

The Impact of Financial Reporting Quality on Audit Opinion: Evidence from Listed Companies of Sri Lanka

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Abstract

Type of audit opinion is important for all stakeholders; A lot of stakeholders' decisions depend on the financial figures presented and disclosed by the management of the relevant firm. Stakeholders, mainly shareholders can't or because of limitations, they can't individually join with firms' operations, that's why they depend on independent third-party opinion about the financial statement prepared by the management. Firm-specific characteristics have a direct impact on the type of audit opinion. The purpose of this study is to examine the association between financial reporting quality and audit opinions. This study uses a multivariate regression analysis to tests it hypotheses to a sample of firms listed in Colombo Stock Exchange during 2017–2020. Measure the financial reporting quality through Hutton et al. (2009) model and use type of audit opinion, and auditor's remarks (explanatory notes) as the measure for audit opinions. This study provides empirical support for the theoretical views on the association between financial reporting quality and audit opinion. The results could be of interest of both auditors and managers, especially in emerging capital markets, who seek to improve financial reporting quality.

Key words: *Audit opinion, Financial reporting quality, Colombo Stock Exchange*