Proceeding International Seminar on Accounting for Society
Bachelor Degree of Accounting Study Program, Faculty of Economy Universitas Pamulang
Auditorium Universitas Pamulang, March, 21ˢᵗ, 2018

THE INFLUENCE OF AUDIT OPINION TO THE COMPANY STOCK PRICE

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ABSTRACT

From the results of previous studies there are still different conclusions about the influence of audit opinion on stock prices. Some studies concluded that the influence of audit opinion on stock prices are significant, whereas other studies concluded that audit opinion did not significantly influence stock prices. The purpose of this research is to study the influence of audit opinions contained in the audit report on the firm stock prices. Corporate profit and firm size are added to the research model as control variables. The samples are companies listed on the Indonesia Stock Exchange classified as LQ 45. 18 (Eighteen) companies are used as research samples with panel data. Measurements were made to 4 (four) variables in the research model. The data used are secondary data taken from the Indonesia Stock Exchange database and firms' annual reports. The result of this research shows that the influence of audit opinion on stock prices is not significant. Reports of the audit results turned out to be underutilized by potential investors in the decision-making process. From a signalling theory point of view, the audit report does not provide useful information to potential investors. This situation may be due to the condition of the Indonesian stock market where most of the potential investors do not understand the meaning of the auditor's opinion. Conversely, corporate earnings have a very significant effect on stock price movements.

Key Words: Audit Opinion, Company Profit, Firm Size, Stock Price, Signaling Theory

1. INTRODUCTION

Audit opinion is the auditor's opinion on the presentation of the Financial Statement of a business entity, especially the company. The benefits of an audit opinion are primarily to increase confidence in the audited financial statements. With the existence of audit activities, then the owner of the company will be more trust the financial statements presented by management.

Arens (2014) says that users of the Financial Statement rely on the Auditor's Report to provide assurance regarding the Company's Financial Statements.

Audit opinion on the financial statements of companies that have gone public may affect the company's stock price. A good audit opinion will be information that can increase the company's stock price, whereas an

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unfavorable audit opinion will be information that will lower the company's stock price. Thus Audit Result Report from Auditor should contain information content that can influence stock price of company. Arens (2014, 27) says that the final step of the audit process is to prepare audit reports, communicating the auditor's findings to users.

There have been many studies done on the effect of audit opinion on financial statements on the stock price of the company. Anvarkhatibi, Saeid, Safashur, Mohammadreza, and Mohammadi, Jamal (2012) concluded that there was no significant relationship between auditor opinion and stock price. Tahinakis, Panayiotis, Mylonakis, John, Daskalopoulou, Evaggelia (2010) also concluded from his research that audit reports contain limited information to investors and are not part of their decision-making process. Kipkosgei (2008) also concluded from the results of his research that there is a very weak relationship between the audit opinion with the stock price. Prasetyo and Rini (2014) confirmed in the results of his research that investors do not make the information on the report of Unqualified Exception audit opinion (WTP) as one of the reference in making investment decisions.

Otherwise Hoti et. al (2012) concluded from the results of his research that the opinion of auditors influence the movement of stock prices. Ren, Basak Erdem, Genc, Elif Guneren, Ozkul, Fatma Ulucan (2016) further concluded from his research that the auditor's opinion reinforces the investor's decision. Robua, Mihaela Alina, Robua, Ioan Bogdan (2015) firmly stated in his research report that the information on audit report has a significant influence on stock return.

Thus from the results of previous studies there are still different conclusions about the effect of audit opinions on stock prices.

The scope of this study is about "the influence of audit opinion and corporate earnings on stock prices". Based on the discussion of the background of the above research, the research question is whether audit opinion affect the stock price?

The purpose of this research is to prove the influence of audit opinion to stock price. This research is only conducted on companies listed in Indonesia Stock Exchange with limited samples.

2. LITERATURE REVIEW
2.1 Stock market theory and stock prices

Share price is a sign of participation or ownership of a person or entity within a company. Shares are traded at the capital market. Fama (1970) said that the primary role of capital market is allocation of ownership of the economy's capital stock.

