

Stock Market Reaction to Auditor Opinion

Pieris, H.T.D.¹ and Kawshalya, M.D.P.²

¹dimanthathushan@gmail.com; ²pubuduk@kln.ac.lk

Abstract

The audit report is the medium of communication between the auditor and the users of the audit report, this report must be understandable, objective, and accepted by the users as a relevant source of information. Therefore, this research focuses on identifying the impact of auditor's opinion on the share prices of listed companies in Sri Lanka. Due to the importance of the research area, in every region in the world, studies have taken place. However, results include certain contradictory conclusions. Therefore, the Sri Lankan capital market, CSE is an ideal research site to conduct an investigation to find out whether the information content on the auditor's report does have an effect on an investor's decision-making process. Accordingly, the purpose of this study is to investigate the impact of audit qualification on the share prices of listed companies in the CSE, untested market, and environment to test whether the value relevance of information content of the quailed audit report exists. To test the hypothesis, the short event study methodology, which is focusing on short event window was used to determine the market reaction to audit qualifications. The sample consisted with 40 firm-year observations from 30 unique companies listed in Colombo Stock Exchange between 2015 to 2019. It has been considered only the first-time audit qualifications to test the impact of new information. This study is expected to be important to the audit profession, investors, creditors, and other general users, as it is expected to provide them with useful information. Further, makes it possible to identify the investor's reaction over audit qualifications and evaluate the speed of response.

Keywords: Audit report, Colombo Stock Exchange, Market reaction, Share price, Sri Lanka.