# An Emerging Market's Reaction to Audit Opinion Improvement

**Zohreh Hajieha**
***Islamic Azad University, East Tehran Branch***
**Mohamad Reza Ebrahimi**
***Islamic Azad University, Electronic Branch***
**Taewon Yang**
***California State University, San Bernardino***
**Mohammad S. Bazaz***
***California State University, San Bernardino***

## ABSTRACT
This paper investigates the impact of audit opinion and audit opinion improvement on stock prices and trade volumes of listed companies in Tehran Stock Exchange (TSE). It is assumed that audit opinion and audit opinion changes reflect good and bad news about firms; thus, four hypotheses were developed and tested. The sample consisting of 75 firms listed in TSE from 2006 to 2013. The statistical method is Fixed Effect Pooled Data Regression. In order to quantify audit opinion improvement, Li and Wu's (2004) method was employed. The results show that there is a positive and significant relationship between audit opinion, audit opinion improvement and firms' stock prices and trade volumes in emerging Iranian capital market. It is concluded that auditors' reports have information content in TSE and investors consider them in their decision making.

**Keywords**: Audit opinion, Audit opinion improvement, Stock price, Trade volume.
**JEL**: M4

*contact author: mbazaz@csusb.edu

## 1. Introduction

Independent auditing is extensively used monitoring device to reduce agency costs and increase firm value when management stewardship exists. Auditors' ability to discover and report violations of generally accepted accounting principles (GAAP) or breaches of contract by management is a main gauge of their proficiency and independence. However, demand for independent auditing and impact of their opinion on stock market for a country like Iran is not known. Stock market and independent auditing in Iran is relatively new and had been faced with ups and downs over last 45 years since Iranian revolution.

This study will investigate the impact of audit opinion and audit opinion improvement on stock prices and trade volumes of listed companies in Tehran Stock Exchange (TSE). It is assumed that audit opinion and audit opinion changes reflect good and bad news about firms. As a result, it is expected that issue of an unqualified (qualified) audit opinion may impact positively (negatively) on the Iranian stock prices and their trading volume. By the same token, modification of audit opinion may have similar impact on both stock price and stock trading volume.

## 2. Literature Review:

Many factors affect stock prices and trade volumes in capital market. Some of them are firm's profitability and its stability, stock price to earnings per share ratio, stock liquidation, combination and structure of stockholder. Previous researches showed that announcement of good (bad) news generally increase (decrease) stock prices and trade volumes (Cullinan et al, 2012). Lennox (1999) believes that audit opinions are not equal; some are more serious and some less. "no-opinion" is the worst type of opinion, which is mediated by changing from "no-opinion" to "modified opinion" and "unqualified opinion". Li & Wu (2004) coded types of audit opinions by modification of DeFond (1992) scale: 1=unqualified, 2=unqualified with middle paragraph, 3=modified, 4=modified with middle paragraph, 5=no-opinion. Then, they used difference of numbers related to audit opinions to measure audit opinion improvements. Therefore, improvement of audit opinion includes number (-4, -3, -2, -1, 0, 1, 2, 3, 4). For example, changing from "no-opinion" to "unqualified opinion" is 4 units improvement (5–1=4). The more the value, the more the improvement. Cullinan et al. (2012) believed that receiving an unqualified opinion was good news for a company. They also suggested that the more the improvement, the more the good news. They studied the effect of opinion improvement on information disclosure timing by Li & Wu's scale. The more the improvement of audit opinion, annual financial reports will be published more on time.

In developed countries, the empirical association between modified audit opinions and stock returns has been studied extensively in the accounting literature (Baskin 1972; Alderman 1977; Firth 1978; Chow and Rice 1982; Dodd et al. 1984; Dopuch, Holthausen, and Leftwich 1986; Loudder et al. 1992; Choi and Jeter 1992; and Siswandari, et.al. 2021). The results of these studies, however, are mixed. While Chow and Rice 1982; and Dodd et al 1984. find no significant market reaction, Dopuch et al. 1986, Choi and Jeter 1992, and Loudder et al. 1992 report negative price reactions to modified audit opinion. Being in different environment and having an emerging market economy, the association of audit opinions and stock prices and trading volume are expected to be different than developed countries.