The share price of the company will affect the decision of the investor in the case of decision making to conduct stock trading or not. The demand price is the price demanded by the prospective buyer and the offer price is the price offered by the prospective seller.

The stock price shows the value of a company that describes the shareholders' wealth. Stock prices fluctuate up and down caused by demand and supply of these shares in the capital market. Stock prices are influenced by various factors, both from internal factors of company and external factors (macro factor). Some factors that come from external companies include interest rates, inflation, currency exchange rates, government policy, market sentiment, business combinations, political and social conditions of a country.

There are several forms of stock market that is weak form (weak form), semi strong form (semi strong form),

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and strong form (strong form). The market is said to be a weak form if the prices of the securities reflect fully (fully reflect) the past information or information already occurring. The market is said to be a semistrong form when the security prices fully reflect all publicly available information including the information contained in the company's financial statements. The market is said to be a strong form or efficient market hypothesis when the security prices fully reflect all available information including private information.

2.2 Signalling Theory

Signal theory is a theory that explains the relationship of information issued by the company as an announcement that will give a signal for investors to make investment decisions. At the time the information is announced, the investor will first assess or analyze the information as a good signal or a bad signal. Signaling to investors can be done through the publication of the audit report containing the auditor's opinion about the reasonableness of the financial statement of the company.

Based on signal theory, earnings announcements and audit reports containing audit opinions are important information and can influence the investment decision-making process for investors.

2.3 Audit Opinion

Audit opinion is a statement of opinion given by the accountant on the fairness of the presentation of the Company's Financial Statements. Arens (2012, page 49) said that there are 4 (four) types of audit opinions: unqualified opinion, fair opinion with a qualified opinion, disclaimer of opinion, and adverse opinion.

There have been many studies done on the effect of audit opinion on financial statements on the stock price of the company. Anvarkhatibi, Saeid, Safashur, Mohammadreza, and Mohammadi, Jamal (2012) concluded from his research that at a 95% confidence interval there was no significant relationship between auditor opinion and stock price. The two hypotheses in this study are "Auditor's type of opinion has a significant effect on stock price" (Ha) and "Types of auditor's opinion have a significant effect on stock return" (Ho) is rejected. So this study concludes that there is no content of information from audit opinion in decision making. Tahinakis, Panayiotis, Mylonakis, John, Daskalopoulou, Evaggelia (2010) also concluded from the results of his research that audit reports contain limited information to investors and are not part of their decision-making process. According to Tahinakis et. al. this may be due to a lack of understanding of the content, importance, and value of the accountant's audit report. So Tahinakis et. al has further indicated that theauditor's opinion is not considered in the investor's decision-making because of a lack of understanding of the audit opinion by potential investors. To justify this opinion can be done separate research. Kipkosgei (2008) also concluded from the results of his research that there is a very weak relationship between the audit opinion with the stock price of the company and that the audit opinion only gives a very small part of the drivers of changes in stock prices. Prasetyo and Rini (2014) confirmed in the results of his research that investors do not make the information on the report of opinion unqualified audit opinion (WTP) as one of reference in making investment decision.

Otherwise Hoti et. al (2012) concluded from the results of his research that the opinion of auditors

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influence the movement of stock prices. Ren, Basak Erdem, Genc, Elif Guneren, Ozkul, Fatma Ulucan (2016) further concluded from his research that the auditor's opinion reinforces the investor's decision. Robua, Mihaela Alina, Robua, Ioan Bogdan (2015) firmly stated in his research report that the information on audit report has a significant influence on stock return.

Thus from the results of previous studies there are still different conclusions about the effect of audit opinions on stock price movements and stock returns. Based on the literature review above, the hypothesis in this study are:

H1: Audit opinion positively affects the stock price of the company.

2.4 Corporate profits

The company's profit is also a special attraction for investors to invest. Even corporate profits provide great appeal to potential investors. Various studies have been conducted to determine the effect of corporate earnings on stock prices. Saeidi and Okhli (2012) showed a strong influence of the company's earnings on stock prices. Purnamawati (2016) concluded from the results of his research that capital structure and profitability have a positive effect on stock prices in manufacturing companies listed on the Indonesia Stock Exchange. Paradiba and Nainggolan (2015) also concluded from the results of his research that net operating income has a positive influence on stock prices.

