 indicates a variation contained in this variable.

For a variable number of positions that were be held by the chairman of the audit committee (ACOTHt) minimum value is 0.0 and a maximum value is 4.0 with an average value is 1.532. This indicates that a portion the chairman of the audit committee have another positions both within the company and outside the company. The standard deviation is 0.922 indicates the variation contained in this variable.

Table 2
Descriptif Statistic Test Result

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
REM	111	0,004	1,242	0,346	0,256
ACEXP	111	1,0	3,0	2,261	0,747
ACSIZE	111	3,0	4,0	3,063	0,244
ACTEN	111	0,0	13,0	5,243	4,110
ACOTH	111	0,0	4,0	1,532	0,922
ROA	111	-0,170	0,350	0,079	0,096
SIZE	111	4,143	10,165	7,098	1,541
MB	111	-2,695	52,394	3,688	6,563

Source : Secondary data were processed, 2016; REM:Real earnings management; ACEXP: Financial accounting expertise of audit committee members; ACSIZE:Audit committee size; ACTEN: Tenure chairman of the audit committee; ACOTH:The number of positions that were held by the chairman of the audit committee; ROA: Return on asset;SIZE:The size of the company; MB: Market-to-book ratio

Table3 shows the results of Variance Inflation Factors (VIF) for each independent variable to test multicollinearity between each independent variable. The results shows each independent variable has a value of VIF is less than 10. Based on these results it can be concluded that there is no multicollinearity of each independent variable.

Table 3 also shows the test of hypothesis in this research. The following are the results of testing hypothesis were made:

Influence of Financial and Accounting Expertise of Audit Committee Members toward the Real Earnings Management

From the test results have shown the value of the variable probability of financial accounting expertise of audit committee members is smaller than the 0.05 level that is equal to 0.019 (0.019 <0.05). This means that the variable financial accounting expertise of audit committee members significantly affect the real earnings management. However, the direction coefficient indicates a positive direction. The results of this test mean that the financial accounting expertise of audit committee members to make real earnings management increases. Thus hypothesis 1 which states that “financialand accounting expertise of audit committee members negatively affect the real earnings management" is rejected.

Based on the Decree of Chairman of Bapepam Number: Kep-29 / PM / 2004 states that have at least one member with expertise in accounting and finance. Although most of the companies listed in the Indonesia Stock Exchange has followed the rules has not yet been able to reduce their earnings management. The results can be seen by the average value for the variable financial accounting expertise (ACEXPt) of 2.261. The value of the average shows that most companies have members with expertise in accounting and finance more than one person.

The large number of members with expertise in the financial and accounting rather than reducing earningsmanagement, but instead make more practice earningsmanagement in the company's. This can be due to the audit committee members who do not have an educational background in accounting or finance considered to have the ability in the field of accounting and finance when to be a member of the audit committee. In addition, the appointment of independent directors to be the chairman of the audit committee independence is questionable. Problems independence and expertise in accounting and finance may cause the audit committee is more likely to side with management when there is disagreement between management and the external auditor. Therefore, earnings management conducted by the management because support from the audit committee. This condition may cause financial accounting expertise of audit committee members have positive influence on earnings management of real (Sanjaya, 2008 in Ariyani 2011).

Influence of Audit Committee Size toward Real Earnings Management

From the test results have shown the value of the variable probability of audit committee size is smaller than the significant level of 0.05, which is equal to 0.000 (0.000 <0.05). This means that the variable audit committee size significantly affect the real earnings management. However, the direction coefficient of the audit committee size showed a positive direction. The results of this test mean that the audit committee size make real earnings management increases. Therefore, hypothesis 2 which states that "the audit committee size negatively affect the real earnings management" is rejected.

Based on the Decree of Chairman of Bapepam Number: Kep-29 / PM / 2004 stated that the establishment of an audit committee must have at least three members. Although the average company is already implementing these rules, it still has not been able to reduce their real earnings management activities. The results showed that the audit committee size would increase the occurrence of earnings management. It can be caused due to the small number of audit committee members. The number of members is too little can cause problems due to the lack of division of duties of members (Klein, 2012). This leads to make supervision toward management when financial reporting processes less qualified, this condition allows management doing fraud. This condition may cause the audit committee size is a positive influence on real earnings management.

Influence of Tenure Chairmanof the Audit Committee toward Real Earnings Management

From the test results have shown the value of the variable probability tenure chairman of the audit committee is greater than the significant level of 0.05, which amounted to 0.772 (0.722> 0.05). This means that the variable tenure of audit committee chairman does not affect the real earnings management. Therefore hypothesis 3 which states that "the tenure of audit committee chairman negatively affect the real earnings management" has been rejected.