### 2.1. Research theoretical framework and literature review

Many factors influence stock prices and trade volumes in a capital market. Some of them are profitability and its stability, stock price to earnings per share ratio, stock liquidation, combination and structure of stockholder. Previous researchers discovered a relation that the announcement of good (bad) news generally increase (decrease) in stock prices and trade volumes (Cullinan et al, 2012, and Sulaiman 2018).

These study investigate the impact of audit opinion and audit opinion improvement on firms' stock prices and trade volumes. Improvement in audit opinion means a positive audit opinion for a company against its previous year. Changes of audit's opinions have different scales. For instance, changing from a "modified opinion" to an "unqualified opinion with emphasis of matter paragraph" is

construed as an improvement, while changing from a "modified opinion" to an "unqualified opinion" is a more improvement.

The recent research was intended to measure auditors' opinions quantitatively to evaluate their impact on different firms' aspects. Defond (1992) used ordinal comparison for the first time to quantify auditors' opinions. Lennox (1999) believes that audit opinions are not equal; some are more serious and some less. "no-opinion" is the worst type of opinion, which is mediated by changing from "no-opinion" to "modified opinion" and "unqualified opinion". Ardiana, PutuAgus. (2014) provide evidence that independent audit report affect market value of a firm. Chen et al. (2000) showed that in China, capital market showed a negative reaction towards audit qualified opinions. Haw et al. (2003) showed that disclosure timing of annual financial information was affected by type of audit opinion. Results of Spathis's (2003) researches showed that modified reports increase financial health of companies that had not desirable financial situations. He concluded that items of financial statements could anticipate modified opinions.

Li & Wu (2004) coded types of audit opinions by modification of DeFond scale: 1=unqualified, 2=unqualified with middle paragraph, 3=modified, 4=modified with middle paragraph, 5=no-opinion. Then, they used difference of numbers related to audit opinions to measure audit opinion improvements. Therefore, improvement of audit opinion includes number (-4, -3, -2, -1, 0, 1, 2, 3, 4). For example, changing from "no-opinion" to "modified opinion" is 2 units improvement (3–1=2). The more the value, the more the improvement.

Cullinan et al. (2012) believed that receiving an unqualified opinion was good news for a company. They also suggested that the more the improvement, the more the good news. They studied the outcome of opinion improvement on information disclosure timing by Li & Wu's scale. The more the improvement of audit opinion, the more likely annual financial reports will be published on time.
Shahzad et al. (2014) showed that volatilities of stock transactions in Australian capital market were influenced by the number and volume of stock transactions by minor stockholders, institutional investors, and average of annual stock transactions; Conversely, the number of stock transactions by minor stockholders has more potential as an explanation for stock trade volume.

Certain research focused on Iranian data. For example, HassasYeganeh and Yaghubimanesh (2003) evaluated the effects of types of audit opinions on stock prices. Their results show that there was a significant relation between audit opinions and stock prices. Mahdavi and KarjuyRafe (2005) studied the effects of national accounting standards on independent auditors' opinion quality. Their results show that national accounting standards codified by Audit Organization and enacted by Ministry of Economy and Finance, caused an improvement of opinions from independent auditors. Codification of national accounting standards was an important step for promotion audit opinions in Iran. Barzegar et al. (2009) studied the effective factors on stock price index in Tehran Stock Exchange with structural equations approach. This study showed that, among 10 variables of earning per share, price to income ratio, historical share price, assets, assets return, cost of capital, capital changes, financial deregulation, golden share, and disclosure of financial statements, only four factors of disclosure of financial statements; financial deregulation; assets return and earnings per share affect stock price. The most effect is for financial deregulation. Azimi and Foruzandeh (2010), by studying the views of some experts from investment companies, banks, and credit institutions of Isfahan Province showed that modified audit reports had no information content and did not affect decisions of user of financial statements.

Jame'ei et al. (2012) showed that there was a significant relation between performance of managers and auditors' opinions. They believed that management performance improvement decreased possibility of issuance of modified reports. Fadavi et al. (2012) studied relation between stock trade volume and stock price changes of listed companies in TSE. The statistical sample of this research included 70 companies in 3 industries. Their results showed that market trade structure, trade frequencies, and number of stocks positively associated with stock daily prices. Moeinoddin et al. (2013) studied relation of audit opinion improvement and disclosure schedule in 70 listed companies in TSE from 2007-2012. By data combination approach, they showed that there was a significant relation between two independent variables of types and changes of audit opinion within a disclosure schedule.