Based on the literature review above, the hypotheses in this study are:

H2: The company's profit has a positive effect on the company's stock price.

2.5 Company Size

Firm size (firm size) is the level or size of the company. Corporate size indicators can be spelled out in various sizes such as asset value, number of employees, sales value, and amount of capital.

Various studies have proven a positive relationship between company size and company earnings. Alexander et. al (2005) concluded from his research that there is a positive relationship between company size and capital structure. Amato et al (2007) concluded from his research that there is a positive relationship between firm size and firm profits. Gaur (2007) concluded from his research that the size of the firm influenced inventory levels and sales growth. Sales growth will ultimately increase company profits. Mesut Dogan (2013) conducted a study on 200 companies listed on the Istanbul Stock Exchange, with data between 2008 and 2011. The result is a positive relationship between the size indicators and the profitability of the company. Chang et. al (2013) shows from the results of empirical studies that there is a relationship between company size and financial performance. Abiodun (2013) conducted a study on the relationship between firm size and firm performancelisted on the Nigerian Stock Exchange, using panel data from 2000-2009. The result is that there is a positive relationship between firm size, in size of asset and sales amount, to the profitability of a manufacturing company in Nigeria. Kumasa et. al (2014) conducted research on the Turkish labor market. The result of the empirical study is that there is a relationship between firm size and job qualification. So there is a role size. Okada (2006) concluded from the results of his research that there is size effect on value.

But there are also some researches in the past that give different results. For example Raningsih and Putra (2015) concluded from the results of his research that the size of the company does not affect the stock return. Setiyono and Amanah (2016) also

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concluded that firm size does not significantly influence stock returns.

Based on the literature review above, the hypothesis in this study are:
H3: The size of the company has a positive effect on the company's stock price.

3. RESEARCH METHODOLOGY
3.1 Research design
This research uses quantitative research method. Data processing is done by ordinary least squares (OLS), using SPSS program. The quantitative research model is formulated as follows:

Y = a+ b1X1+b2X2+b3X3 + μ

Where:
Y = Share price;
X1 = Audit opinion;
X2 = Profit company;
X3 = Company size.

3.2 Population, Sample, and Data Collection Method
The unit of analysis is the company. The research population are companies listed on the Indonesia Stock Exchange. The sample of research data is taken from companies listed on Indonesia Stock Exchange which entered in LQ 45 classification. Data collection is done by collecting relevant secondary data from various data sources such as www.idx.co.id.

3.3 Variable Measurement
The variables from this study and the measurement are as follows. Measurement of share price by using the company's stock price in the market at the end of 4th quarter after the issuance of Audit Result Report on Financial Statement. The end price of quarter 4 is the average price of the opening price, the highest price, the lowest price, and the closing price.

Measurement of audit opinion by using Likert scale from 1 to 5 with details as follows:
a. 5 Unqualified Opinion;

b. 4   Unqualified   Clear   With Explanatory Paragraphs;
c. 3 Qualified Opinion;
d. 2 Disclaimer of opinion;
e. 1 Adverse opinion.

Measurement of company's profit by using profit after tax, which is stated in Company Financial Statement. The figures are presented in billions of Rupiah.

The proxy of firm size used in this study is the value of company assets presented in the Company's Financial Statements. The figures are presented in billions of rupiah.

3.4 Data Analysis
Basically, the data analysis performed will include statistical tests as follows:

1. Test the normality of data, to determine whether the data is normal or not so feasible diregress and used as a basis for making conclusions and decisions. This test is performed by creating a dependent variable histogram to see that the residual is not skewed or left and with one sample KolmogorovSmirnov test. If the value of significance greater than 0.05 means the data is normally distributed.

