Audit Committees and Earnings Expectations Management

This study examines the association between audit committee oversight and earnings expectations management. We find that audit committees that are independent, include at least one accounting expert, and meet frequently are associated with lower likelihoods of downward expectations management and optimistic bias in analyst forecasts. Consistent with the expectations management results, we also find that analyst forecast revisions and management guidance are less likely to be downward when audit committees are active and have financial or accounting expertise. Our findings also suggest that appointing an accounting expert, instead of a non-accounting financial expert, to the audit committee is likely to be more effective in curbing the earnings games and protecting investors' long-term interest.