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Does Modified Audit Opinion Matter to Investors? Evidence from Indonesia

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Abstract

This research examines the effect of investors' reaction towards the issuance of modified audit opinion. When a company received modified audit opinion on the financial statement it would give signal to the investors, there is something wrong with how the management runs the company. The signal then can be measured by using stock price and trading volume. The stock return is calculated by using abnormal return, meanwhile trading volume is calculated by using abnormal volume. The modified opinions observed in this research are qualitative audit opinion, adverse audit opinion and disclaimer of audit opinion. The research uses 56 sample companies listed in Indonesian Stock Exchange from year 2010 until 2015. The purposive sampling method was used by employing some criteria. The data are categorized as secondary data obtained from Bloomberg's and Osiris' database. The dependent variables in this research are abnormal return and abnormal volume, proxied by modified audit opinion by model listed in Chen (2000). The hypothesis testing was done by using regression by controlling some factors such as book to market ratio, change in company's top executives, return on equity and repetition of opinion received. The regression result shows that there is significant market reaction relating to the issuance of modified audit opinion when measured by abnormal volume. The significant reaction occurs on the day after the issuance of modified audit report. However, there is no significant when measured by using abnormal return. This condition shows that the issuance of modified audit opinion does affect the investors, however only few investors are affected by the issuance of modified audit opinion.

Keywords: Modified audit opinion, Abnormal return, Abnormal volume, Regression, Stock price, Trading volume.

1. INTRODUCTION

An investor in capital market can be simply defined as someone who buys and sells security instruments in a capital market. There are two categories of investors: Institutional and non-institutional investors. The difference is that institutional investors are usually organizations or entities such as pension funds, mutual fund companies, banks, insurance companies and any other large institutions. Non-institutional investors are individual person (Moerdyk 2016). The volume of stock they trade are also different, institutional investors usually buy stock in a very large volume, while retail investors usually buy stock in small volume (Staff 2017). Both categories based their investment on calculated risk and return.

Generally, investors will make decision based on information accessible to them. Some of this information are company public expose, company press release, corporate action announcement and among other things. Investors will sort and select some of this information which are relevant, reliable and accurate for their judgement. These investors considered to have financial literacy. Tai (2012) defines financial literacy as an individual's ability to make informed judgements and effective decisions to use and manage his/her free cash. A source that provides useful information for decision making is the company's financial report. It contains information pertaining the company's current and previous period statements of financial position, income

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statements, cash flow statements, statements of changes in equity, accounting policy, and its explanation. Essentially, the company will disclose necessary information regarding their daily business activities. Studies on whether accounting information helps in Investors' decision making has been conducted by Ball and Brown (1698) and Fung, Su, and Zhu (2010). Bull and Brown (1968) points out, security prices do in fact adjust quickly to new available information, then the change in the stock price will be reflected by the stream of information to the market.

Investors use accounting information and other relevant information to assess whether the company is undervalued or overvalued. In calculating the company's stock prices, investors will use the ratios and other information included in the financial report and also comparing the figures from past financial reports that has been published. Investors not only consider that information but also company's current and future business conditions.

In Indonesia the financial report must be presented fairly using Indonesian Generally Accepted Accounting Standard (GAAP)/Standar Akuntansi Keuangan (SAK) and any other governmental regulation that govern it. It is done to prevent investors from managers' attempt to manipulate or misstate financial report, companies may publish their financial report quarterly and annually. The content of annual financial report for public listed companies is regulated under Peraturan Otoritas Jasa Keuangan Nomor 20/POJK.04/2016 about public company annual report. It states that Public listed companies' annual report should contained audited financial report. The auditor will give their opinion as conclusions based on the result of the audit and the condition where the company is in. This information then will be stated in the independent auditor report (Arens, Elder, & Beasly 2014; The Institue of Chatered Accountants in England and Wales 2006). The audit report has to follow Standar Akuntansi Seksi 150 issued by Ikatan Akuntan Indonesia (IAI). Keputusan Direksi PT Bursa Efek Jakarta No. Kep-300/BEJ/07-2004 states that if there are any listed companies receiving disclaimer or adverse opinion then management has to make written explanation to Indonesia Stock Exchange (IDX). This is done to lower information asymmetry and to ensure market stability. Investors could obtain aforementioned documents on IDX's or company's website.