2. Multicolinearity test to determine the relationship between independent variables. The guidance is mainly with the indicator or the value of Durbin Watson Statistics. The presence of multicollinearity can also be detected with Variance Inflation Factor (VIF). If Centered VIF value <10 then there is no multicor. Ghazali (2013, 79) says that the presence of multicolinearity or high correlation between independent variables can be detected in several ways below:

a. High R2 values but few (even none) significant independent variables;

b. The correlation between two independent variables that exceed 0.80 can be a sign that multicolinearity is a serious problem;

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c. Tolerance and Variance Inflation Factor (VIF).

3. Test heteroskedastisitas to know the existence of probable density of μi. The test was performed by Spearman's heteroscedasticity test. If a significance value above 0.05 means no heteroscedasticity occurs.

4. To determine whether there is a problem of auto correlation in the research model, conducted with Watson durbin test (DW), with the following conditions:

1) There is a positive auto correlation if the DW value is below -2 (DW <2);

2) No auto correlation occurs if the DW value is between -2 and +2 or -2 <DW <+2;

3) Negative autocorrelation occurs if DW value above +2 or DW> +2.

5. Regression test to know the change of variable Y that can be explained by the variable X (goodness of fit). This test is mainly indicated by the R2 indicator. Ghazali (2013, 59): "The coefficient of determination essentially measures the extent of the model's ability to explain variations of independent variables".

6. Test t to determine the partial effect of one independent variable to its dependent variable (with indicator significance t);

7. F test to determine the effect of simultaneously independent variable to its dependent variable (with indicator significance F).Pengolahan data menggunakan program SPSS.

4. RESULTS AND DISCUSSION
4.1 Overview of Research Sample

The population of this study are companies listed on the Indonesia Stock Exchange. Companies that are sampled are companies listed on the Indonesia Stock Exchange, which is included in the category LQ 45. 18 (eighteen) companies listed on the Indonesia Stock Exchange classified LQ 45 into a sample in this study. The data used are panel data from 18 (eighteen) companies and includes time series data for 7 (seven) years. Thus, there are 126 observations.

4.2 Research result

The results can be seen in the statistical tests below, which are processed using the SPSS program.

4.2.1 Classic assumption test - Residual normality test

The test is performed to determine whether the sample is normally distributed or not by testing the residual normality. Ghozali (2016, page 27) says that one way of detecting normality is through observation of residual values. Test results can be seen in graph and table below.
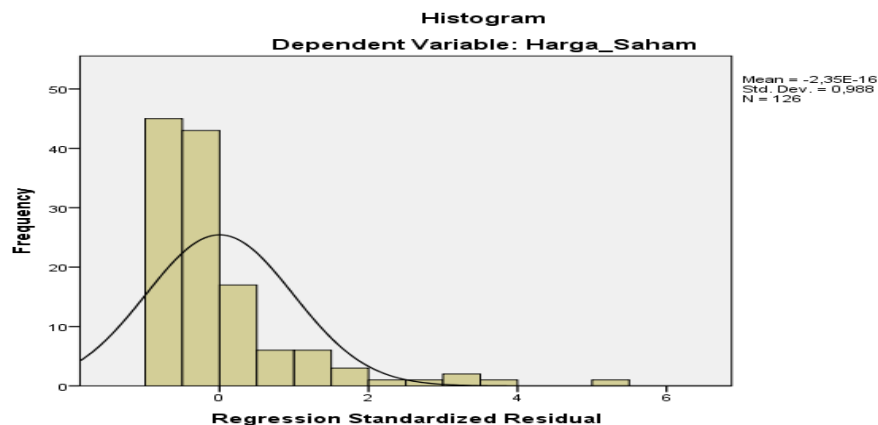

Figure 4.1 Histogram

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One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		115
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	5732,792361
Most Extreme Differences	Absolute	,214
	Positive	,214
	Negative	-,167
Test Statistic		,214
Asymp. Sig. (2-tailed)		,000[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Figure 4.2 One Sample Kolmogorov Smirnov Test

In the above histogram it can be seen that the residual skewed (skewed) left. A poor residual distribution. In table one sample Kolmogorov Smirnov test above can also be seen that the value of .