Talebnia and Rahmani (2013) studied relation between auditor type and audit report type with earnings management index. Using data for 53 listed companies in TSE from 2003-2009 and data combination approach, they showed that auditor type had no relation with earning management index in any industry, but auditor report type had a significant and negative relation within the earnings management index in vehicle industry, basic metals, and pharmaceutical materials and products. Dowlatabadi and Naghashkar (2013), studied the effect of audit opinion type on share trade volume. The result of their study was that, despite high unaccepted opinions, there is no significant difference between audit opinion type and number of stock circulation frequencies.

## 3. Research hypotheses

According to the research goals the research hypotheses are:

**1:** Auditor's opinion type affects stock price changes significantly.
**2:** Auditor's opinion type affects stock trade volume significantly.
**3:** Auditor's opinion improvement affects stock price changes significantly.
**4:** Auditor's opinion improvement affects stock trade volume significantly.

## 4. Methodology

This is an applied research by goal and a descriptive one by data gathering. Fixed Effects Pooled Data Regression with combined data was used to test for existence of a significant relation between variables in the estimated models.

## 5. Sample and population

The statistical population of this research is the 380 listed companies in Tehran Stock Exchange (TSE). We used systematic filtering for our sample selection for a period of 2015 through 2021. The companies with the following specifications were selected and the rest were deleted from the sample:

- The company was listed before 2022;
- Share trading of company were not interrupted for more than 3 months;
- That is not an investment or financial company;
- All required data is available;
- Financial year of company is ended to Mar. 21 (the end of Iranian year).

With the above limitations, 120 companies for 2015-2021 (7 years), 840 firms-years observations were selected as statistical sample. Codal Site and database of TSE were used to gather our data.

## 6. Models and variables

Since this research examines the effects of auditor's opinion type and its improvement on stock price and trade volume, "stock price" and "trade volume" are considered as dependent variables, and "opinion type" and "opinion improvement" are considered as independent variables. Furthermore, according to the results of previous researches, opinion type of previous year, dividend ratio and earnings per share were controlled. Therefore, the following regression models were used to test the hypotheses:

$$(1) \qquad P_{it} = \alpha_0 + \alpha_1 AuditOP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$$

$$(2) \qquad Vol_{it} = \alpha_0 + \alpha_1 AuditOP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$$

$$(3) \qquad P_{it} = \alpha_0 + \alpha_1 AuditOPIMP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$$

$$(4) \quad Vol_{it} = \alpha_0 + \alpha_1 AuditOPIMP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$$

In these models the variables are:

## Dependent variables

Stock price (P)

In this research stock price of company "i" at the end of year "t" is a dependent variable. Since one of the goals of this research is studying the effects of auditor's opinion type and its improvement on stock prices of companies, "stock price" was considered as a dependent variable.

Stock trade volume (Vol)

This variable indicated stock volume of company "I" for year "t". Since one of the goals of this research is studying the effects of auditor's opinion type and its improvement on stock prices of companies, "stock trade volume" was considered as a dependent variable.

## Independent variables

Audit opinion type ($AuditOP_{it}$)

This variable classifies auditors' opinion types by Li & Wu (2004) proposed method; so, it translates auditor's opinion type to a quantitative scale.

1. Unqualified report
2. Unqualified report with middle paragraph
3. Modified report
4. Modified report with middle paragraph
5. No-opinion

Therefore, we expect a negative coefficient for this variable; specifically, the worse the auditor's opinion (or the greater the number), the less the stock price and stock trade volume.

Audit opinion improvement (AuditOPIMP)

This variable measure auditor's opinion changes towards the previous year by difference of related codes. Thus, it quantifies auditor's opinion improvement. Therefore, improvement of audit opinion includes number (-4, -3, -2, -1, 0, 1, 2, 3, 4). For example, changing from "no-opinion" to "Unqualified opinion" is 4 units improvement (5–1=4). This indicates that the change direction is positive.

## Control variables

Dividend percentage to earnings per share ratio (Div)

Dividend policy is an important factor for changes of stock price. Dividend amount, dividend percentage to earnings, and dividend payment time indicate desirable situation of a company which encourages stockholders to purchase stocks of the company before its annual general meeting and dividend announcement. Thus, a positive relation of this variable with auditor's opinion type is expected (Loderer et al, 2009).