There is other useful information within the financial report beside the independent audit report. Such as ratio that are listed in the financial report, this ratio can be used as basis for making investment decision. There are profitability ratio, growth ratio and market ratio. Such information can be said to have information content if it could give knowledge to decision maker regarding his / her decision and belief of financial report users about their expectation of an uncertain event. If financial report has information content then it will cause a reaction on the market, in form of stock price changes. Study on measuring market reaction by using abnormal return has been conducted by Firth (1978) researched different types of qualified audit opinion and its reaction to investors, for company listed in the U.K. Chen, Su, and Zhao (2000) researched regarding Chinese investors' reaction towards company receiving unmodified and modified audit opinion. Ianniello and Galloppo (2015) researched investors' reaction to modified audit opinion received by public companies in Italy.

Change in trading volume could also be considered as market reacting to new information available in the market. It can be said that changes in trading volume represent individual investors' reaction in the market, while stock price represent the average changes of the investors' reaction Kim and Verrecchia (1991); Ameen and Guffey (1993); Melumad and Ziv (1997). Change in trading volume can be interpreted as investors reacting to new information as discussed in, Ameen and Guffey (1993) find that trading volume is significant to the announcement of modified audit opinion received by Over-The-Counter companies in New York Stock Exchange.

Investors can use audit opinion as means to help them in analysing the company they will be investing in. Since the audit was carried by an independent third party, investors can expect that the result of it would be objective. Company receiving modified audit opinion, might indicate that the company's financial report has not been presented fairly and free from material mistakes, company's going concern could be jeopardize, or prepared financial report are not in accordance with Indonesian GAAP. This would affect investors' confidence on how management runs the company. Investors' confidence can be measure by their reaction which causes the change in stock price and trading volume.

Studies on whether modified audit opinion affect investors' reaction has been conducted in other capital markets. None similar research has been done to analyze the market reactions towards modified audit opinion in Indonesia that has been published on international journal. Indonesia capital market is an emerging capital market. In the last 10 years Indeks Harga Saham Gabungan (IHSG) yields a market return of 317% with Compounded Annual Growth Rate of 22%, which can be considered to be the highest market return in the world. So it will be competitive, thus companies will try to dress their financial report to attract investors. Therefore it is important to consider the independent auditor's opinion of financial report that is prepared by the company.

This research is expected to increase the non-existence literacy on issuance of modified audit opinion towards market reaction measure by stock price and trading volume in Indonesia capital market in international journal. This research aims to improve current auditor opinion form that might be difficult to understand by investors. It is hoped that audit opinion form is constructed with clear and concise structure. This research is also expected to give empirical evidence on market efficiency in Indonesia regarding how the market behave when there is new information available to the market.

The remainder of the paper is organized as follows. Section 2 reviews the literature and develops hypotheses. Section 3 describes the research methods. Section 4 presents the empirical model and findings. And section 5 concludes the paper.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Literature review

Agency theory highlights the relationship between shareholders of the company known as principals and managers of the company known as agents. Shareholders delegate decision making process to the agent, who acts on behalf of the shareholders (Warsono, Amalia & Rahajeng 2009, 10-3). Agency theory assumes that their relationship may not necessarily lead to common interest. This is due to both agents and principals act in their own self-interest which would not complement each other this would create conflict among them (Wolk, Dodd, & Rozycki 2013, 46-9). The agents' ultimate interest is to receive bonus, by only choosing short-term project that will yield the highest return rather than project that will increase the company's value in the long-run. On the process of achieving these goals, agents might likely try to manipulate their earnings so that their financial report would look attractive. On contrary the principals' interest is to maximize their own wealth, in ways that will increase return on investment and stock price. Therefore, in order to obtain this objective, agents monitoring cost has to be minimized. However, the monitoring cost should not be result in (1) negatively affecting the delicate relationship between accounting-based measures of performance and (2) issuance of modified opinion from independent auditors (Wolk, Dodd, & Rozycki 2013, 46-9). If the principals spend less on monitoring cost, the agents see this as opportunity to get higher bonus and would likely to keep conflict at minimum. Independent audit is commonly used as a monitoring device to reduce agency cost and to increase company value when managers do not own all of the shares (Chen, Su, & Zhao 2000, 432-3)