The long duration appointment chairman of the audit committee is apparently not affecting the earnings management. This can be due to a decline in the performance chairman of the audit committee. This performance degradation can be caused by the chairman of the audit committee has to know about the company's condition, so that the chairman of the audit committee have felt no need to work hard again to oversee the management. The action taken by the chairman of the audit committee could lead to other audit committee members to do the same. It can create an audit committee is no longer effective when oversee management to the financial reporting process. This condition may lead to tenure chairman of the audit committee has no effect on earnings management.

Influence of Number of Positions that were be held by the Chairman of the Audit Committee toward the Real Earnings Management

From the test results have shown a probability value of a variable number of positions that were held by the chairman of the audit committee is smaller than the significant level of 0.05, which amounted to 0.045 (0.045 <0.05). This means that a variable number of positions that were held by the chairman of the audit committee significantly affect the real earnings management. In addition, the direction coefficient of the size of the audit committee showed a negative direction. The results of this test mean that the number of positions that were held by the chairman of the audit committee makes real earnings management is reduced. Therefore hypothesis 4 which states that "the number of positions that were held by the chairman of the audit committee negatively affect the real earnings management" are accepted.

Based on the average value for a variable number of positions that were held by the chairman of the audit committee (ACOTHt) that is equal to 1.532 with a maximum value is 4.0 and a minimum value is 0.0 indicates that the majority of the chairman of the audit committee has more than one position. A large number of positions that were held by the chairman of the audit committee were effective for reducing their earnings manipulation carried out by the management. A large number of positions that were held by the chairman of the audit committee are made chairman of the audit committee more experienced as it faces a different situation for every company where he worked. With the experience, of course, that isenhancing the knowledge and expertise of the chairman of the audit committee. Increasing the expertise and experience is the basis for the chairman of the audit committee to motivate members to work better. With so many positions that were held by the chairman of the audit committee, pointed out that the chairman of the audit committee also has a good reputation, so of course the chairman of the audit committee will give a maximum contribution to the company. Therefore, oversight toward management will increase and reduce manipulation practice by management.

Table 4
Hypothesis Test Result

Variables	B	t	Variance Inflation Factor
(Constant)	-0,898	-3,760	
ACEXPt	0,061	2,378**	1,311
ACSIZEt	0,328	4,212*	1,272
ACTENt	0,001	0,291	1,183
ACOTHt	-0,040	-2,033**	1,134
ROAt	1,732	8,136*	1,478
SIZEt	-0,002	-0,154	1,711
MBt	0,009	3,080*	1,259

Source : Secondary data were processed, 2016; *: significant at level 0,01; **: significant at level 0,05; Real earnings management: dependent variable; ACEXP: Financial accounting expertise of audit committee members; ACSIZE: Audit committee size; ACTEN: Tenure chairman of the audit committee; ACOTH: The number of positions that were held by the chairman of the audit committee; ROA: Return on asset;SIZE: The size of the company; MB: Market-to-book ratio

CONCLUSION

The purpose of this study is to examine the influence of the characteristics of the audit committee toward real earnings management. This is their conclusion based on the analysis of data that has been described in previous chapters:

1. The first characteristic ofaudit committee, that is financial and accounting expertise of audit committee members. The results show the financial and accounting expertise of audit committee members has significant positive effect on real earnings management.

2. The second characteristic of audit committee, thatis audit committee size. The results showed that the audit committee size has significant positive effect on real earnings management.

3. The third characteristics of audit committee that isthe audit committee tenure. The results showed that the tenure of the audit committee has no significant effect on real earnings management.

4. The fourth characteristic of audit committee, which is the number of positions that were held by the chairman of the audit committee. The results showed that the number of positions that were be held by the chairman of the audit committee has significant negative effect on the real earnings management.

Research conducted has weakness and limitations that reduce the perfection of research results. The next research is expected to pay attention to the limitations of this study. Limitations of this study are:

1. Many companies do not attach the complete information related to the audit committee in the annual report, so it cannot be sampled.

2. The sample of companies used as a research object only manufacturing company, so it has not been able to include results for all companies listed on the Indonesian Stock Exchange.

3. The result has not been able to provide empirical evidence toward tenure the chief of audit committee variable.

Future studies are expected to present the results of a higher quality and accurate by watching that is some suggestion:

1. Future studies may use different sample other than manufacturing companies, such as financial companies and banks due to the financial sector has different characteristics with the company on manufacture.
2. The next research can add variables to the characteristics of the audit committee, such as the frequency of audit committee meetings, the independence of the audit committee, and so on. This is because there are many variables that can be used to explain the relationship of audit committee characteristics and earnings management.

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