



Impact of Review/Audit of Interim Financial Statements on Information Content with Audit Quality as the Moderating Variable

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ABSTRACT

There is currently no requirement for interim financial statements to be audited/reviewed. However, some companies do conduct an audit/review of their interim reports. This study will investigate whether such reviews/audits of interim financial statements have information content and whether there is any influence of assurance value or signalling value. Information content is proxied by AVAR (abnormal returns volatility) and AVOL (abnormal trading volume volatility). In addition, this study examines the role of audit quality in influencing the relationship between review/audit and the information content of interim financial statements. In a regression using 3,234 interim financial reports in Indonesia for the period 2013–2016, this study found that reviews/audits increased the information content of those interim financial statements proxied by AVOL but not those proxied by AVAR, in the context of providing signalling value and not in order to increase assurance value (earnings quality). Audit quality strengthens the impact of reviews/audits of interim financial information content proxied by AVOL, but not by AVAR. This research also found that an audit has a higher level of confidence than a review of interim financial reporting.

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INTRODUCTION

Listed companies are required to issue both annual and interim financial reports. Usually, it is mandatory for annual financial statements to be audited by external auditors, while there is no such requirement for interim financial statements to be audited. The issue to debate is whether or not interim financial reports need to be reviewed by external auditors. Interim financial statements carry a higher potential for misstatement due to the greater use of estimation methods than for annual financial statements. This makes annual reports more reliable than interim reports (Ettredge et al., 1994).

Some countries, companies are obliged to have their financial statements reviewed by external auditors. In the US, listed companies are required to have interim reviews conducted by an external auditor. Australia and France have started asking public companies to review their interim financial statements, while Germany, Canada and the UK have no such requirement for a review of interim financial statements (Kajüter et al., 2016).

Kajüter et al. (2016) examined whether a review of interim financial reports by external auditors would affect the information content. Research was conducted on listed companies in Germany, where interim financial statements are mandatory for Prime Standard firms but reviews of reports by an external auditor remain voluntary. Therefore, a company may choose whether or not to review its interim financial report. They found that a review of interim financial statements had an impact on the increasing volatility of abnormal returns and abnormal trading volume but found no relationship between earnings quality and a review of interim financial reports. The authors therefore concluded that the increased information content of interim financial statements is more due to the effects of signalling and not because of an improvement in the quality of earnings.

Bédard and Courteau (2015) examined Canadian listed firms and found no significant relationship between a review of interim financial reports and earnings quality; however, audit fees were found to increase by 18% when a company conducted a review of its interim financial statements. Filip (2016) suggested that research should be conducted not only on whether reviews of interim financial statements are mandatory, but additionally on whether the interim financial statements themselves should also be mandatory. Lin and Yen (2017) examined the determinants of demand for audit and review assurance in Taiwan and found that companies are more likely to choose audit assurance than review assurance when they have higher agency costs between controlling and non-controlling shareholders and higher agency costs of debt. Lin and Yen (2017) also found the following: companies with stronger capital requirements are more likely to have their interim financial statements audited; quality of corporate governance has a positive effect on the decision to choose audit assurance; and an audit has a higher value relevance than a review.

In Indonesia, there are no regulations stipulating that interim financial statements must be reviewed or audited by public accountants. However, some companies in Indonesia have reviewed or audited their interim financial statements. This makes it interesting to investigate whether a review of the interim financial report affects the content of the information and whether companies review their interim financial statements in order to improve assurance value or just signalling value. According to Kajüter et al. (2016), when assurance value increases, there is a corresponding expected increase in earnings quality. Earnings quality in this research refers to Kajüter et al. (2016), using accounting-based (discretionary accruals) and market-based (earnings response coefficient (ERC)) measures. In Indonesia, there are also companies that conduct audits on their interim financial statements, and this study wishes to determine whether an audit has higher information content than a review.

This study also refers to Kajüter et al. (2016) by adding audit quality as a moderating variable. Audit quality is measured by the size of the public accounting firm. Esteban and García (2014) state that firms that are audited by a Big 4 public accounting firm have higher levels of earnings quality than firms that are audited by non-Big 4 public accounting firms. As audit quality increases, so too does users' confidence in the financial statement in terms of what is presented therein. Increased confidence in financial statements is needed so that investors are able to confidently use the information they contain. Previous research has been conducted in Germany, Taiwan and Canada, while this study was conducted in Indonesia, which has a different level of capital market efficiency (Andrianto and Mirza, 2016) and different governance characteristics. In emerging markets, type II agency problems generally occur between controlling and non-controlling shareholders, where there is usually a very high level of information asymmetry, meaning the demand for assurance services is higher. This study seeks to identify whether, in a country where the capital market remains weak, a review/audit of the interim financial report will also affect the content of the information (the return and volume of shares).

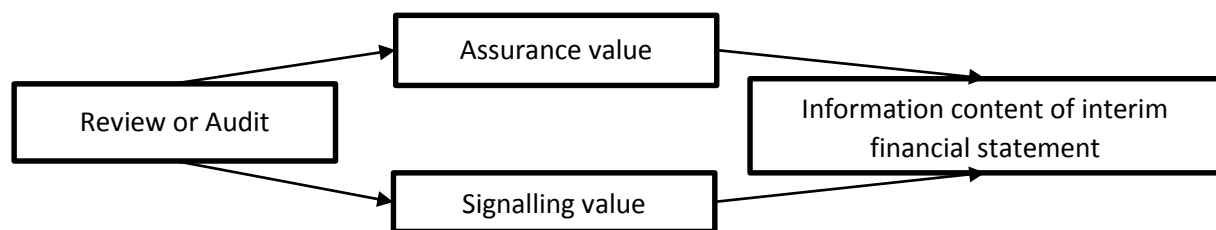
No research has been conducted in Indonesia on the impact of reviews or audits on the information content of interim financial reports. The research that has been carried out in Indonesia, comprising Sylviani (2006) and Satya (2013), looked at the impact of the publication of an interim financial report on stock returns.