An audit performed by independent auditor can be seen as a tool to ensure that the company's financial report has been subjected to external inspection. Through the inspection, the auditor not only improves the usefulness and the value of financial report, but also other non-audited information released by management (Hayes, Wallage, and Gortemaker 2014, 3-14). Managers prepare the financial report as their performance evaluation. Upon completion of the audit process, an auditor express his/her opinion regarding the financial report prepared by the management. In Indonesia the Standards on Auditing (SA) established by Indonesian Institute of Certified Public Accountants (Institut Akuntan Publik Indonesia/IAPI). And those standards require auditor to obtain reasonable assurance regarding whether prepared financial report are free from material misstatement. Auditor must perform their professional judgement to perform the audit procedures, and to assess the risk of financial misstatement due to fraud or error.

In Indonesia contents of financial report are regulated in Pernyataan Standar Akuntasi Keuangan (PSAK) 1 Penyajian Laporan Keuangan. PSAK 1 defined financial report as structured presentation of financial position and financial performance of an entity. As stewardship function where by management manages the resources allocated to them by investors, thus management is responsible for the preparation of financial report. The financial report are means of communication for financial information of the company to external parties such as shareholders, prepared in monetary terms. Investors then will make economical decision based on what the management has done with the resource allocated to them. This decision might include but not limited to (1) increasing or decreasing their percentage of ownership, (2) reassigning or replacing Board of Committee and Board of Directors and (3) reviewing the Company's ability to distribute dividend. UU No. 40 year 2007 act 68 regarding Perusahaan Terbatas, requires director of a public listed company to audit his/her company's financial report. The purpose of this regulation is to improve the quality of financial report and to give assurance that management has conducted their daily activity using good corporate governance.

Guidelines for formulating opinion are regulated on SA 700 established by IAPI, it regulates auditor's responsibility in forming an opinion of a financial report and contents of auditor's report. This standard focus on consistency of an auditor's report. Consistency would increase the credibility of an auditor's report in a global market. SA 700 also helps to improve understanding of financial report users and identify conditions that rarely occurred. It also states the objective auditor when conducting an audit is to formulate an opinion from financial report based on evaluation of a result from audit evidences that has been gathered throughout the engagement and to express an opinion clearly by using written report that also includes a detailed explanation on why such opinion was expressed.

To formulate an opinion, auditors must conclude whether they have obtained reasonable assurance whether the financial report is free from material mistakes as a whole, that arise from fraud and error. The conclusion must be based on:
1. Correct and appropriate evidences have been obtained,
2. Misstatements that was not corrected is material, as a whole and an item, and
3. Evaluation of whether financial report has been prepared using the appropriate standards, presented true and fair and using the appropriate reporting framework.

Based on SA 700 and SA 705 auditor able to express two type of opinion on the independent auditor report, depending on the conclusion drawn from the audit engagement. Those opinions are unmodified and modified audit opinion. Auditor will express unmodified audit opinion when he concludes that necessary evidences has been collected and financial report is free from material mistakes. Modified audit opinion is further categorized into four (Arens, Elder, & Beasley 2014: 72-82):
1. Unqualified opinion with explanatory paragraph: auditor will express this opinion when he concludes that necessary evidences has been collected and financial report is free from material mistakes, however he believes it important to provide additional information.
2. Qualified opinion: auditor will express this opinion when (1) mistakes in financial report are material, however not pervasive to financial report as a whole, upon completion of necessary evidences. Or (2) necessary evidence are not obtained but believed that the material mistakes would not affect financial report as a whole.
3. Adverse opinion: auditor has to express this opinion when from the evidences obtained the mistakes are material and pervasive to the financial report as a whole.
4. Disclaimer opinion: auditors are not obliged to express an opinion when audit evidence obtained are not sufficient or there is uncertainty of company's going concern.

