ABSTRACT

Mechanisms of effective corporate governance would reduce certainly the risk of one through the supervisory agency management, managers limit opportunistic behavior, and improve the quality of the companies in the information flow. In addition there are factor that can be used to detect the presence of bad earnings management are auditor independence, audit quality, leverage, profitability and firm size can also detect the presence of bad earnings management.

The population in this study are all companies listed on the Indonesia Stock Exchange in 2010-2012. The sampling method used was purposive sampling. Limit the number of companies that meet the population during the study period from 2010 to 2012 as many as 315 manufacturing companies. In examining the factors that influence bad earnings management, will be performed with pool regression models, that contained in the program Eviews version 6.1. The level of significance (α) for each variabels are 5%.

The results of the study found that audit committee, auditor independence, leverage, profitability and firm size have effect on bad earnings management, on the other hand institutional ownership, management ownership, independent directors and audit quality have no effect on earning management.

Keywords : **Corporate governance, bad earnings management, auditor independence, audit quality, leverage, profitability, size of the company.**