

Summary of Paper: [Investor Sentiment and Audit Opinion Shopping](#)

What is this Study About?

Researchers explore how the overall mood or sentiment of investors affects companies' attempts to shop around for favorable audit opinions, specifically regarding their internal control systems. In particular, the study looks at whether companies seek out more lenient auditors who will give them a clean bill of health on their internal controls over financial reporting, especially when investor enthusiasm is high, suggesting that these efforts are more about seizing the moment than reflecting true financial health.

What are the major findings of the study?

Audit opinion shopping is more prevalent during periods of high investor sentiment. This effect is particularly pronounced among companies with low institutional ownership. Firms are more likely to switch from Big 4 to non-Big 4 auditors during high sentiment periods, suggesting an opportunistic behavior to avoid unfavorable audit opinions. Moreover, companies engaging in opinion shopping during high sentiment periods exhibit a higher risk of future material restatements and incur higher audit fees. These findings indicate that companies have incentives during high investor sentiment periods to manipulate audit outcomes through opinion shopping, potentially compromising financial reporting quality and increasing audit costs.

Why is the study important?

This study links investor sentiment with audit opinion shopping behavior, offering new insights into how market-wide phenomena can influence audit outcomes and financial reporting integrity. It shines a light on how companies might try to manipulate their audit outcomes to suppress the bad news associated with adverse audit opinions during times when investors are overly optimistic. By understanding this behavior, regulators, auditors, and investors can be more vigilant, ensuring that audit opinions genuinely reflect a company's financial reporting and not just the current investor mood. This vigilance helps maintain the integrity of financial markets and protects investors from potentially misleading information about a company's financial reporting behavior.