If auditors express qualified, adverse and disclaimer opinion, SA 705 requires them to include one paragraph explaining reasoning for expressing such opinion. This paragraph then should be included in independent auditor's report before the opinion paragraph.

Signalling theory discusses any actions made by the managers that were known to the public would trigger investors actions differently (Wolk, Dodd, & Rozycki 2013,109-11). Managers voluntarily disclose non-financial information even though there are no regulations that required them to do. Examples of the information disclosed are press release, corporate action and public expose. This would lower information asymmetry between investors and managers. Managers are willing to take one step further, so they could maintain and improve the company's reputation, in respect of financial reporting, and to compete scarce risk capital (Wolk, Dodd, & Rozycki 2013,109-11).

The information published by the company to the public will adjust the stock price of publicly traded securities rapidly and in unbiased manner. Over time the stock price will reflect the all publicly available information. This proportion is called Effective Market Hypothesis (EMH) (Fama 1969, 383-417).
There are three form of EMH:
1. Weak form: The stock price reflects information contained in historical price.
2. Semi-strong form: The stock price reflects all publicly available information.
3. Strong form: The stock price reflects all publicly available and private information.

Company receiving modified audit opinion could signal investors, on how the managers running the company. It would mean there is discrepancy between reported and actual performance in the company.

2.2 Hypotheses development

Firth (1978) examines the impact of qualified opinion on investment decision. He classifies qualified opinion into several different types of audit qualifications identified in the U.K.: (1) True and fair view, (2) Going concern, (3) Asset values, (4) Subsidiary's audit, (5) Statement of Standard Accounting Practice (SSAP), (6) SSAP and concur and (7) continuing audit qualification. He finds that some types of audit qualification have significant information content that investor used for their economic decision making. Investors also react differently towards different types of audit qualifications (Firth 1978, 642-50).

Ianniello and Galloppo (2015) investigate whether certain types of audit opinions will affect the stock price on Italian context. The audit qualifications are distinguished into two different groups; qualified opinion and unqualified opinion. The qualified opinions group also includes adverse and disclaimer opinions. The qualified opinion group refer to financial report that does not comply with applicable accounting standards, does not agree with standards, insufficient disclosure on the accounts or scope limitations in collecting audit evidence.

Ianniello and Galloppo (2015) concludes audit reports have information content to investors. There was positive reaction to unqualified opinions and negative reaction to qualified opinion groups of going concern and financial distress. In this condition the auditors see that the company are not in severe danger so that it would receive and qualified opinions, and investors see this as a signal that the company will recuperate in the future.

Ameen and Guffey (1993) analyze whether information in audit reports will affect investors' economical decision making. Unlike previous research that uses stock price to measure investors' reaction, Ameen and Guffey (1993) use trading volume to measure market reaction. They argue that trading volume would be more sensitive to investors' reaction since it accumulates the market participants' activity whereas security price averages the market security. The research shows that there is a significant reduction in trading volumes during the week of the announcement. The surrounding week before and after the announcement showed no significant changes in trading volumes. Therefore, it can be concluded that audit report has information content.

Modified audit opinions are not in the favor of the shareholders. They could interpret these modification as a financial misrepresentation conducted by the management (Melumad & Ziv 1997, 239-56). Previous studies also find that modified audit opinion affects investors' reaction (Firth 1978; Ameen & Guffey 1993: Ianniello & Galloppo 2015). These arguments lead to the development of hypothesis that modified audit opinion is associated with negative market reaction, or stated in details alternative form as follows:

H1. The issuance of qualified audit opinion is negatively associated with stock return.
H2. The issuance of adverse audit opinion is negatively associated with stock return.
H3. The issuance of disclaimer of audit opinion is negatively associated with stock return.