Price to earnings per share (P/E)

This is one important criterion to purchase stocks of a company. This ratio is a function of interest rate and expected rate of return for investors. Of course, the value of this ratio is not a criterion for decision-making, but its achievement is considered by stockholders. Therefore, it is expected that this variable has a positive relation with audit opinion type (Boubaker et al, 2008).

Audit opinion type at the previous year ($AuditOP_{it-1}$)

Audit opinion type at the previous year has a direct relation with audit opinion at this year. That is more possible that a company with an "unqualified opinion" in the last year will receive an unqualified opinion at this year. This is also true for "modified opinion" and "no-opinion". Therefore, it is expected that this variable has a positive relation with audit opinion type (Cullinian et al, 2012).

Ireland (2003) believes that audit report for the previous year is an important variable for anticipation of audit report in this year. A modified audit report is plausible in companies with a modified report at the previous year.

## 7. Findings

In this research, the integrated data regression pattern was used to test the hypotheses, which is a combination of time series and cross-sectional data. Also, "t" test was used to study the significance of coefficients, and "F" test was used to study the significance of total model. Non-parametric Kolmogorov-Smirnov (KS) test was used to examine normality of data distribution. This test is used to study adaption of data distribution with a certain distribution (i.e. normal distribution). If the significance level of this test is less than 5% for a variable, then the variable has no normal distribution.

Table 1 shows descriptive statistics of research variables including mean, max, min, skew coefficient, and extension coefficient. As you see, mean and median are close, which indicates a normal distribution. Min and max of AuditOPIMP are -1 and 4, respectively. This indicates that maximum audit opinion improvement during the research period is from "no-opinion" to "unqualified opinion", which shows 4 units of improvement. It also shows that audit opinions generally improve, because the least value is -1, which indicates one unit of no improvement in audit opinion. Mean and median show that audit opinion of each company improved 2 units, on average.

**Table 1: Descriptive statistics of research variables**

| variables | P | Vol | Audit $OP_{it}$ | Audit OPIMP | Div | P/E | Audit $OP_{it-1}$ |
|---|---|---|---|---|---|---|---|
| Number of observations | 840 | 840 | 840 | 840 | 840 | 840 | 840 |
| Mean | 3.826 | 1.497.835 | 2.4 | 2 | 79.785 | 13 | 2.3 |
| Median | 3.262 | 1.352.938 | 2.1 | 2 | 83.214 | 15 | 2.2 |
| Min | 1 | 1 | 1 | 1- | 0 | 63- | 1 |
| Max | 47.274 | 110.508.729 | 5 | 4 | 3.967.089 | 253 | 5 |
| Skewness coefficients | 1.236 | 1.967 | 0.112 | 0.962 | 1.011- | 0.841 | 0.119 |
| Elongation coefficients | 1.923 | 0.922 | 0.366 | 1.174 | 1.214- | 0.653 | 0.374 |

The results of Kolmogorov-Smirnov Test are shown in Table 2. As you see, the significance level of Z statistic for all variables is more than 5%, which indicates that all variables have normal distributions.

**Table 2: Results of Kolmogorov-Smirnov Test**

| variables | P | Vol | Audit $OP_{it}$ | Audit OPIMP | Div | P/E | Audit $OP_{it-1}$ |
|---|---|---|---|---|---|---|---|
| Number of observations | 840 | 840 | 840 | 840 | 840 | 840 | 840 |
| Z statistic | 6.218 | 11.114 | 3.921 | 7.626 | 8.112 | 3.524 | 3.961 |
| Significance level | 0.145 | 0.236 | 0.115 | 0.096 | 0.721 | 0.254 | 0.269 |

## Results of testing hypotheses

Tables 4 to 7 show the results of testing of hypotheses. Since integrated data pattern was used to test the hypotheses, Limer (Chow) and Hossman's "F" test was done to select among Pooled Data Pattern or combined data. Table 3 shows the results of these tests. Regarding to the significance level (5%), H0 is rejected, so Hossman test must be done to select Fixed Effect or Random Effect Pooled Data Pattern. The results of Hossman test indicated rejection of H0; so Fixed Effect Pooled Data Pattern is selected and used for fixing the pattern.

**Table 3: Results of Limer F and Hossman Test**

| Limer F | | | Hossman | | |
|---|---|---|---|---|---|
| | statistic | Significance level | | statistic | Significance level |
| **Period F** | **62.921** | **0.000** | **Period Random** | **10.214** | **0.002** |

## Results of testing hypothesis 1

Table 4 shows the results of testing hypothesis 1. F statistic has a good significance level (sig=0.000). Also, Durbin-Watson statistic is 1.965 (between 1.5 and 2.5), and determination factor is 43%. These indicate that the hypotheses of a linear regression are set and the model has a good description, so that 43% of changes of dependent variable are described by independent variable.

