

The effect of auditor's reputation and auditor's opinion on stock prices: Evidence from IDX main board index

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ABSTRACT

This study aims to determine whether auditor's reputation and auditor's opinion have an effect on stock prices in the following year in companies listed on the IDX Main Board Index from 2016 to 2020. Regression analysis is used in this study by adding control variables and year fixed effect. The data used in this study are obtained from the companies listed in the IDX Main Board Index. Panel data are taken from the companies' annual reports for the period of 2016-2020. The total number of samples is 200 companies. The results show that, partially, auditor's reputation has an effect on stock prices in the following year, while auditor's opinion has no effect on stock prices in the following year. However, simultaneously, both variables have an effect on stock prices in the following year. This means that the election of the BIG4 Accounting Firms as the company's auditor has proven to increase the value of companies listed on the IDX Main Board Index in the following year.

ABSTRAK

Penelitian ini bertujuan untuk mengetahui apakah reputasi auditor dan opini auditor berpengaruh terhadap perubahan harga saham pada tahun berikutnya di perusahaan-perusahaan yang terdaftar dalam Indeks Papan Utama Indonesia pada tahun 2016 hingga tahun 2020. Penelitian ini menggunakan analisis regresi dengan menambahkan variabel kontrol dan year fixed effect. Data yang digunakan dalam penelitian ini diperoleh dari perusahaan-perusahaan yang terdaftar di Indeks Papan Utama Indonesia. Data panel diambil dari laporan tahunan perusahaan periode 2016-2020. Jumlah sampel seluruhnya adalah 200 perusahaan. Hasil penelitian menunjukkan bahwa secara parsial reputasi auditor berpengaruh terhadap harga saham tahun berikutnya, sedangkan opini auditor tidak berpengaruh terhadap harga saham tahun berikutnya. Namun secara simultan kedua variabel tersebut berpengaruh terhadap harga saham di tahun berikutnya. Artinya, terpilihnya KAP BIG4 sebagai auditor perusahaan terbukti mampu meningkatkan nilai perusahaan yang tercatat di Indeks Papan Utama Indonesia di tahun berikutnya.

1. INTRODUCTION

One important component of a well-functioning capital market is a high-quality external audit. Based on the accounting literature, there are two main cores that drive auditors to deliver high quality results: litigation incentives and reputation incentives. From the perspective of litigation incentives, when auditors are held liable for failures, they have an incentive to provide a high quality audit to avoid litigation costs. Meanwhile, from the perspective of

reputational incentives, auditors tend to maintain their reputation and avoid audit failures because audit quality is very valuable to clients. Audited financial statements are prepared by the auditors who also provide their opinion. Thus, the reputation and opinion of the auditor plays an important role in the financial reporting process. How important are these factors to investors? Investors seek certainty about future trends in the stock market. Understanding the auditor's

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reputation and opinion can help them make better decisions.

Auditors always carry the name of their public accounting firm in their work. However, they are always required to work independently. Companies select their auditors based on the size of the public accounting firm, industry expertise, and audit quality (Defond & Zhang, 2014). The results of research conducted by Abdollahi et al (2020) show that auditor's reports and accounting firm size have an effect on accounting information in markets in developing countries. Companies or clients need to find information regarding the reputation of the auditor, whether he works for the government or not, including conflicts of interest related to the auditor. In relying on the auditor's reputation, there are several things that need attention, one of which is incentives, to provide a level of audit quality and avoid fraud and reporting errors that can harm the company (DeAngelo, 1981; Weber et al., 2008). In choosing an auditor, the company or client must have several detailed considerations because this can affect the value of the company in the future. On the other hand, before accepting an offer from a client, the auditor must be able to predict the client's future including all violations that may occur (Cook et al., 2020).

Signaling Theory states that organizations convey information about their quality and performance to external stakeholders through various signals. These signals can reduce information asymmetry and enable investors to make more informed decisions. In the context of this study, the selection of auditors who have a good reputation and opinion can signal to investors that the company has sound finances and practices good corporate governance.

Reputable auditors are considered to have high standards of professionalism, independence and expertise. When a company engages a well-regarded auditor, it signals to investors that the company values accurate and reliable financial reporting. This can contribute to increasing investor confidence and have a positive impact on stock prices.