Kim and Verrecchia (1991), find that trading volume is proportional to absolute change in price and measures of differential precision across traders. Trading volume reflects traders' individual reactions, meanwhile stock price reflects the average change in trader's belief due to new information (Beaver 1968; Kim & Verrecchia 1991). Therefore, change in volume represents the total difference of individual investor's reaction, while change in stock price measure the average reaction (Kim & Verrecchia 1991, 302-21). Based on aforementioned arguments, the following hypotheses are proposed as follows:

H4. The issuance of qualified audit opinion is positively associated with trading volume.
H5. The issuance of adverse audit opinion is positively associated with trading volume.
H6. The issuance of disclaimer of audit opinion is positively associated with trading volume.

3. RESEARCH METHODS

3.1 Research design

This research discusses whether the capital market reaction to companies receiving modified opinion of independent auditor on the financial report. The methodology that will be used in this research is market model event-time where abnormal movement in stock price are considered evidence of investors reaction to new information, in this case modified qualification independent auditor's opinion. This method is similar like the one used in previous research conducted by (Firth 1978; Chen, Su, & Zhao 2000; Ianniello & Galloppo 2015). This research will also use trading volumes as means to see market reaction, this is similar with research previously conducted by (Ameen & Guffey 1993, 41-50).

To test the hypotheses, this research will use similar model used in Chen, Su, and Zhao (2000), which will be called as model 1, the model is as follows:

$$CAR = \alpha + \beta_1 OP + \beta_2 BTM + \beta_3 COMPROF + \beta_4 EXECUTIVE + \beta_5 REPEAT + \varepsilon \quad (1)$$

Where:
OP = Modified opinion received by the company (1 for qualified, 2 for adverse and 3 for disclaimer).
BTM = Book to Market ratio year t company i.
ROE = Profit of Company i at year t.
EXECUTIVE = Dummy variable, 1 for company that has changed their top management, otherwise 0.
REPEAT = Dummy variable, 1 observation receiving modified audit opinion for two or more consecutive years in a row, otherwise 0.

The following model, Model 2, will be used to calculate CAV.

$$CAV = \alpha + \beta_1 OP + \beta_2 BTM + \beta_3 COMPROF + \beta_4 EXECUTIVE + \beta_5 REPEAT + \varepsilon \quad (2)$$

Where:
OP = Modified opinion received by the company (1 for qualified, 2 for adverse and 3 for disclaimer).
BTM = Book to Market ratio year t company i.
ROE = Profit of Company i at year t.
EXECUTIVE = Dummy variable, 1 for company that has changed their top management, otherwise 0.
REPEAT = Dummy variable, 1 observation receiving modified audit opinion for two or more consecutive years in a row, otherwise 0.

3.2 Sample

The population of this research is all public company listed in IDX at the end of every year, starting from 2010 until 2015. The sample used in this research are listed Companies that received modified audit opinion on the financial report. Purposive sample method is used to choose the samples, the criteria for the samples are:
1. The company are listed in IDX at the end of year, starting from 2010 until 2015.
2. The company has ending fiscal period on 31 December.
3. The independent auditor opinion are attached on the financial report that is published on IDX's website at http://www.idx.co.id/

4. RESULTS AND ANALYSIS

4.1 Descriptive Statistics

Hartono (2015) defines descriptive statistics as statistics that illustrates a phenomena or characteristic from the data, that clearly explain its distribution. It is conducted by reviewing the mean, minimum value, maximum value and standard deviation of the data gathered. The following are the descriptive statistics of data gathered that has been processed by using STATA13.

Table 1. Descriptive Statistic Results.