The remainder of this paper is organised as follows. Section 2 outlines the theory, previous literature and hypothesis development. Section 3 presents the research design and Section 4 describes the data. Section 5 discusses the empirical results, with Section 6 concluding the study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Review or Audit and Information Content

The interim financial statement has information content if there is good earnings quality. The financial statement has good earnings quality if there was no earnings management present at the time the information in the financial statement was produced. The users of financial statements need assurance to serve as proof that a financial statement has good earnings quality. Figure 1 shows that a review/audit can increase the information content of interim financial reports through assurance value and signalling value (Kajüter et al., 2016). Assurance value is derived from the involvement of an external auditor in the company's internal control system and by preventing earnings management from being conducted in the company. According to Manry et al. (2013), the involvement of auditors may enhance the credibility and reliability of the financial statements. This increase in the credibility and reliability of interim financial statements is derived from the additional oversight and control provided by the external auditors of the interim financial reporting process, which requires considerable estimation and judgement. Review and audit may reduce earnings management practices since management have the opportunity to manage earnings when there is no oversight from external auditors during the interim reporting process (Mendenhall and Nichols, 1988).



Source: author

Figure 1 The Impact of a Review or Audit on the Information Content of Interim FS

Review and audit of interim financial statements can also increase signalling value. Confidence in the financial statements provided by external auditors can be viewed as a positive signal for investors. Although the quality of interim earnings does not increase, investors can expect an increase in the quality of the information being presented (Kajüter et al., 2016). Investors will expect interim financial statements that have been reviewed/audited to have a higher level of credibility compared to unreviewed/unaudited reports. Based on the above explanation, it is predicted that investors rely more on reviewed/audited interim financial statements than unreviewed/unaudited statements for decision-making. This is due to reviewed/audited interim financial statements having a greater level of credibility and reliability than those that are not reviewed/audited by external auditors.

H1: A review or audit will increase the information content of the interim financial report.

The Moderating Effect of Audit Quality

According to Esteban and García (2014), companies that are audited by the Big 4 public accounting firms have higher levels of earnings quality than firms that are audited by non-Big 4 firms. DeAngelo (1981) stated that large public accounting firms produce higher audit quality because they have 'more to lose' if they fail to report violations within the financial statements of the companies they audit. The quality of the auditor contributes to the credibility of the financial presentation because the auditor provides independent verification of the financial statements made by the management. Francis (1984) had the same opinion as DeAngelo owing to the fact that

large public accounting firms are equipped with better resources, thus enabling them to conduct better audit procedures. The auditor has a function as a party providing assurance and information intermediaries, thus indicating that the audit provides value to the capital markets (Mansi et al., 2004). Eshleman and Guo (2014) state that the Big 4 firms produce better audit quality than any other accounting firms. Clients of the Big 4 tend not to restate their financial statements, resulting in higher audit quality than clients of non-Big 4 firms. Ching et al. (2015) state that large-scale accounting firms are always considered to produce a higher quality of audit, which has the effect of increasing investor confidence.

This study predicts that audit quality will strengthen the influence of reviews or audits of information content. As audit quality increases, so too does the confidence of the users of the financial statements in terms of the information they contain. Investors need to have an increased level of confidence in the financial statements to enable them to confidently use the information contained therein.

H2: Audit quality can strengthen the effect of reviews or audits on the content of information in the interim financial report.

Assurance Value and Signalling Value

According to Kajüter et al. (2016), an increase in assurance value is expected to lead to an increase in the interim earnings quality of the company. Based on Schipper and Vincent (2003), investors rely on good earnings quality to help them make decisions. To assess whether a financial statement has good earnings quality, investors need assurance from an external auditor. There may be an increase in earnings quality due to the supervision of an external auditor and the reduced opportunity that this presents for management to engage in earnings management. Signalling value arises if there is an increase in the information content of the interim financial statements that are reviewed or audited by an external auditor, which is not followed by an increase in assurance value (Kajüter et al., 2016). In other words, if the first hypothesis is proved but there is no increase in assurance value, there is signalling value generated by a review or audit.

Since a variety of approaches can be used to measure earnings quality, we use two accounting- and market-based measurements, following Kajüter (2016). Earnings quality (discretionary accruals) is used as the accounting-based measurement, while the earnings response coefficient (ERC) is used as the market-based measurement.

The accounting-based measurement is a measure of earnings quality based on the presence or absence of earnings management. According to Jones (1991) and Kothari et al. (2005), earnings quality can be measured by earnings management. A financial statement that contains earnings management will have the effect of reducing earnings quality by reducing the report's function. The earnings management practices that will be proven in this research are the presence or absence of discretionary accruals. Discretionary accruals are an earnings management practice that uses accounting policies and estimates related to accruals (Dechow et al., 2010). Earnings management practices will reduce the usefulness of financial statements for users. When a company reviews or audits its interim financial statements, the value of a discretionary accrual will decrease as the auditor will audit and review the financial reporting (Manry et al., 2003). Supervision by an external auditor will reduce the opportunities for management to engage in earnings management.