significance of 0.00 or <0.05. This means that residuals are not normally distributed. The histogram also shows a moderate positive skewness graph pattern, as shown in the figure below
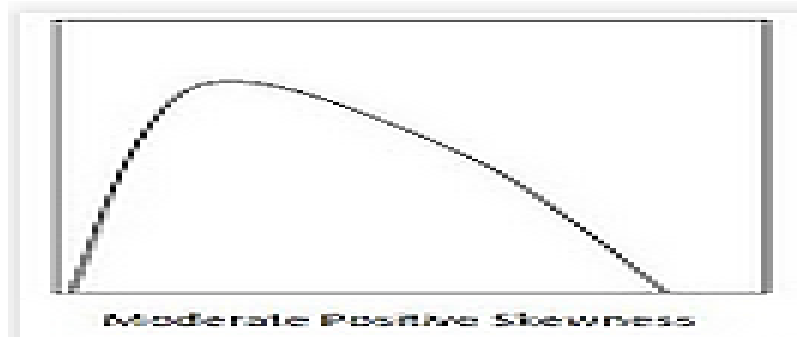
Figure 4.3 Moderate Positive Skewness

According to Ghozali (2016, page 34) when the histogram graphic shape is moderate positive skewness, then the transformation form is square root. Therefore, data transformation is done

by the square root method. After being transformed, the residuals were againtested for their normality with the following results:
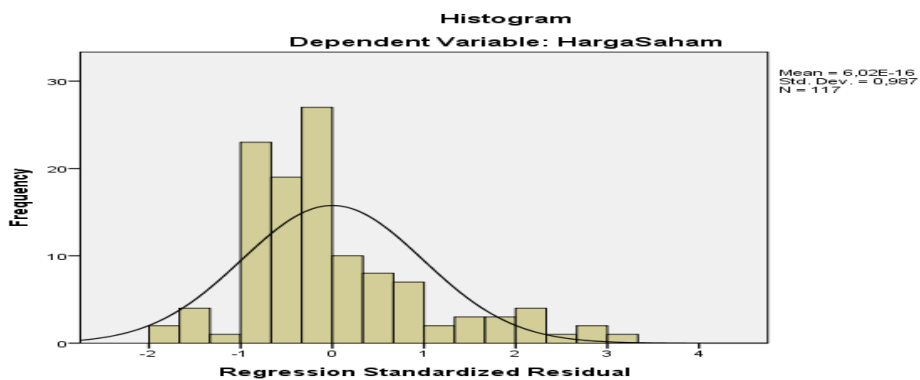
Histogram
Dependent Variable: HargaSaham

Mean = 6,02E-16
Std. Dev. = 0,987
N = 117

Figure 4.4 Histogram

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One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		117
Normal Parameters^{a,b}	Mean	,0000000
	Std. Deviation	30,70189751
Most Extreme Differences	Absolute	,160
	Positive	,160
	Negative	-,122
Test Statistic		,160
Asymp. Sig. (2-tailed)		,000^c

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Figure 4.5 One Sample Kolmogorov Smirnov Test

In the histogram above shows that the graph looks better but still looks skewed. In one sample table Kolmogorov Smirnov test also seen that the value of significance 0.00 (<0.05). This means that residuals are not normally distributed. Since it still has the same graphic shape, the transformation is done again using twice the square root (square root 4). Residual transformation results in the normality test with the following results:
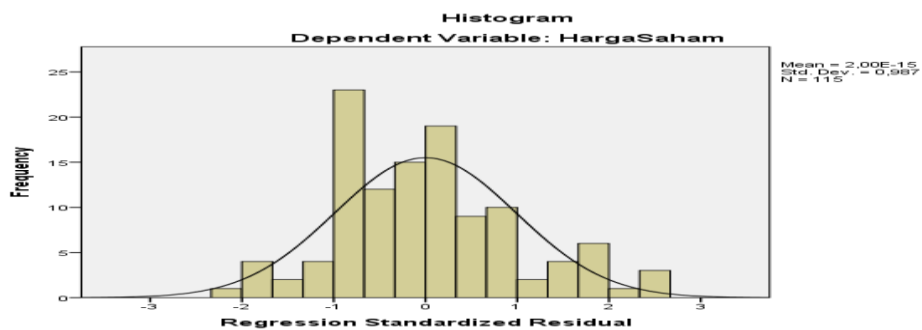

