

Role of the Internal Audit Function to Earnings Management: Evidence from Sri Lankan Manufacturing Industry

Kankanamge, C. A.¹

The purpose of this paper aims to examine the role of internal audit function (IAF) to control the opportunistic earnings management (EM) in Sri Lanka during the period from 2014-2016. Even though there are studies conducted on this topic on developed market settings, significant gaps remain unresolved in emerging market contexts. IAF Size, independence, meetings and financial expertise used in this study as IAF characteristics. Code of Best Practice of Corporate Governance (2013) used to operationalize the IAF characteristics. To measure the EM, Kothari, Lenon and Wesley (2005) performance adjusted discretionary accrual model was used. Panel data of 100 firm year observations used to run the Ordinary least squares regression model. Regression results showed a strong negative relationship between IAF characteristics and EM. The findings based on this study provide useful information to the firms about the importance of having strong and effective IAF to constrain the earnings management of the firms.

Keywords: *Internal Audit Function, Earnings Management, Manufacturing Firms*

¹ Faculty of Management and Finance, South Asian Institute of Technology and Medicine, Sri Lanka (Chinthakaamila82@gmail.com)