H3a: A review or audit of the interim financial report will reduce the level of discretionary accruals.

Market-based earnings quality measurements are a measure of earnings quality based on market responses (stock price changes) to earnings information. Kajüter et al. (2016) and Manry et al. (2003) used market-based measures to investigate whether the earnings reviewed by external auditors were better at reflecting the economic information described in stock returns. A review or audit that is performed properly is expected to increase the relevance and reliability of the interim report as the accounting earnings reflect economic information. The timeliness of the relationship between returns and any unexpected earnings announcements by companies is known as the ERC. Audited or reviewed interim financial reports will have a higher ERC value than unaudited or unreviewed interim financial statements.

H3b: A review or audit of the interim financial report will increase the earnings response coefficient (ERC).

RESEARCH METHODOLOGY

Overview

The population of this study is listed companies during the research period of 2013–2016. The samples were chosen by purposive sampling using the following criteria: (1) non-financial companies; (2) Q1, Q2 and Q3 interim financial statements published; (3) the market price and sales data of the company's shares on the date included in the period of observation can be obtained. The data were obtained from the Thomson Reuters database and the Indonesia Stock Exchange (IDX) website.

Research Method

The research model used to test Hypothesis 1 is adopted from Kajüter et al. (2016):

$$AVAR_{ijq} \text{ or } AVOL_{ijq} = \alpha + \beta_1 RA_{ijq} + \beta_2 KAP_{ijq} + \beta_3 LMC_{ijq} + \beta_4 RepLag_{ijq} + \beta_5 Lev_{ijq} + \beta_6 Loss_{ijq} + \beta_7 |UE|_{ijq} + \epsilon_{ijq} \quad (1)$$

Where:

$AVAR_{ijq}$	Abnormal volatility of returns measured by the ratio of the mean of the squared abnormal returns divided by the variance of the abnormal returns during the estimation period for each of firm i , year j and quarter q .
$AVOL_{ijq}$	Abnormal volume of trading measured by the average trading volume of shares during the interim period divided by the average trading volume of shares during the estimated period.
RA_{ijq}	Review/Audit; 0 if an interim financial report is not reviewed/audited; 1 if reviewed; 2 if audited.
KAP_{ijq}	The external auditor; 1 for a Big 4 firm, and 0 for a non-Big 4 firm.
LMC_{ijq}	The logarithm of the stock market price multiplied by the number of shares outstanding at the beginning of the quarter.
$RepLag_{ijq}$	The difference (in days) between the date of the interim financial report and the actual publication date of the interim financial report.
Lev_{ijq}	The ratio of total liabilities divided by total assets.
$Loss_{ijq}$	Dummy loss; 0 if negative earnings, 1 if positive earnings.
$ UE _{ijq}$	Quarterly net income divided by total assets.

Model 2 adds the variable KAP as a moderation to test Hypothesis 2. If the interim financial report is reviewed or audited by a Big 4 firm, then KAP takes the value 1, otherwise it is 0 for a review or audit conducted by a non-Big 4 firm.

$$AVAR_{ijq} \text{ or } AVOL_{ijq} = \alpha + \beta_1 RA_{ijq} + \beta_2 KAP_{ijq} + \beta_3 RA_{ijq} * KAP_{ijq} + \beta_4 LMC_{ijq} + \beta_5 RepLag_{ijq} + \beta_6 Lev_{ijq} + \beta_7 Loss_{ijq} + \beta_8 |UE|_{ijq} + \epsilon_{ijq} \quad (2)$$

The measurement of earnings quality follows Kajüter (2016) and uses both accounting-based and market-based measurements. The accounting-based measurement comprises discretionary accruals, with ERC serving as the market-based measurement.

The model used to test Hypothesis 3a (discretionary accruals) is adapted from Kajüter et al. (2016) and Chung and Kallapur (2003):

$$DA_{ijq} = \alpha + \beta_1 RA_{ijq} + \beta_2 ROA_{ijq-1} + \beta_3 CFO_{ijq} + \beta_4 TA_{ijq-1} + \beta_5 \log(\text{Asset}_{ijq}) + \beta_6 LTD_{ijq} + \epsilon_{ijq} \quad (3)$$

Where:

DA_{ijq}	Discretionary accruals
ROA_{ijq}	Return on assets for the previous quarter
CFO_{ijq}	Cash flows from operating activities

TA _{ijq}	Accruals in the previous quarter to reflect the relationship between accruals and successive quarters
log(Asset) _{ijq}	Logarithm of total assets to reflect firm size
LTD _{ijq}	Long-term debt.

The model used to test Hypothesis 3b (ERC) is adopted from Kajüter et al. (2016), Manry et al. (2003) and Hayn (1995). The ERC can be seen from coefficient β_2 .

$$R_{ijq} = \alpha + \beta_1 \text{Earnings}_{ijq} + \beta_2 \text{RA}_{ijq} * \text{Earnings}_{ijq} + \beta_3 \text{RA}_{ijq} + \beta_4 \text{Loss}_{ijq} + \varepsilon_{ijq} \quad (4)$$

Where:

R _{ijq}	Quarterly returns of firm i, year j, quarter q.
Earnings _{ijq}	Net income before other comprehensive income divided by the market capitalisation of the previous quarter.
RA _{ijq}	Review/Audit; 0 if an interim financial report is not reviewed or audited, 1 if reviewed, 2 if audited.
Loss _{ijq}	Dummy loss; 0 if negative earnings, 1 if positive earnings.