The auditor's opinion on the financial statements is another crucial signal for investors. An unqualified or "clean" opinion indicates that the auditor believes that the financial statements are presented fairly and are free from material misstatement. This signal can increase investor confidence in the company's financial health, which has the

potential to drive up stock prices. Conversely, a qualified opinion, adverse opinion, or disclaimer of opinion can raise investor concern and negatively impact stock prices.

There are many factors that can affect stock market, whether showing abnormal return or the changes in the stock prices (Dopuch, et.al, 1986). These factors drag out sentiments on the stock market. Previous studies have mentioned the importance of auditor reputation on earnings management (Kanagaretnam, et.al, 2010; Hadriche, 2015; Kutha & Susan, 2021), the price on the initial public offering (Beatty, 1989; Razafindrabinina & Kwan, 2013; Nazihah et al, 2020), even the government perspective on the critical report given by the auditors (Firth, 1990). Moreover, a study mentions how market relies on the auditor's reputation for some information uncertainty (Billingsley & Schneller, 2009). A study conducted by Kanagaretnam et al (2009) discusses how auditor's reputation can affect market valuation. Information uncertainty refers to the lack of clarity surrounding the worth of a company, as stated by Zhang (2006). This uncertainty can be observed through the information presented in the financial statement. Ideally, when the auditor has a stronger reputation, investors should feel more assured about the reliability of the indications conveyed in the company's financial statements.

Accounting papers also mention the announcement of the auditor opinion to the stock prices movements on the following day (Giuseppe & Giuseppe, 2015; Hoti et al., 2012), the information asymmetry as a result of the published auditor opinion (Abad et al., 2017), and audit report by the auditors hired on stock prices (Soltani, 2000). Even specific opinions given by the auditors could affect the company's stock prices (Dodd et al., 1984; Dionisijev, 2021) and stock returns (Flees & Mouselli, 2022) in the following certain window days.

In today's increasingly complex financial landscape, the role of auditors has become more crucial in maintaining transparency and ensuring the reliability of financial reporting. Auditor's reputation and opinion can significantly affect investors' decision-making processes and stock prices. However, there is limited empirical evidence on the relationship between auditor's reputation, auditor's opinion, and stock prices, particularly in the context of the IDX Main Board Index. The lack of understanding in this area may hinder effective decision-making by investors and

regulators and obscure the actual value of auditor involvement in financial reporting.

This study aims to determine whether the auditor's reputation and auditor's opinion can affect the stock prices in companies listed in the IDX Main Board Index. This study contributes to the literature by showing that the auditor's reputation has a significant effect on the company's stock prices in the following year. In contrast, the auditor's opinion has no significant effect on the stock prices in the following year. This study enriches the literature in accounting on factors affecting stock prices in the Indonesian Stock Market.

2. THEORITICAL FRAMEWORK AND HYPOTHESIS

Signaling Theory

Signaling theory is an economic and social framework developed by Michael Spence in the early 1970s. The theory is primarily concerned with understanding how individuals or organizations communicate their qualities, intentions, or abilities to others in situations where information asymmetry exists. Information asymmetry occurs when one party possesses more or better information than the other party, leading to potential imbalances in decision-making processes.

Signaling theory suggests that parties with superior information can send signals to convey their attributes or qualities, thereby reducing information asymmetry and enabling more informed decision-making by others. Signals are observable actions or characteristics that can be costly or difficult to imitate, ensuring their credibility and reliability.

In the context of economics and finance, signaling theory is applied to various areas, including job market, corporate finance, marketing and advertising, and organizational behavior. In job markets, job applicants signal their abilities and qualifications through education, work experience, or other credentials. Employers use these signals to identify high-quality candidates and make hiring decisions. In corporate finance, companies can signal their financial health or growth prospects by paying dividends, engaging in share buybacks, or issuing debt or equity. Investors interpret these signals to make decisions about buying or selling stocks or bonds. In marketing and advertising, companies can signal their product quality through pricing, branding, or advertising strategies. Consumers use these signals to make purchasing decisions and

differentiate between high-quality and low-quality products. In organizational behavior, in the context of corporate governance, companies can signal their commitment to transparency and ethical practices through their choice of board members, auditors, or disclosure policies. Investors and other stakeholders use these signals to evaluate the company's credibility and financial prospects.