Variable	Observation	Mean	Std. Dev.	Minimum	Maximum
CAR	280	0.00369	0.07477	-0.53897	0.23787
CAV	280	325.1959	2355.097	-1232.678	27032.01
BTM	280	-1.23633	4.25211	-21.73913	4.69484
ROE	280	-0.14220	0.73807	-3.24631	1.175
EXECUTIVES	280	0.19643	0.39801	0	1
REPEAT	280	0.53571	0.49962	0	1

Variable CAR and CAV are the dependent variables in this research. For each dependent variable there are 5 windows event for each observation, therefore resulting in total observation of 280. Variable CAR has a mean of 0.0036, minimum value of -0.5389 and maximum value of 0.2378. The minimum CAR is from Company with ticker code APOL in 2011 and maximum CAR is from Company with ticker code BTEL in 2015. For variable CAV has mean of 325.1959, minimum value of -1232.6780 and maximum value of 27032.0. The minimum CAV is from company with ticker code MYRX in 2012 and maximum CAV is from Company with ticker code HITS in 2012. Variable ROE has mean value of -0.1422, indicating that many of the company observed are having net loss. REPEAT variable has a mean of 0.53571, it indicates that most of the companies in observation have recurring modified opinion. EXECUTIVE and BTM variables have mean of 0.19643 and -1.23633, minimum value of 0 and -21.73913 and maximum value of 1 and 4.69484.

4.2 Hypotheses Testing

To test the significance of independent variables towards dependent variable, t-test will be used. The test will be conducted by using STATA13 software. Table 4.8 presents the summary of model 1.

Table 2. Regression Result for Model 1.

WINDOWS	P>|t|									
	OP 1		OP 2		OP 3		BTM	ROE	EXECUTIVE	REPEAT
	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.				
CAR ±10	0.007	0.789	0.007	0.844	0.020	0.482	0.862	0.476	0.730	0.517
CAR ±7	0.045	0.315	0.066	0.294	0.068	0.151	0.272	0.674	0.530	0.339
CAR ±5	0.057	0.257	0.062	0.373	0.058	0.273	0.967	0.244	0.966	0.511
CAR ±3	0.059	0.211	0.051	0.431	0.073	0.142	0.393	0.820	0.726	0.061
CAR ±1	-0.072	0.065	-0.085	0.108	-0.079	0.056	0.032	0.928	0.176	0.027

Model 1 was used to test hypothesis 1 until 3, to find significance between modified audit opinions with investors' reaction, measure by the changes in companies' stock price. Based on the table above, audit opinion does not significantly affect the company's stock price. This is shown by all opinions' P-values| that are higher than α (0.05), it implies that the change in the stock price does not necessarily caused by company receiving modified audit opinion, However the coefficient of all opinion at CAR ± 1have negative direction. Indicating that the stock prices are decreasing.

Table 3. Regression Result for Model 2.

WINDOWS	P>|t|									
	OP 1		OP 2		OP 3		BTM	ROE	EXECUTIVE	REPEAT
	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.				
CAV ±10	0.315	0.960	3.298	0.706	2.538	0.702	0.723	0.693	0.138	0.055
CAV ±7	-32.6	0.123	-28.1	0.338	-23.3	0.298	0.766	0.805	0.617	0.163
CAV ±5	36.06	0.070	42.72	0.122	39.77	0.060	0.031	0.67	0.501	0.004
CAV ±3	35.36	0.054	38.86	0.126	38.15	0.051	0.037	0.490	0.884	0.015
CAV ±1	34.43	0.036	44.46	0.048	42.99	0.014	0.047	0.180	0.939	0.001

Model 2 was used to test hypothesis 4 until 6, to find significance between modified audit opinions with investors' reaction, measure by the changes in trading volumes. Based on the t-test all modified audit opinion significantly affected the change in trading volume at CAV ± 1. This is shown by P-value that is less than α (0.05). It implies that small number of investors reacted towards the audit opinion received by the company, the coefficient of each opinion shows a positive direction. Which means that at CAV ± 1 there is an increase number of shares being traded.

The market reactions towards company receiving modified audit opinion with sample of Indonesian listed company listed in 2010-2015, can be summarized in Table 4.