Operationalisation of Variables

Two proxies are used for Information Content; AVAR (abnormal returns volatility) and AVOL (abnormal trading volume volatility).

AVAR

1. Find the abnormal return value using the residual value of the market model equations (Meggison, 1997), as follows:
- 2.

$$R_{it} = \alpha_i + \beta_i R_{mt} + u_{it} \quad (6)$$

Where:

- | | |
|-----------------|---|
| R _{it} | Stock return for company i on day t. |
| R _{mt} | The weighted average yield of all companies in the sample at day t. R _{mt} is the value of the composite stock price index (CSPI) per day. |
| u _{it} | The residual value of the actual yield regression with the weighted average return on the group of companies in a country. |
3. Find the mean value of the squared abnormal return during the window period ($u_{t_{ijq}}^2$) in accordance with DeFond et al. (2007) and Landsman et al. (2012). The window period is on days 7, 0 and +3 of the date of publication of the interim financial report.
 4. Look for the variance value of abnormal returns during the estimation period ($\sigma_{t_{ijq}}^2$). The estimated period in question is the days from t = -60 to t = -10 from the date of publication of the interim financial report.
 5. Find the value of AVAR using the formula:

$$\text{AVAR}_{ijq} = \frac{u_{t_{ijq}}^2}{\sigma_{t_{ijq}}^2}$$

AVOL

1. Find the average value of trading volume during the window period ($\overline{V_{t_{ijq}}}$). The window period is on days 7, 0 and +3 of the date of publication of the interim financial report (DeFond et al., 2007; Landsman et al., 2012).
2. Find the average value of stock trading volume over the estimated period $\overline{V_{t_{ijq}}}$. The estimated period is the days from t = -60 to t = -10 from the date of publication of the interim financial report.
3. Find the value of AVOL using the formula:

$$AVOL_{ijq} = \frac{\sqrt{t_{ijq}}}{\sqrt{t_{ijq}}}$$

DA (Discretionary Accruals)

Kothari et al. (2005) proposed the following model:

$$TACC_{ijq}/TA_{ijq-1} = \alpha + \beta_1 1/TA_{ijq-1} + \beta_2(\Delta Sales_{ijq} - \Delta Receivables_{ijq})/TA_{ijq-1} + \beta_3 PPE_{ijq}/TA_{ijq-1} + \beta_4 ROA_{ijq-1} + \varepsilon_{ijq} \quad (5)$$

Where:

TACC _{ijq}	Profit before any other comprehensive income less cash flows from operating activities in company i, year j, quarter q.
TA _{ijq-1}	Total assets in the previous quarter.
ΔSales _{ijq}	Revenue change compared to the same quarter in the previous year.
ΔReceivables _{ijq}	Changes in receivables compared to the same quarter in the previous year.
PPE _{ijq}	Assets remain intangible before deducting accumulated depreciation.
ROA _{ijq-1}	Net profit before the other comprehensive income of the previous quarter divided by total previous-quarter assets.

Data Analysis

In conducting the data analysis, the descriptive analysis and regression for panel data are fixed-effect and random-effect. Outliers are overcome with the winsorization method at the outermost 1% of each continuous variable used in this study in order to provide the real impact of all variables.

RESULTS

A total of 536 companies were listed on the IDX, based on the official duration of IDX during the period 2013–2016, a total of 409 of which are not included in the financial sector. The total number is further reduced by removing companies that did not fully publish their interim financial statements during the period 2013–2016, thus giving 390 as the total number of companies that could be studied. Each company had 12 quarterly periods during the period 2013–2016, so the total sample of the study is 4,680 subjects. This number is reduced by the number of samples that do not have complete market and accounting information. Table 1 shows the number of samples for each model.

Table 1 Sample Selection

	Number of Company	Number of Interim Report for Q1-Q3		
Number of companies listed on the Indonesia Stock Exchange until the end of 2016	536	6432		
Less Financial companies	-127	-1524		
Non Financial Companies	409	4908		
Number of companies that do not reports interim report on a regular basis	-19	-228		
Number of companies that reports interim report on a regular basis	390	4680		
Uncomplete data		-2031	-1081	-1446
Complete data for model 1 and 2		2649		
Complete data for model 3a			3599	
Complete data for model 3b				3234

Demographic Analysis of Interim Financial Statements

Table 2 shows that of the 2,649 samples of interim financial reports for model 1, only 100 reports were reviewed by external auditors, while 68 were audited. These amounts are relatively small in comparison to the number of interim financial statements that were not reviewed or audited by an auditor (2,481 or 93.7%). This indicates a low level of interest among companies in conducting reviews or audits of their interim financial reports.

Table 2 Summary of Interim Financial Statements per Period

Period	Not reviewed / audited	Interim Financial Report Review by Big 4	Interim Financial Report Review by non Big 4	Total Reviewed Interim Financial Reports	Interim Financial Report Audited by Big 4	Interim Financial Report Audited by non Big 4	Total Audited Interim Financial Statements	Total Interim Financial Statements
Q1 2013	217	3	3	6	2	3	5	228
Q2 2013	179	15	5	20	3	6	9	208
Q3 2013	199	3	1	4	1	1	2	205
Q1 2014	212	6	0	6	0	4	4	222
Q2 2014	195	8	3	11	4	9	13	219
Q3 2014	217	5	2	7	1	6	7	231
Q1 2015	215	3	2	5	2	1	3	223
Q2 2015	200	8	3	11	5	3	8	219
Q3 2015	211	5	2	7	0	2	2	220
Q1 2016	216	3	1	4	0	0	0	220
Q2 2016	202	11	2	13	7	3	10	225
Q3 2016	218	4	2	6	2	3	5	229
Total	2,481	74	26	100	28	40	68	2,649
%	93.7%	2.8%	1.0%	3.8%	1.1%	1.5%	2.6%	100%

Source: author

Of the 100 interim financial reports reviewed by external auditors, 74 were reviewed by a Big 4 firm. Of the 68 interim financial reports audited, 28 were audited by a Big 4 firm. Reviews are carried out more often by a Big 4 public accountant, while non-Big 4 firms undertake more audits.