AUDITOR'S Reputation

Auditors have an authority to validate the precision of financial records and ensure that businesses adhere to tax regulations. They protect businesses from fraud, point out accounting discrepancies, occasionally act in an advisory capacity, and help organizations find ways to increase operational efficiency. Certified public accountants (CPA) work in a variety of capacities in a variety of industries. Auditors assess financial transactions and ensure that organizations are run efficiently. Their job is to track cash flow from start to finish and verify that an organization's funds are properly accounted for. An auditor's primary responsibility for publicly traded companies is to determine whether financial statements comply with generally accepted accounting principles (GAAP). To meet this requirement, auditors review a company's accounting data, financial records, and operational aspects and take detailed notes on each step of the process, or called an audit trail. Upon completion of the audit, the auditor's findings are presented in a report that appears as a preface to the financial statements. Separate, private reports may also be issued to company management and regulators. An auditor works in a particular public accounting firm.

The public accounting firms have specific characteristics and unique methods to keep their workers up with the workplace reputation. Thus, frequent evaluation needs to be done, with specific benchmarks, expectations on a time budget, work paper completeness, and maintaining a relationship with clients as an aspect of reputation development (Ferris et al., 2003). Auditor's reputation can affect earnings management (Kao & Chen, 2004); (Yang et al., 2009); (Shirzad & Haghghi, 2015); (Lopes, 2018). A positive reputation generally provides power for individuals within an organization (Pfeffer, 1992). According to Sari & Widanaputra (2016), an auditor's reputation has succeeded in weakening the positive relationship between audit fees and auditor

switching. Reputation is a social construct that does not create a legitimate power but concerns the organization through the position given (Zinko et al., 2007). A common situation faced by the auditors is about choice, whether or not to complete the social group expectation, the standard to maintain the performance, or the client's needs. This reputation catches investors' attention and builds their trust, believing the company will choose the best candidate as its auditor.

Companies tend to give good information or signals by giving the name of the auditing firm they have hired. Auditor's reputation is one of the considerations a company may make in selecting its auditor. Auditor's reputation is a great name that an auditor holds for the services and trust of the public that carries the public accounting firm. Astuti & Ramantha (2014) explain that if the company receives an audit opinion other than unqualified, it will receive an adverse reaction to its stock price. The quality of the audit opinion significantly impacts the likelihood of auditor change. This is because management is less satisfied with the auditor's performance, so they will try to change auditors. A good auditor's reputation increases the likelihood that the company will change auditors because it will accept audit opinions other than unqualified. The signaling theory states that audit opinions issued by accounting firms with excellent reputations send a strong signal to investors. The signaling theory also states that companies change auditors when they want to send signals to the public by the type of auditor they see (Bagherpour et al., 2010). It can be concluded that auditors with a good reputation increase the negative impact of the audit opinion (unqualified audit opinion) on auditor switching.

Reputable auditors can be seen by investors as a positive signal, indicating that the company is committed to accurate and reliable financial reporting. It is expected that there is a positive relationship between auditor reputation and stock price, because higher auditor reputation tends to increase investor confidence and has a positive impact on stock prices. Research conducted by Krishnamurthy et al (2006) discusses the effect of auditor reputation on the stock market in the case of Andersen's indictment to his client.

H1: Auditor's reputation has an effect on stock prices in the following year.

Auditor's Opinion

An audit opinion is a certificate attached to financial statements. It is based on an examination of the procedures and records which are used to prepare the financial statements and expresses an opinion as to whether the financial statements are materially misstated. An audit opinion may also be referred to as an auditor's report. Auditor opinion is a product of auditor's work on the financial statement of a certain company. Previous studies mention that there is an instant market reaction after the audit report disclosure (Hossain et al, 2014). There are four types of audit opinion: unqualified opinion, qualified opinion, adverse opinion, and disclaimer of opinion. Abad et al (2017) finds that audit qualifications indicating higher uncertainty in firm accounting statements lead to increased information asymmetry levels and adverse selection risk in the stock market, with non-quantified qualifications and going concern qualifications having a stronger effect. On the contrary, Dionisijev (2021) examines the relationship between audit opinions and stock prices in companies listed on the Macedonian Stock Exchange, and finds that the audit opinion does not have a significant impact on stock prices, suggesting that investors do not consider the audit opinion in their decision-making process.

