

## **ABSTRACT**

*Asymmetry of information between agency and principal, make the management have opportunity to create earnings management. Earnings management has a disadvantage to investors. Auditors have a risk that investor can make a assertion to auditor is called litigation risk. The purpose of this research is to examine the influence of Litigation Risk to Earnings Management and the influence Audit Quality as the moderating variable in relations between Litigation Risk and Earnings Management.*

*The proxy for earnings management is discretionary accruals by Jones Model (performance-matched discretionary accruals). Audit Quality in this research use auditor size. This study uses secondary data from financial statement of manufacturing companies which listed on Bursa Efek Indonesia in 2008-2010. This research uses purposive sampling method. The method analysis of this research used multiple regression analysis.*

*The results of this research show that litigation risk had no influence on earnings management. The result of the test to moderating variable shows that audit quality had negative influence on the relations between Litigation Risk and Earnings Management.*

*Keywords : litigation risk, earnings management, audit quality, auditor size.*