Table 3 Review and Audit Data per Quarter and Year

	2013	2014	2015	2016	Total	Total %
1 st quarter	11	10	8	4	33	20%
2 nd quarter	29	24	19	23	95	57%
3 rd quarter	6	14	9	11	40	24%
Total	46	48	36	38	168	100%
Percentage	27%	29%	21%	23%	100%	

Based on Table 3, it can be seen that a higher number of companies reviewed or audited their interim financial statements in 2013 and 2014 than in 2015 and 2016. More interim financial reports were reviewed and audited in the second quarter of each year, with 57% of the total number of reviews/audits conducted in this quarter.

Table 4 Descriptive Statistics – Models 1 and 2

Variable	Obs	Mean	Std. Dev.	Min	Max	Median	Skewness
AVAR	2,649	2.27	5.64	0.01	45.78	0.84	5.94
AVOL	2,649	6.00	5.86	23.16	0.01	0.95	6.82
RA	2,649	0.09	0.36	0	2	0	4.29
KAP	2,649	0.04	0.19	0	1	0	4.82
RA*KAP	2,649	0.05	0.26	0	2	0	5.83
LMC	2,649	0.00	0.90	(1.74)	2.24	(0.02)	0.24
RepLag	2,649	42.10	25.83	23	166	32	2.94
Lev	2,649	0.53	0.28	0.04	2.21	0.53	2.26
Loss	2,649	0.74	0.44	0	1	1	(1.08)
UE	2,649	0.02	0.03	0.00	0.19	0.01	4.41

AVAR = Abnormal return volatility as measured by the ratio of the mean of the squared abnormal return divided by the variance of abnormal returns during the estimation period. AVOL = Abnormal trading volumes as measured by the average trading volume of shares during the interim period divided by the average trading volume of shares over the estimated period. RA = Binary variables where 0 are interim financial statements not reviewed or audited, 1 for review, 2 for auditing. KAP = The auditor of the interim financial report is included in the Big 4 or non-Big4 KAP category. LMC = The logarithm of the stock market price multiplied by the number of shares outstanding at the beginning of the quarter. RepLag = The day difference between the date of the interim financial report and the date of actual publication of the interim financial report. Lev = The ratio of total liabilities divided by total assets. Loss = Loss dummy, 0 if negative earnings, 1 if positive earnings. |UE| = The difference between the same quarter net income in the previous year divided by total assets.

Table 5 Pearson Correlation – Models 1 and 2

	AVOL	AVAR	RA	RA*KAP	KAP	LMC	RepLag	Lev	Loss	UE
AVOL	1	0.1173***	0.0416**	0.0339*	0,0142	-0.1125***	0.0344*	0.0620***	-0.0647***	0,0163
AVAR	0.1173***	1	-0,0049	-0,027	-0,0293	-0.0876***	-0.0430**	0,0154	-0,0156	0.0551***
RA	0.0416**	-0,0049	1	0.6868***	0.6445***	0.1376***	0.2854***	0,0047	-0,0202	-0,0066
RA*KAP	0.0339*	-0,027	0.6868***	1	0.9421***	0.1847***	0.1617***	-0,0073	-0,0122	-0,0028
KAP	0,0142	-0,0293	0.6445***	0.9421***	1	0.2032***	0.1600***	-0,0177	0,0059	0,0063
LMC	-0.1125***	-0.0876***	0.1376***	0.1847***	0.2032***	1	-0,0202	-0.1023***	0.2287***	-0.1199***
RepLag	0.0344*	-0.0430**	0.2854***	0.1617***	0.1600***	-0,0202	1	0,0393	-0.0608***	0.0354*
Lev	0.0620***	0,0154	0,0047	-0,0073	-0,0177	-0.1023***	0,0393	1	-0.1433***	0.0432**
Loss	-0.0647***	-0,0156	-0,0202	-0,0122	0,0059	0.2287***	-0.0608***	-0.1433***	1	-0.1251***
UE	0,0163	0.0551***	-0,0066	-0,0028	0,0063	-0.1199***	0.0354*	0.0432**	-0.1251***	1

Table 11 shows that the average AVAR is 2.27, the minimum is 0.01 and the maximum is 45.78, with a standard deviation of 5.64. The average AVOL is 6, with a minimum of 0.01, a maximum of 23.16 and a standard deviation of 5.86. The data show that the returns and trading volumes for the sample vary widely. Table 5 shows that the value for correlation among the independent variables is below 0.80, meaning there is no indication of multicollinearity.

Table 6 Descriptive Statistics – Model 3a

Variable	Obs	Mean	Std. Dev.	Min	Max	Median	Skewness
DA	3599	-0.008	0.073	-0.251	0.249	-0.005	-0.013
RA	3599	0.114	0.398	0.000	2.000	0.000	3.651
ROA	3599	0.011	0.030	-0.121	0.119	0.009	-0.303
CFO (billion)	3599	380	1,180	(1,170)	7,920	46.70	4
TA	3599	-0.027	0.083	-0.282	0.265	-0.019	0.060
log(Asset)	3599	12.483	0.688	10.673	13.936	12.500	-0.232
LTD (billion)	3599	1,740	4,020	0	25,700	167	4

DA = Accrual discretionary company I year to quarter q.