An unqualified opinion is referred to as a clean audit opinion. An auditor issues an unqualified audit opinion when he or she believes that the financial statements are free of material misstatement. In addition, an unqualified opinion is given on an entity's internal controls when management has assumed responsibility for establishing and maintaining them, and the auditor has performed on-site tests of their effectiveness.

A qualified opinion refers to a situation where the financial records of an entity fail to comply with Generally Accepted Accounting Principles (GAAP) for certain financial transactions. Despite the wording of a qualified opinion being similar to an unqualified opinion, the auditor includes an additional paragraph that identifies the deviations from GAAP in the financial statements and explains why the audit report is not unqualified. A qualified opinion can arise due to either limitations in the scope of the audit or deviations from GAAP in accounting policies. However, it is important to note that these deviations from GAAP are not widespread and do not result

in a misrepresentation of the entity's overall financial position.

An adverse opinion represents the most unfavorable assessment that a company can receive. It signifies that the financial records of the company do not adhere to Generally Accepted Accounting Principles (GAAP) and contain significant and widespread material misstatements. An adverse opinion can potentially indicate the presence of fraudulent activities. Investors, lenders, and other financial institutions typically do not consider financial statements with an adverse opinion as acceptable for their lending or investment decisions.

A disclaimer opinion is issued when the auditor encounters challenges in completing the audit report due to either unavailable financial records or inadequate cooperation from management. It is a statement indicating the limitation of the audit scope and signifies that the auditor is unable to provide an opinion on the financial statements. It is important to note that the absence of an audit opinion does not serve as an audit opinion.

There are different reasons why auditors conclude their work with these opinions. An unqualified audit opinion is issued when the financial statements are produced in accordance with accounting standards (GAAP). Qualified audit opinion is usually issued because of some violation of GAAP, such as IFRS, some limitations or a material misstatement. Modified audit report is issued when there is a change in accounting methods or when there is going concern or emphasis on a particular issue. This report is used to draw attention to several important accounting issues.

The accounting literature review mentions the importance of auditor opinion. Altman and Mcgough (1974) studied the bankrupt companies receiving "going concern opinion". Deakin (1977) mentioned that almost 15% of bankrupt companies had received a "going concern opinion". Both Dodd et al. (1984) and Elliott (1982) agree to state that companies with qualified opinions undergo longer periods of audit than companies that receive unqualified opinions.

The type of auditor's opinion (unqualified, qualified, adverse, or disclaimer of opinion) serves as a signal to investors about the company's financial health and the reliability of its financial reporting. It is expected that there is a positive relationship between a favorable auditor's opinion (unqualified opinion) and

stock prices. Meanwhile, there is a negative relationship between unfavorable auditor's opinion (qualified, adverse, or disclaimer of opinion) and stock prices.

H2: Auditor's opinion has an effect on stock prices in the following year.

Stock Price

The term "stock market" refers to various exchanges where stocks of publicly traded companies are bought and sold. These financial activities are conducted through formal stock exchanges and over-the-counter (otc) marketplaces that operate according to specific rules. The terms "stock market" and "stock exchange" are often used interchangeably. Traders on the stock market buy or sell stock on one or more exchanges that are part of the overall stock market. In Indonesia, there is only one stock market which is Indonesia stock market. The stock market allows buyers and sellers of securities to meet, interact, and transact. Markets allow for pricing of stocks in companies and serve as a barometer for the overall economy. Buyers and sellers can rely on a fair price, a high degree of liquidity, and transparency as market participants compete in the open market.

The term "stock price" refers to the current price at which a stock is traded on the market. Every listed company receives a price when its stocks are issued - an allocation of value that ideally reflects the value of the company itself. The price of a stock rises and falls depending on various factors, such as changes in the overall economy, changes in individual industries, political events, wars, and environmental changes. Apart from the other factors that change a stock price, there may be issues within a company that move the stock price in one direction or another.