Audit opinion types for the current year is negative. This indicates that stock prices are in opposite direction with the audit opinion indicators. The lower (higher) indicator is good (bad) news (i.e. 1=unqualified audit opinion and 5= no opinion) which is associated with positive (negative) stock price reaction. Last year audit opinion, however, shows unexpected but insignificant relations with stock price. That is, companies with "unqualified opinion" in last years, have marginally lower stock prices. Therefore, based on current year data, hypothesis 1 is confirmed by 99%. Also, as expected, the results show that dividend and earnings per share have direct relations with stock price.

**Table 4: Results of testing hypothesis 1**

| **First model**<br>**Dependent variable: P (stock price)** | | | | | | |
|---|---|---|---|---|---|---|
| $P_{it} = \alpha_0 + \alpha_1 AuditOP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$ | | | | | | |
| variables | coefficients | Significance level | F Statistic (Sig) | Durbin Watson | Determination coefficients R2 | result |
| $AuditOP_{it}$ | -0.233 | 0.000 | 9.362<br>0.000 | 1.965 | % 43 | Acceptance of hypothesis |
| $Div$ | 0.166 | 0.000 | | | | |
| $P/E$ | 0.441 | 0.012 | | | | |
| $AuditOP_{it-1}$ | 0.189 | 0.031 | | | | |
| Number of observations: 840 firm- year | | | | | | |

## Results of testing hypothesis 2

Table 5 shows the results of testing hypothesis 2. "F" statistic has a good significance level (sig=0.000). Also, Durbin-Watson statistic is 1.918 (between 1.5 and 2.5), and determination factor is 41%. These indicate that the hypotheses of a linear regression are set and the model has a good description, so that 41% of changes of dependent variable are described by independent variable.

The coefficient of audit opinion types for the current year is negative. This indicates that trading volume are in opposite direction with the audit opinion indicators. The lower (higher) indicator is good (bad) news (i.e. 1=unqualified audit opinion and 5= no opinion) which is associated with positive (negative) stock trading volume. Last year audit opinion, however, shows unexpected but insignificant relations with stock trading volume. That is, companies with "unqualified opinion" in last years, have marginally lower trading volume. Therefore, based on current year data, hypothesis 2 is confirmed by 99%. Also, as expected, the results show that dividend and earnings per share have direct relations with stock trading volume.

**Table 5: Results of testing hypothesis 2**

| **Fourth model**<br>**Dependent variable: VOL**<br>$P_{it} = \alpha_0 + \alpha_1 AuditOP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$ | | | | | | |
|---|---|---|---|---|---|---|
| variables | coefficients | Significance level | F Statistic (Sig) | Durbin Watson | Determination coefficients R2 | result |
| $AuditOP_{it}$ | -0.319 | 0.001 | 12.421<br>0.000 | 1.918 | % 41 | Acceptance of hypothesis |
| $Div$ | 0.214 | 0.002 | | | | |
| $P/E$ | 0.557 | 0.000 | | | | |
| $AuditOP_{it-1}$ | 0.341 | 0.045 | | | | |
| Number of observations: 840 firm- year | | | | | | |

## Results of testing hypothesis 3

Table 6 shows the results of testing hypothesis 3. "F" statistic has a good significance level (sig=0.000). Also, Durbin-Watson statistic is 1.721 (between 1.5 and 2.5), and determination factor is 45%. These indicate that the hypotheses of a linear regression are set and the model has a good description, so that 45% of changes of dependent variable are described by independent variable.
In addition, audit opinion improvements for last and this years have positive and significant relations with stock price. That is, companies with "improved opinion" in this year, have higher stock prices. Therefore, hypothesis 3 is confirmed by 99%. Also, as expected, the results show that dividend and earnings per share have direct relations with stock price.