RA = Review/Audited, Binary variable with value 0 for interim financial report not reviewed or audit, 1 for review, 2 for audited

ROA = Return on assets on the previous quarter

CFO = Cash flows from operating activities

TA = Accruals in the previous quarter

log(Asset) = The logarithm of total assets

LTD = Long term debt

Table 7 Pearson Correlation – Model 3a

	DA	RA	ROA	CFO	TA	log(Asset)	LTD
DA	1	0,024	-0,1797***	-0,3284***	0,3029***	-0,0723***	-0,0029
RA	0,024	1	-0,0062	0,0464***	-0,0564***	0,1263***	0,1494***
ROA	-0,1797***	-0,0062	1	0,1571***	0,1055***	0,0358**	-0,0769***
CFO	-0,3284***	0,0464***	0,1571***	1	-0,2293***	0,4327***	0,5069***
TA	0,3029***	-0,0564***	0,1055***	-0,2293***	1	-0,0957**	-0,0699* **
log(Asset)	-0,0723***	0,1263***	0,0358**	0,4327***	-0,0957**	1	0,5742***
LTD	-0,0029	0,1494***	-0,0769***	0,5069***	-0,0699* **	0,5742***	1

Table 6 shows that the value of variable RA is 0.0114. RA is a dummy variable that indicates whether an interim report is reviewed or audited. These results indicate that only a small number of interim reports are reviewed or audited. Table 2 contains the detailed quarterly data. The value of earnings management is quite varied, as indicated by the mean DA value of -0.008 and a standard deviation of 0.073.

Table 8 Descriptive Statistics – Model 3b

Variable	Obs	Mean	Std. Dev.	Min	Max	Median	Skewness
R	3234	0.031	0.232	-0.436	1.082	0.000	1.739
Earnings	3234	-0.001	0.090	-0.569	0.237	0.009	-3.549
RA * Earnings	3234	-0.002	0.094	-5.223	0.360	0.000	-53.284
RA	3234	0.085	0.351	0	2	0	4.372
Loss	3234	0.717	0.450	0	1	1	-0.966
R =	Return of stock per quarter.						
Earnings =	Net income before other comprehensive income on firm i, year j, quarter to quarter divided by market capitalization of previous quarter.						
RA =	Binary variable where value 0 is not reviewed or audited, 1 for review, 2 for auditing.						
Loss =	Dummy variable, 0 if negative earnings, 1 if positive earnings.						

Table 9 Pearson Correlation – Model 3a

Variable	Obs	Mean	Std. Dev.	Min	Max	Median	Skewness
R	3234	0.031	0.232	-0.436	1.082	0.000	1.739
Earnings	3234	-0.001	0.090	-0.569	0.237	0.009	-3.549
RA * Earnings	3234	-0.002	0.094	-5.223	0.360	0.000	-53.284
RA	3234	0.085	0.351	0	2	0	4.372
Loss	3234	0.717	0.450	0	1	1	-0.966
R =	Return of stock per quarter.						
Earnings =	Net income before other comprehensive income on firm i, year j, quarter to quarter divided by market capitalization of previous quarter.						
RA =	Binary variable where value 0 is not reviewed or audited, 1 for review, 2 for auditing.						
Loss =	Dummy variable, 0 if negative earnings, 1 if positive earnings.						

Table 8 shows that the average value of variable R (return) is 0.031, with a minimum value of -0.436 and a maximum value of 1.082, while the average value for variable earnings is -0.001, with a minimum of -0.569 and a maximum of 0.237. The data show that average stock returns are still positive, although the average firm has negative earnings.

DISCUSSION

Influence of Review or Audit of the Information Content of Interim Financial Statements

Table 10 shows that when the dependent variable is AVAR, variable RA is positive and significant at 5%, but when the dependent variable is AVOL, variable RA is not significant. This indicates that RA has a positive influence on AVAR but no influence on AVOL. If a company reviews or audits its interim financial statements, its abnormal returns volatility will increase, so it can be said that a review or audit has a positive effect on the information content of the company's financial statement. Different results are shown for the AVOL proxy, where the effect of RA on AVOL is not significant. This indicates that a review or audit has no impact on the abnormal trading volume.

The effect of RA is significant for AVAR but is not significant against AVOL, with the implication being that there is disagreement due to the new information content from financial statements. According to DeFond et al. (2007), investors can have different ways of interpreting financial statements and these can be reflected at any point right up to the time at which a deal takes place. If a deal occurs in the first transaction, it is possible to react to the price but not to the volume, assuming the investors have equal risk preferences. If investors have different risk preferences, a volume reaction is possible until after the price balance point occurs. An important difference between price and volume tests is that price changes reflect changes in overall market expectations, while volume changes reflect changes in individual investor expectations. The fact that the regression results show AVAR (price change) to be the significant variable indicates that in Indonesia, changes in market expectations due to information from interim financial statements are a reaction of the whole market, not just the reaction of individual investors.