Table 4. Results of Hypotheses Testing

Hypothesis	Significance	Conclusion
H1	Not Significant	hypothesis rejected for all window events
H2	Not Significant	hypothesis rejected for all window events
H3	Not Significant	hypothesis rejected for all window events
H4	Significant	Hypothesis accepted for CAV ± 1
H5	Significant	Hypothesis accepted for CAV ± 1
H6	Significant	Hypothesis accepted for CAV ± 1

All modified audit opinions does not significantly affect the change in the changes of the share price. This is statistically proven by the higher P-value than α. Therefore H1, H2 and H3 are rejected for all the windows event used in this research. This result is consistent with previous research conducted in emerging countries, such as Jordan, Iran and Sri Lanka (Al-Thuneibat, Khamees, & Al-Fayoumi 2007; Moradi et al. 2011; Anulasiri, Roshan, & Dissabandara 2015). Another argument is company who has bad news will tend to hide it as long as possible and release it at the latest time possible (Michaely, Rubin & Vedrashko 2016, 24-45). They find that bad news always released in high level concentration on Friday and on the evening. This is conducted by the company to minimise interactions with market participant (Michaely, Rubin, & Vedrashko 2016, 24-45).

The trading volume on the other hand is significantly positive affected by all modified opinions. Therefore, H4, H5, H6 are accepted. This shows that audit report has information content for investors to make economical decision making. It indicates that a minor part of the investor is trading their shares at CAV ± 1. This result is similar with previous research conducted by Kim and Verrecchia (1991) and Ameen and Guffey (1993).

Although independent audit report provides information content for investors, however only small number of investors based their decision making on it. This because there is significant change in trading volume but not in stock price. As Beaver (1968), Kim and Verrecchia (1991) and Ameen and Guffey (1993) point out that trading volume reflects traders' individual reactions, whereas stock price reflects the average change in traders' belief due to new information.

5. CONCLUSION

Based on the discussion on the previous sections, it is found that modified opinion of independent auditor's report does carry information content. It is reflected with change of abnormal return and abnormal volume. If the audit report contains information content then investors will make informed decision making which result in the change of trading volume and stock price, eventually. This research shows that investors in Indonesia do react towards modified audit opinion received by company, which reflected by market volume. The market volume is significantly affected by modified opinion right after the announcement of the audit report. There are only handful of previous researches that use abnormal volume as means to see whether the market reacts towards the audit report, and this research has confirmed it in Indonesian context.

However, the market returns are not significant towards any modified audit opinions. It means that, although, investors react based on audit opinion, only a handful of them react, hence it is not enough to have changed the stock price. There are possible reasons on why such condition occurs, first possibility is that company announce their report at the end of the working week right before the market close. By doing so managers would have time to assure majority of investors that there is nothing to worry about the report, therefore on the following week majority of the investors are still holding on to their share, which cause the stock price not to move. The change in stock price would happen if most of the investors' belief towards the company has changed, otherwise it will remain. Second possibility, Siregar (2008) found that 56% of companies listed in IDX are family controlled. It means that the family has insider information that might not be known by minority shareholders (Yurtoglu 2003, 72-86). Therefore, only a handful of investors reacted towards the additional information. Third possibility, there was information leak that had been captured by investors prior the announcement date. Therefore, investors have gradually understood the information and adjusted their decision accordingly (Febrianto & Widiastuty 2005).

Based on the research that has been conducted there are some suggestion and implication for future research:

1. For Practitioners
   IDX as market regulator should increase investors' knowledge regarding financial knowledge by working together with investment banks. IDX should also implement strict regulation/punishment for companies that have been receiving modified audit opinion more than once consecutively.
2. For future research
   First, researchers could improve the scope to determine whether the trading volume is increasing in the number of buyer or seller. Second, more accurate results can be produced if the number of sample used in the research is increased. Third, to further isolate the result additional method or other event period can be deployed, so that the results will not be contaminated by other factors that might affect to cause movement in the stock price and volume. Lastly, we believe that conducting research to see market reaction towards audit opinion is still an interesting topic. This is because there are no conclusive results, on whether audit report affects the stock price and volume movement, so further research on this topic is worth pursuing.

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