

**AUDIT COMMITTEE CHARACTERISTICS AND EARNINGS
MANAGEMENT: EVIDENCE FROM COMPANIES LISTED IN COLOMBO
STOCK EXCHANGE, SRI LANKA**

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Better financial reporting methods are correlated with strong corporate governance. Managers have greater incentives to disclose confidential information to the users and less motive to manage earnings since agency conflicts are minimized. This study aimed to examine the influence of audit committee characteristics on the earnings management of listed companies in Sri Lanka. Secondary data of listed firms on the Colombo Stock Exchange (CSE) for the five years from 2017 to 2021 was used. For data analysis, 107 companies listed on CSE were selected as the sample and a quantitative technique was employed. Audit committee size, audit committee independence, audit committee financial expertise, and audit committee meetings were proxies for audit committee characteristics, while firm size and leverage were considered as control variables. This study used discretionary accruals as a signal of the presence of earnings management. The techniques of Pearson's Correlation and panel data regression were employed to estimate the association between the audit committee characteristics and earnings management. The empirical findings revealed that audit committee independence and audit committee meetings significantly influence the earnings management of listed companies in Sri Lanka. Therefore, there is strong evidence that a low level of audit committee independence and audit committee meetings have a major effect as a device in mitigating earnings management. This study contributes significantly to improving one's understanding of the interactive role of audit committee characteristics.

Keywords: Audit committee characteristics, audit committee financial expertise, Colombo Stock Exchange, earnings management