Table 10 Regression Results – Hypothesis 1

		Hypothesis 1			
Variable	Prediction	AVAR		AVOL	
		Coef.	P(z-test)	Coef.	P(z-test)
RA	(+)	0.7851	0.022**	2.7663	0.127
KAP	(+)	-1.2514	0.066*	2.0973	0.296
LMC	(-)	-0.9421	0.001***	-8.3765	0.004***
RepLag	(-)	-0.011	0.005***	-0.0107	0.256
Lev	(-)	0.4474	0.277	19.0079	0.016**
Loss	(+)	0.4329	0.065**	-0.2919	0.419
UE	(+)	9.3014	0.017**	7.4304	0.404
Constant		2.1492	0.000***	-4.0195	0.193
Prob > chi2		0.0003		0.004	
R-sq		0.0119		0.0155	
N		2649		2649	

*** **, * are significant 1%, 5%, 10%. **AVAR** = Abnormal return volatility as measured by the ratio of the mean of the squared abnormal return divided by the variance of abnormal returns during the estimation period. **AVOL** = Abnormal trading volumes as measured by the average trading volume of shares during the interim period divided by the average trading volume of shares over the estimated period. **RA** = Binary variables where 0 are interim financial statements not reviewed or audited, 1 for review, 2 for auditing. **KAP** = The auditor of the interim financial report is included in the Big 4 or non-Big4 category. **LMC** = The logarithm of the stock market price multiplied by the number of shares outstanding at the beginning of the quarter. **RepLag** = The day difference between the date of the interim financial report and the date of actual publication of the interim financial report. **Lev** = The ratio of total liabilities divided by total assets. **Loss** = Loss dummy, 0 if negative earnings, 1 if positive earnings. **UE** = The difference between the same quarter net income in the previous year divided by total assets.

The Role of Audit Quality in Strengthening the Influence of a Review or Audit by an External Auditor on Interim Financial Reporting Information Content

Table 11 shows that when the dependent variable is AVAR, RA is positive and significant at 5%. This indicates that RA has a positive influence on AVAR but that the moderating variable RA*KAP is not significant.

However, when the dependent variable is AVOL, RA is not significant, even though the moderating variable RA*KAP shows a significant positive effect on AVOL. This indicates that a review or audit conducted will increase information content only if the auditor is a Big 4 firm. This finding is in line with Eshleman and Guo (2014), who stated that Big 4 firms produce better audit quality than non-Big 4 firms. The use of a Big 4 firm can thus act as a positive signal to investors as to the increased information content of the interim financial statements.

Hypothesis 2 is accepted (a review or audit by a Big 4 public accounting firm can strengthen the effect of a review or audit of the interim financial statement information content) if the information content is measured using AVOL, but not if AVAR is used.

Table 11 Regression Results – Hypothesis 2

Variable	Prediksi	Hipotesis 2			
		Proksi AVAR		Proksi AVOL	
		Coef	P(z-test)	Coef	P(z-test)
RA	(+)	0,8435	0.020**	1,2047	0,311
RA*KAP	(+)	-0,6225	0,318	16,8294	0.048**
KAP	(+)	-0,5182	0,384	-17,9609	0.039**
LMC	(-)	-0,9441	0.001***	-8,4566	0.003***
RepLag	(-)	-0,0110	0.005***	-0,0085	0,301
Lev	(+)	0,4485	0,277	19,2077	0.015**
Loss	(+)	0,4284	0.067*	-0,1559	0,455
UE	(+)	9,2970	0.017**	7,3434	0,406
Constant		2,1519	0.000***	-4,2260	0,182
Prob > chi2		0,0005		0,0067	
R-sq		0,0119		0,0167	
N		2649		2649	

Table 11 Cont.

Prob > chi2	0.0005	0.0067
R-sq	0.0119	0.0167
N	2649	2649

***, **, * are significant 1%, 5%, 10%. **AVAR** = Abnormal return volatility as measured by the ratio of the mean of the squared abnormal return divided by the variance of abnormal returns during the estimation period. **AVOL** = Abnormal trading volumes as measured by the average trading volume of shares during the interim period divided by the average trading volume of shares over the estimated period. **RA** = Binary variables where 0 are interim financial statements not reviewed or audited, 1 for review, 2 for auditing. **KAP** = The auditor of the interim financial report is included in the Big 4 or non-Big4 category. **LMC** = The logarithm of the stock market price multiplied by the number of shares outstanding at the beginning of the quarter. **RepLag** = The day difference between the date of the interim financial report and the date of actual publication of the interim financial report. **Lev** = The ratio of total liabilities divided by total assets. **Loss** = Loss dummy, 0 if negative earnings, 1 if positive earnings. **|UE|** = The difference between the same quarter net income in the previous year divided by total assets.

The control variable LMC (log stock market price) shows results in accordance with the previous research for each proxy. LMC has a significant negative effect on AVAR and AVOL. It can be concluded that firm size has a negative effect on information content, whereby large companies tend to have more information environments and produce less information content whenever new information is available. The RepLag variable has a significant negative effect on AVAR. The further the publication of the report from the date of the interim financial statements, the greater the opportunity for investors to obtain information from sources other than financial statements. This results in the interim information content of the interim financial statements being marked by lower abnormal return volatility. The Lev variable has a significant positive effect on AVOL. This indicates that the higher the level of capital derived from loans owned by the company, the higher the information content received by the users of financial statements. The Loss variable has a significant positive influence on AVAR, thereby signifying that negative earnings produce lower information, as characterised by positive earnings resulting in greater abnormal return volatility. According to Hayn (1995), negative earnings result in investors being unable to predict the future earnings prospects of the company, so that the information content is reduced. The EU variable has a significant positive effect on AVAR, signifying a larger earnings change and resulting in a stronger market reaction when the financial statements are published, so that the resulting information content is also greater.

