

The value relevance of audit opinions on stock price of companies listed in the Colombo Stock Exchange

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Abstract

Entity's management provides information for investors to make their decisions whether they should buy or sell securities. Investors may decide their decisions according to the auditor's reports of companies. Therefore, auditor's report should contain information that can influence the stock price. Thus, the audit opinions may be more significance on the stock price of the companies. In local and international contexts, most of the people have failed to reach impression about how the audit opinions affect on the stock price. Therefore, the researcher expects to find out to what extent the audit opinions value relevance on the stock price. The main objective of the study is to investigate the value relevance of audit opinions on the stock price of companies listed in the Colombo Stock Exchange (CSE). The population includes 290 companies listed in the CSE as at 20th January 2020 and out of that 151 companies were selected as the sample. The study used secondary data collection method. The analysis was done using descriptive statistics, correlation and panel regression. Unqualified, qualified, adverse & disclaimer of opinions have been identified as independent variables while the stock price has identified as the dependent variable. And, earning per share and book value per share were used as control variables. According to the results, the independent variables contributed to 35.14% of the variation in the stock price as explained by R^2 of 35.14%. The statistical results show that there is a significant positive relationship between unqualified opinions and stock price and also there is a significant negative relationship between qualified opinions and stock price. Finally, authors concluded that audited financial statements have more value relevance information for the investors' decisions. This will assist investors in deciding which stocks to invest in their portfolio based on the regular audit reports examined.

Keywords: *Audit opinions, Colombo stock exchange, stock price, value relevance.*