

## **Abstract**

I conduct an analysis of the earning management through discretionary accruals in Stock Exchange of Thailand in relation to Surplus Free Cash Flow and External Monitoring (independent auditor and institutional investors). Using 840 company year observations between 2001 and 2005, the result shows that companies with high free cash flow together with low growth opportunities have used discretionary accrual significantly. External monitoring by high quality auditors and institutional investors are not significantly observed. However, I find that the interaction between surplus free cash flow and tenor of auditors is significant to support discretionary accrual. This means that auditors with long term relationship with firms tend to help managers manage discretionary accrual when it appears surplus free cash flow. Moreover, I found that interaction between surplus free cash flow and institutional investors are significantly decrease discretionary accrual in selected observations.