Table 6: Results of testing hypothesis 3

| **Fourth model**<br>**Dependent variable: P (Stock Price)**<br>$P_{it} = \alpha_0 + \alpha_1 AuditOPIMP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$ | | | | | | |
|---|---|---|---|---|---|---|
| variables | coefficients | Significance level | F Statistic (Sig) | Durbin Watson | Determination coefficients R2 | result |
| $AuditOPIMP_{it}$ | 0.254 | 0.014 | 16.112<br>0.000 | 1.721 | 45 % | Acceptance of hypothesis |
| $Div$ | 0.320 | 0.001 | | | | |
| $P/E$ | 0.717 | 0.001 | | | | |
| $AuditOP_{it-1}$ | 0.453 | 0.000 | | | | |
| Number of observations: 840 firm- year | | | | | | |

## Results of testing hypothesis 4

Table 7 shows the results of testing hypothesis 1. "F" statistic has a good significance level (sig=0.000). Also, Durbin-Watson statistic is 1.814 (between 1.5 and 2.5), and determination factor is 39%. These indicate that the hypotheses of a linear regression are set and the model has a good description, so that 39% of changes of dependent variable are described by independent variable.
In addition, audit opinion improvements for last and this years have positive and significant relations with stock trade volume. That is, companies with "improved opinion" in this year, have higher stock trade volumes. Therefore, hypothesis 4 is confirmed by 99%. Also, as was expected, the results show that dividend and earnings per share have direct relations with stock trade volume.

**Table 7: Results of testing hypothesis 4**

**Fourth model**
**Dependent variable: VOL**

$$(4)\quad Vol_{it} = \alpha_0 + \alpha_1 AuditOPIMP_{it} + \alpha_2 Div_{it} + \alpha_3 P/E_{it} + \alpha_4 AuditOP_{it-1}$$

| variables | coefficients | Significance level | F Statistic (Sig) | Durbin Watson | Determination coefficients R2 | result |
|---|---|---|---|---|---|---|
| $AuditOPIMP_{it}$ | 0.241 | 0.001 | 18.632 0.001 | 1.814 | % 39 | Acceptance of hypothesis |
| $Div$ | 0.196 | 0.032 | | | | |
| $P/E$ | 0.447 | 0.047 | | | | |
| $AuditOP_{it-1}$ | 0.106 | 0.005 | | | | |

Number of observations: 840 firm- year

## Conclusion and suggestions

This paper investigated the impact of audit opinion and audit opinion improvement on firms' stock prices and trade volumes. Improvement of audit opinion means modifying an opinion to a better one. For example, modifying from an "unqualified opinion with middle paragraph" to an "unqualified opinion" is a unit of improvement, while modifying from a "modified opinion" to an "unqualified opinion" is two units of improvement. The previous researches showed that many factors affected stock price and stock trade volume, including price to earnings per share, stock liquidity, and stockholders combination structure. In fact, these factors indicate good or bad news of a company. This paper assumes that audit opinion type reflects good or bad news of a company, and thus affects stock price and stock trade volume.

Ordinary Least Square regression was used to test the hypotheses of this research. The results show that audit opinion type affects stock price and stock trade volume positively and significantly. These results adapt with those of previous researches. For example, in research conducted by Cullinan et al. (2012) evidence showed that audit opinion improvement was construed as good news for a company and encouraged managers to prepare annual reports sooner. The results of Moeinoddin et al. (2013) in Iran confirmed that audit opinion improvement was good news for company and investors reacted towards it.
On the other hand, Dowlatabadi and Naghashkar (2013) concluded that, despite high number of no-unqualified opinions than unqualified ones, there were no significant differences between audit opinion

types by stock turnover frequencies. Therefore, the results of this research are not compatible with their results.

The results of this research show audit opinion type and audit opinion improvement have significant effects on stock price and stock trade volume. This indicates that audit reports in TSE have information contents and are important for investors.

It is proposed that users of financial statements and reports, including investors, analysts, and other users, notice to opinion types when deciding, because the results of this research show that audit opinion type has a positive and significant relation with stock price and stock trade volume; namely, the more the audit opinion is closer to an unqualified opinion, it has a positive effect of stock price and stock trade volume. Unqualified with middle paragraph, modified, modified with middle paragraph opinion, and no-opinion correlate with lower stock prices and stock trade volumes.

On the other hand, the results of this research showed that changes of audit opinion during different periods are effective factors on stock price and stock trade volume. This means that a company with an unqualified opinion in this year and a modified opinion in previous year, will experience stock price and stock trade volume with more possibility. Therefore, it is necessary that users of financial statements of companies consider changes of audit opinions during different periods and must consider audit opinion improvements in their economic decisions.

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