Stock prices move daily. Today's closing price and tomorrow's opening price can be affected by many factors. Information regarding changes to the board or CEO, legal issues within the company, or the CEO's involvement in some scandal or accomplishment can affect a company's stock price. The stock price is initially determined by the company's initial public offering (IPO) when it first places its stocks on the market. Securities companies use a number of ratios and the total number of stocks offered to determine the stock price. After that, the stock price will go up and down for the reasons mentioned above, depending mostly on the company's expectations. Traders always use

financial ratios to determine a company's value, including its profit history, market changes, and what profit can reasonably be expected. This all causes traders to push stock prices up and down. Ittonen (2012) reviews the literature on market reaction to qualified audit reports. He highlights the three main approaches used in the study and discusses their strengths and weaknesses. He finds that only the indirect approach consistently supports quality audit report relevance. Subsequently, he provides suggestions for future research, including consideration of information release dates and the inclusion of additional stock market measures.

There are two opinions on whether stock prices could be affected by auditor opinions. Tahinakis et al (2010) mention that audit opinion does not influence investor's decision. Moradi et al (2011) conclude that qualified audit opinion does not affect stock prices. According to Anvarkhatibi, et al (2012), there is no significant relationship between audit opinion and stock price. The results of research conducted by Muslih and Amin (2018) show that audit opinion has no significant effect on stock price movements. On the other hand, previous studies mention that auditor reports can affect stock prices (Dodd et.al, 1984). The results of research conducted by Hoti et al (2012) also show that auditor's opinion has an effect on stock prices movement. Some previous studies mention abnormal return in association with the announcement of the qualified auditor opinion. This opinion is not the best opinion given to the company. A stock price is given for each stock issued by a publicly traded company. The price reflects the value of the company - what the public is willing to pay for a stock in the company. It will rise and fall depending on a variety of factors in the global landscape and within the company itself.

The combination of auditor's reputation and auditor's opinion may provide a stronger

signal to investors about a company's financial health and credibility. A strong auditor reputation, combined with a favorable auditor's opinion, is likely to have a greater positive impact on stock prices compared to either signal alone.

3. RESEARCH METHOD

Research Model

Auditor's Reputation and Stock Prices

Referring to the previous literature, changes in stock prices are seen through the estimation partially:

$$\text{StockPrice}_{i,t+1} = \beta_0 + \beta_1 \text{DUMMY}(\text{AuditorRep})_{i,t} + \beta_2 \text{FSize}_{i,t} + \phi t + \varepsilon \dots (1)$$

Where: Stock Price is the adjusted closing price of the firm *i* in year *t*. DUMMY(AuditorRep) is the dummy variable of Auditor's Reputation, 1 if the auditor who is handling the firm is from BIG4, and 0 if otherwise. Firm Size (FSize) is obtained from the natural logarithm of total asset as control variable. For controlling unobserved factors of a firm, a fixed effect model is used to control the time fixed effect by making use of year dummies (ϕt) to capture factors which affect all firms at the same time. All variables that need to be winsorized are winsorized at 1% and 99%.

Auditor's Opinion and Stock Prices

Referring to the previous literature, changes in stock prices are seen through the estimation partially:

$$\text{StockPrice}_{i,t+1} = \beta_0 + \beta_1 \text{DUMMY}(\text{AuditorOp})_{i,t} + \beta_2 \text{FSize}_{i,t} + \phi t + \varepsilon \dots (2)$$

Where: Stock Price is the adjusted closing price of the firm *i* in year *t*. DUMMY(AuditorOp) is the dummy variable of Auditor's Opinion, 1 if the opinion is Unqualified, and 0 if the opinion is other than Unqualified. Firm Size is obtained from the natural logarithm of total asset as control variable. For controlling unobserved

Table 1
Definition of Variables

Variables	Abbreviation	Measurement
Stock Price	StockPrice	The adjusted closing price of firm <i>i</i> at time <i>t</i> +1
Auditor Reputation	AuditorRep	Dummy variable. 1 if the auditors handling the firm is from BIG4, 0 otherwise of firm <i>i</i> at time <i>t</i> .
Auditor Opinion	AuditorOp	Dummy variable. 1 if the opinion is Unqualified, 0 if the opinion is other than Unqualified of firm <i>i</i> at time <i>t</i> .
Firm Size	FSize	Natural logarithm of total asset from firm <i>i</i> at time <i>t</i>