Figure 4.6 Histogram

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		115
Normal Parameters^{a,b}	Mean	,0000000
	Std. Deviation	1,69442989
Most Extreme Differences	Absolute	,080
	Positive	,080
	Negative	-,075
Test Statistic		,080
Asymp. Sig. (2-tailed)		,066^c

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Figure 4.7 One Sample Kolmogorov Smirnov Test

On the histogram above shows that the residual is normally distributed, not skewed to the left or right. In table one samples kolmogorov smirnov test also seen that the value of significance is 0.066 or> 0.05. It means that the residual has normal distribution. The transformed data can be used in the next research process.

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4.2.2 Classic assumption test - Multicolinearity test

Tabel 4.1 Multicolinearity test

Coefficientsᵃ

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-,108	8,150		-,013	,989		
	OpiniAudit	3,016	5,614	,044	,537	,592	,860	1,163
	LabaBersih	,564	,095	,693	5,962	,000	,421	2,377
	FirmSize	-,049	,042	-,140	-1,175	,243	,399	2,508

a. Dependent Variable: HargaSaham

In the table above shows that the Variance Inflation Factor (VIF) value of the three independent variables (audit opinion, net profit, and firm size) is less than 10. Meaning the three variables do not experience multicollinearity.

4.2.3 Classic assumption test - Autocorrelation test

Tabel 4.2 Autocorrelation test

Model Summaryᵇ

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,607ᵃ	,368	,351	1,71717	,481

a. Predictors: (Constant), FirmSize, OpiniAudit, LabaBersih

b. Dependent Variable: HargaSaham

To determine whether there is a problem of auto correlation in the research model, conducted with Watson durbin test (DW) with the following conditions:
1) There is a positive auto correlation if the DW value is below -2 (DW <2);
2) No auto correlation occurs if the DW value is between -2 and +2 or -2 <DW <+2;

3) Negative autocorrelation occurs if DW value above +2 or DW> +2.
The DW value is 0.481 and satisfies -2 <DW = 0.481 <+2, so there is no autocorrelation.

4.2.4 Classic assumption test - Heteroscedasticity test

For heteroscedasticity test done with Spearman heteroskedastisity test as presented in statistics table below.

Tabel 4.3 Speraman's Rho test

Correlations

			OpiniAudit	LabaBersih	FirmSize	abs_res
Spearman's rho	OpiniAudit	Correlation Coefficient	1,000	,292**	,393**	,001
		Sig. (2-tailed)	.	,002	,000	,994
		N	115	115	115	115
	LabaBersih	Correlation Coefficient	,292**	1,000	,740**	,078
		Sig. (2-tailed)	,002	.	,000	,409
		N	115	115	115	115
	FirmSize	Correlation Coefficient	,393**	,740**	1,000	-,258**
		Sig. (2-tailed)	,000	,000	.	,005
		N	115	115	115	115
	abs_res	Correlation Coefficient	,001	,078	-,258**	1,000
		Sig. (2-tailed)	,994	,409	,005	.
		N	115	115	115	115

**. Correlation is significant at the 0.01 level (2-tailed).

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In the Spearman correlation table above shows that the value of significance for the audit opinion variables with net income respectively 0.994 and 0.409 (above 0.01). Means there is no heteroscedasticity. But the significance value of the firm size variable is 0.005 (<0.01). Means that firm size variables are experiencing heteroscedasticity, then firm size will not be included in the regression test.

4.2.5 Causality Test (Regression) Simultaneous Test (F Test)
H0 and H1 are as follows:
H0: Audit Opinion and Net Income have no effect simultaneously on Stock prices.
H1: Audit Opinion and Net Income affect simultaneously on stock price.

The results of causality test can be seen in the table if statistics below.

