ABSTRACT

This research aims to empirically investigate the relationship between shifts in audit opinion and its effects towards the reaction given by investors in the stock market as the result. By employing a shift in the audit opinion as the independent variable, it is expected that the attention is given to both a negative and positive shift in the audit opinion. This research uses a quantitative approach, with a total of 1,383 observations consisting of public companies listed in IDX from 2012-2017 as the object of this research. This research uses simple linear regression to obtain an understanding of how the stock market reacts to a shift in the audit opinion. The statistical results show that the stock market significantly reacts to positive shifts in the audit opinion, but not to negative shifts in the audit opinion. This is due to the fact that the existing negative shifts in the audit opinion are found to be neither pervasive nor material enough. This implies that the Indonesian stock market is in semi-strong-form of the efficient market hypothesis.

Keywords: Signaling theory, efficient market hypothesis, shift in audit opinion, stock market reaction