Source: Processed Data

Table 2
Purposive Sampling

No	Criteria	Sample
1	Companies listed in the IDX Main Board Index 2016-2020	237
2	Companies listed in the IDX Main Board Index 2016-2020 with incomplete and data	(197)
3	Total sample per year	40
4	Total observation (5x40)	200

Source: Processed Data

Table 3
Descriptive Statistics of Variables in the Model

Variable	N	Min	Max	Mean	Std. Deviation
StockPrice	200	105	12,872	1661.35	2008.098
Firm size	200	29	34	30.69	1.227

Source: Processed Data

Table 4
Frequencies of Dummy Variables in the Model

Variable	Dummy	Frequency	Percent
AuditorRep	0	76	38
	1	124	62
Total		200	100
AuditorOp	0	28	14
	1	172	86
Total		200	100

Source: Processed Data

factors of a firm, a fixed effect model is used to control the time fixed effect by making use of year dummies (φt) to capture factors which affect all firms at the same time. All variables that need to be winsorized are winsorized at 1% and 99%.

The Effect of Auditor’s Reputation and Auditor’s Opinion on Stock Prices

Referring to the previous literature, changes in stock prices are seen through the estimation simultaneously:

$$\text{StockPrice}_{i,t+1} = \beta_0 + \beta_1 \text{DUMMY}(\text{AuditorRep})_{i,t} + \beta_2 \text{DUMMY}(\text{AuditorOp})_{i,t} + \beta_3 \text{FSize}_{i,t} + \varphi t + \varepsilon_{i,t} \dots (3)$$

Where: Stock Price is the adjusted closing price of the firm i in year t . $\text{DUMMY}(\text{AuditorRep})$ is the dummy variable of Auditor’s Reputation, 1 if the auditor who is handling the firm is from BIG4, and 0 if otherwise. $\text{DUMMY}(\text{AuditorOp})$ is the dummy variable of Auditor’s Opinion, 1 if the opinion is Unqualified, and 0 if the opinion is other than Unqualified. Firm Size (FSize) is obtained from the natural logarithm

of total asset as control variable. For controlling unobserved factors of a firm, a fixed effect model is used to control the time fixed effect by making use of year dummies (φt) to capture factors which affect all firms at the same time. All variables that need to be winsorized are winsorized at 1% and 99%.

Research Data

The data used in this study are obtained from the companies listed in the IDX Main Board Index. Panel data are taken from the companies’ annual reports for the period of 2016-2020. The companies listed in the IDX Main Board Index are large companies with a good track record. The total number of samples is 200 companies. The sample should meet the criteria of consistency listed in the IDX Main Board Index for the whole period of observation.

Table 1 shows the definition of all variables used in this study. Table 2 provides the information on purposive sampling for the data used in this study.

Table 5
Auditor's Reputation and Stock Prices

Stock Prices				
	1		2	
Constanta	1521.5***	4.29	-5255.6	(-1.50)
AuditorRep	808.3***	2.79	719.0*	2.47
Firm Size			223.9	-1.94
Year Fixed Effect	Yes		Yes	
N	200		200	
Adjusted R-Square	0.027		0.041	

t statistics in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ indicate the regression coefficient significantly different from zero at the 10%, 5% and 1% levels, respectively

Source: Processed Data

Table 6
Auditor's Opinion and Stock Prices

Stock Prices				
	1		2	
Constanta	1351.7***	2.77	-6314.6	-1.79
AuditorOp	705	1.71	626.9	1.53
Firm Size			253.7*	2.19
Year Fixed Effect	Yes		Yes	
N	200		200	
Adjusted R-Square	0.003		0.022	

t statistics in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ indicate the regression coefficient significantly different from zero at the 10%, 5% and 1% levels, respectively

Source: Processed Data

The results of the descriptive statistics and frequencies are shown in Table 3. Stock price is shown in IDR and Size is shown in billion.

Table 3 shows that in the IDX Main Board Index for the period of 2016-2020, the minimum stock price is IDR 105 and the maximum price is IDR 12,872. The mean of the adjusted close price is IDR 1,661.35. The firm size is in between IDR 29 to 34 billion with the mean of IDR 30.69 billion.

