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Reactions of the Spanish capital market to qualified audit reports

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Abstract

Since mandatory auditing of financial statements was first established in Spain, very few stud ... eports in the Spanish ... hether there is a relat ... t of the Spanish ... se. Our findings ... investors.

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GV00-059-8 and CTIDIB/2002/254).

Notes

Soltani (2000) used this event date in the French capital market. His results revealed that some qualifications had information content fifteen days before the AGM was held. In common with Spanish legislation, French company law requires that the audit report and the financial statements be made available at least fifteen days before the AGM is held. France and Spain both belong to the continental European legal tradition, which explains why their companies legislation is similar, but differs from that of the English-speaking countries.

To establish the date on which the AGM of shareholders of each of the companies comprising our sample was held, it was necessary to resort to the Official Bulletins of the Companies Registry (BORME). Regarding the date when the CNMV put the audit report at the disposal of the public, we used a computerized register obtained from the CNMV to establish the date at which the stock market regulator made the audit report available to the public.

The event window, or period during which we examine the abnormal returns of the target companies, should include the day on which users first had knowledge of the opinion contained in the audit report (i.e. the event date). For the purposes of this study, we have used daily share price quotations over a period of twenty-five days, which co vent falls in the midd ermine whether share price. W er the market w ther mechan o the length of th ws: [−1, +1], [−

The daily database. For the c or company reports. r needs.

One of the principal limitations of this model is poor specification, while it is relatively inaccurate when daily price quotations are utilized. On the latter point, certain studies indicate that the estimated parameters of the market model applying the ordinary least squares (OLS) method will be inconsistent and biased if daily quotations are used due to infrequent trading in some of the stocks (see, among others, Scholes and Williams, 1977; Dimson, 1979). These studies report that the estimation of the beta of quoted shares that are more frequently traded will be overstated, while that of less frequently traded stocks will be understated. In this context, the empirical literature proposes various models intended to improve the estimation of the parameters. Among these are the beta models of Scholes and Williams (1977) and of Dimson (1979). Nevertheless, subsequent studies such as those of Brown and Warner (1980, 1985) and Jain (1986) have confirmed by empirical testing that the Scholes–Williams and Dimson models fail significantly to remove the bias in the parameters estimated by OLS. In short, though some studies have tried to design more accurate models to deal with the problem of non-simultaneous trading, the models proposed do not provide any substantially better results than the market model.

In accordance with Spanish auditing law, going-concern problems are treated as an uncertainty. Where they exist, therefore, the auditor is obliged to express a qualified opinion or, if the problem is acute, to issue a disclaimer of opinion.

We calculated the mean of companies for which we used the CNMV date and the fifteen days prior to the AGM date. The CNMV date was used for 62% of total companies qualified from 1992 to 1995. We used the fifteen days prior to the AGM date for the remainin

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