

## **Stock Market Reaction to Auditor Opinion: Evidence from Listed Companies in Sri Lanka**

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The audit report is the medium of communication between the auditor and the users of the audit report. Therefore, it must be understandable, objective, and accepted by the users as a relevant source of information. Even though the audit reports do consist of valuable information content to investors and other general users of financial statements, in recent times there is a debate over its importance and necessity given the wide audit failures that occurred during the recent time period. This has caused to decrease the value relevance of audit report in investors' decision-making process. Therefore, this study tries to investigate the impact of audit qualification on the share prices of listed companies in the Colombo Stock Exchange (CSE). To test the hypothesis, the methodology of short event study, which focuses on a short event window, was used to determine the market reaction to audit qualifications. The sample consisted with 44 firm-year observations from 35 unique companies listed in CSE between 2012 to 2019. It has been considered only the first-time audit qualifications to test the impact of new information. Overall, the results show that only the audit qualification has negative impact on share prices. In particular, the qualifications expressed in the audit report has caused an immediate drop of share prices. The audit profession, investors, creditors, and other general users are likely to benefit from this research and makes it possible to identify the investor's reaction over audit qualifications and evaluate the speed of response.

**Keywords:** Auditor opinion, Colombo Stock Exchange, Market reaction, Share price

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