Tabel 4.4 F Test

ANOVAª

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	186,627	2	93,313	31,539	,000ᵇ
	Residual	331,375	112	2,959		
	Total	518,002	114			

a. Dependent Variable: HargaSaham

b. Predictors: (Constant), LabaBersih, OpiniAudit

At anova table above the significance value of 0.00 or <0.05 so that Ho is rejected, which means Audit Opinion and Net Profit simultaneously affect the price of Shares. Thus, regression can be continued by looking at the relationship between independent variables with individual bound variables.

4.2.6 Test t - Audit Opinion
H1 and H0 are as follows:
H0: Audit opinion does not partially effect on stock price.
H1: Audit opinion partially effect on stock price.

Here is a table of coefficients for audit opinion t test.

Tabel 4.5 T Test

Coefficientsª

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,972	7,969		,247	,805		
	OpiniAudit	1,494	5,472	,022	,273	,785	,908	1,101
	LabaBersih	,483	,064	,593	7,483	,000	,908	1,101

a. Dependent Variable: HargaSaham

In the table above shows that the value of audit opinion variable significance is 0.785> 0.05. Meaning H0 is accepted and H1 is rejected. Audit opinion does not partially effect on stock price. This means that audit opinion is not an important part of the decision-making process by investors. There are many factors that influence stock price movements such as macroeconomic conditions, business conditions, and political issues. However, the audit report should be utilized by shareholders in performing investment analysis in accordance with the purpose of reporting. The underutilization of the

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audit report is likely because many investors have not understood the audit and the meaning of the audit report. For this matter can be done separate research.

4.2.7 Test t - Net Income

H0 and H1 are as follows:

H0: Net income has no partial effect on stock price.

H1: Net income affects partially on stock price.

In table t test coefficient above shows that the significance value of net profit variable is 0.00 <0.05. Meaning H0 is rejected and H1 accepted. Net income affects partially on stock price. Means investors make profit as a veryimportant consideration in the investment decision-making process. Investors will invest when the company gets a profit, not a loss.

4.2.8 Determination Test

The purpose of the determination test is to determine how far the independent variable can explain the changes in the dependent variable.

Tabel 4.5 R Square

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,600[a]	,360	,349	1,72009	,461

a. Predictors: (Constant), LabaBersih, OpiniAudit

b. Dependent Variable: HargaSaham

R square value is 0.36, it means that audit opinion variable and net income explain 36% of share price. The other 64% is explained by other variables not found in this study. R square is considered to be large when it exceeds 50%. But the small R square is not bad. Ghazali (2013, p. 59) states that the small value of R^2 means the ability of independent variables to explain the variation of the dependent variable is very limited. If the R square value is close to 1 it means that the independent variables provide almost all the information needed to predict the variations of the dependent variable.

Against firm size can not be inferred about its effect on stock price because its data contains heteroscedasticity so that regression can not be done.

5. CONCLUSION

Previous research results show inconsistent results regarding the effect of audit opinion on stock prices. The main purpose of the audit report is to be used by potential investors in the decision-making process, as in the process of buying stock decision-making. In the audit report there is useful information content to be used in the share purchase decision process.

The purpose of this research is to study the effect of audit opinion on the stock price of the company. Corporate profits and firm size are added to the research model as control variables.

Company samples are companies listed on the Indonesia Stock Exchange classified LQ 45. 18 (eighteen) companies are used as research samples with panel data of 5 (five) years. Measurements were made to 4 (four) variables in the research model. The data used are secondary data taken from the Indonesia Stock Exchange database. Processing is done by regression analysis using SPSS program.

The result of this research shows that the influence of audit opinion on

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stock price movement is not significant. Reports of the audit results turned out to be underutilized by potential investors in the process of buying stock decision-making. This situation may be due to the condition of the Indonesian stock market where most of the potential investors do not understand the meaning of the auditor's opinion. Conversely, corporate earnings have a very significant effect on stock price movements. This shows that the company's profit is important information for potential investors in the process of buying stock decision-making.

Limitations of this study is the company size data contains heteroskedastisitas although it has done the process of data transformation so that can not be done regression.

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