Table 4 shows the frequencies of dummy variables used in this study. Of the 200 companies listed in the IDX Main Board Index during the observation year, 38% companies are handled by non-BIG4 accounting firm, while the other 62% companies are handled by BIG4 accounting firm. Based on the Audit Opinion, 86% companies receive unqualified opinion and only 14% companies receive opinions other than unqualified opinion.

4. DATA ANALYSIS AND DISCUSSION

The Effect of Auditor's Reputation on Stock Prices

Table 5 shows the regression analysis between Auditor's Reputation and Stock Prices in two models from formula number 1. Model 1 presents the regression without control variable and Model 2 presents the full regression including control variable and the year fixed effect. The results show that auditor's reputation has a positive effect on stock prices with or without the control variable. So, hypothesis 1 is accepted. This provides empirical evidence to support the hypothesis that reputable auditors contribute to increasing stock prices. Auditor reputation refers to the perception and evaluation of the credibility, reliability and competence of the auditor in carrying out audits and providing accurate financial information. Hiring

reputable auditors can positively influence investor confidence in a company's financial statements. This increases trust and can lead to higher demand for the company's stock, resulting in an increase in stock price.

In general, investors and the market consider reputable auditors as more trustworthy and reliable. They believe that the financial statements audited by reputable auditors are likely to be more accurate and provide a better understanding of a company's financial health. Consequently, this positive perception can attract more investors, drive up demand for the company's stock, and potentially increase the company's market value. Empirically, this shows that whatever the size of the company, as long as the company is handled by reputable auditors (BIG4 accounting firm), it will help increase the company's stock price in the following year.

The Effect of Auditor's Opinion on Stock Prices

Table 6 shows the regression analysis between Auditor's Opinion and Stock Prices in two models from formula number 2.

Model 1 presents the regression without control variable and Model 2 presents the full regression including control variable and the year fixed effect. The results show that auditor's opinion has no effect on stock prices with or without the control variable. The hypothesis suggests that the specific type of auditor's opinion has an influence on stock prices in the following year. So, hypothesis 2 is rejected. The analysis conducted does not find a significant relationship between the auditor's opinion and stock prices. In other words, there is no evidence to support the idea that the type of auditor's opinion has a direct impact on stock prices in the subsequent year. It is possible that the market participants and investors do not consider the auditor's opinion as a crucial factor in their decision-making process regarding stock investments. Other factors, such as the company's financial performance, industry trends, macroeconomic conditions, and market sentiment may have a more dominant influence on stock prices. It is also worth noting that the rejection of the hypothesis in this study does not mean that the relationship between auditor's opinion and

stock prices does not exist in all circumstances. The findings of a particular study might be influenced by various factors such as the sample size, methodology, data limitations, or specific characteristics of the market being analyzed. Empirically, this shows that whatever the size of the company and whatever the opinion given by the auditors do not help increase or decrease the stock prices in the following year.

5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

This study aims to investigate the potential effect of auditor's reputation and auditor's opinion on the company's stock prices in the subsequent year. The results show that, partially, auditor's reputation has an effect on stock prices in the following year, while auditor's opinion has no effect on stock prices. However, simultaneously, both variables have an effect on stock prices in the following year by 5%. Empirically, it is necessary to explore additional factors that can influence stock prices in the subsequent year.

This study argues that auditor reputation is important and attracts investors' attention. Companies audited by Big4 accounting firms tend to have higher stock prices than those audited by second-tier accounting firms. This research is limited to companies listed on the IDX Main Board Index representing various industries. It is hoped that the results can be applied to companies in Indonesia. However, there are several companies listed on the IDX Main Board Index that are audited by non-Big 4 accounting firms.

Although not all companies can use the services of a reputable auditor represented by the Big 4, the auditor's opinion is still very important in increasing the accountability of the company's financial statements. In the context of companies listed on the IDX Main Board Index, the auditor's opinion has no effect on the stock price in the following year.

Through strong empirical investigations, innovative methodologies, and an interdisciplinary approach, it is hoped that future researchers will be able to increase understanding of how auditors shape investor perceptions, market efficiency, and financial stability which can ultimately promote a more transparent and resilient financial system.

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