A review/audit may affect the information content of interim financial statements in two ways – assurance value and signalling value. First, with regard to assurance value, interim reviews/audits can prevent measurement errors and restrict earnings management. Second, a review/audit conducted by an external auditor can also yield signalling value to investors. Although the quality of earnings of interim reports does not increase (no assurance value) after they have been reviewed/audited, investors can still hope that the information will be of a better quality. Because investors perceive interim financial reports that have been audited/reviewed to be more reliable, they are more likely to use them for investment decision-making.

Assurance Value Test Results from a Review or Audit

Interim financial statements use more in the way of estimates than annual financial statements, thus rendering interim reports more prone to measurement errors and earnings management.

The auditing/reviewing of reports will limit management's opportunities to undertake earnings management through accruals manipulation. Thus, a review/audit can improve the quality of interim financial statements. Hypothesis 3a (assurance value from the accounting-based measure) predicted that reviews/audits of interim financial statements will assist in preventing errors in measuring earnings.

Table 12 Regression Results – Hypothesis 3a

Variable	Prediction	DA	
		Coef.	P(z-test)
RA	(-)	-0.0010	0.385
ROA	(-)	-0.3682	0,007***
CFO	(-)	0.0000	0,000***
TA	(+)	0.0880	0,002***
log(Asset)	(+)	0.0223	0,003***
LTD	(+)	0.0000	0,065*
Constant	(-)	-0.2665	0,004***
Prob > chi2		0.0010	
R-sq		0.1786	
N		3574	

***, **, * are significant at 1%, 5%, 10%. DA = firm discretionary accruals I year to quarter q. The value is derived from the residual value of the modified Jones model equation in the Kothari paper (2005). RA = Binary variable with value 0 not to be reviewed or audited, 1 for review, 2 for auditing. ROA = return on assets the previous quarter (Dechow et al, 1995). CFO = cash flow from operating activities (Dechow et al, 1995). TA = accruals in the previous quarter to reflect the relationship between accrual and successive quarter (Chung & Kallapur, 2003). Log (Asset) = logarithm of total assets to reflect firm size (Kajuter et al, 2016). LTD = long term debt to reflect the funding structure (Kajuter et al., 2016).

Table 5 shows that Hypothesis 3a is not proved since RA (Review/Audited) has no significant impact on DA. It can be concluded from these results that reviews or audits of interim financial statements do not increase the information content through an increase in earnings quality (assurance value). This result is in accordance with Kajüter et al. (2016), who found no relationship between review and earnings quality. The existence of a review or audit by an external auditor does not prevent the company from performing earnings management. This is similar to a finding by Bédard and Courteau (2015), who additionally found no effect of a review/audit on improving the quality of earnings.

All of the control variables used in this model (ROA, CFO, TA, Asset) have been proven to have a significant effect on the dependent variable (DA) at the 1% level, except for LTD, which has significance at the 10% level. The direction of the relationship is consistent with the prediction, with the exception of CFO.

Table 13 Regression Results – Hypothesis 3b

Variable	Prediction	R	
		Coef.	P(z-test)
Earnings	(+)	0.0132	0.403
RA * Earnings	(+)	0.0062	0.444
Loss	(+)	0.0061	0.283
Constant	(+)	0.0268	0.001***
Prob > chi2		0.8555	
R-sq		0.0002	
N		3234	

Note: ***, **, * are significant at 1%, 5% and 10%. R = stock return per quarter. Earnings = net income before other comprehensive income on firm i, year j, quarter to quarter divided by the market capitalisation of the previous quarter. RA = Binary variable where value 0 is for not reviewed or audited, 1 for review, 2 for audit. Loss = loss dummy; 0 if negative earnings, 1 if positive earnings.

Hypothesis 3b (assurance value from the market-based measure) considers whether audited/reviewed earnings better reflect economic information in the current stock returns. The results for Hypothesis 3b are given in Table 13. The results show that the Earnings variable does not have a significant effect on Return (R), similar to the relationship between the RA * Earnings variable and Return (R). The interaction term $Review_{ijq} \times Earnings_{ijq}$ is insignificant, meaning that a review or audit of the interim financial reports does not increase the ERC. It instead shows that the review/audit has no additional effect on the timeliness of the relationship between earnings and stock prices.

Reviewed or audited interim financial reports are not capable of increasing the effect of earnings on returns. From these results it can be concluded that the existence of reviews or audits of interim financial statements does not increase the content of information through assurance using a market-based measure. The inclusion of an independent external auditor in the reporting process of earnings information does not increase

the information content of the earnings announced in the interim report. This finding is in accordance with Kajüter et al. (2016).

The tests for Hypothesis 1 found that a review/audit conducted on interim financial statements has a significant positive impact on stock returns, thus indicating that the review/audit has information content. We then wished to determine whether the effect of the review/audit of information content came from assurance value or signalling value.

According to Kajüter et al. (2016), if the first hypothesis is proved but assurance value does not significantly increase (Hypotheses 3a and 3b), there is signalling value generated by the review or audit. If a review/audit generates assurance value, it is predicted that there will be an increase in the quality of interim earnings. However, this study found no improvement in the quality of earnings, as measured by the value of discretionary accruals. It is thus assumed that the stock market reaction to the publication of the interim financial report to market is driven more by the desire to give a good signal. These findings indicate that a review/audit of interim reports is performed to increase signalling value, and not in order to increase assurance value. The control variable used in this model is Loss. The relationship between these variables and R also shows no significance.

Additional Testing

In the results for Hypothesis 1, a review or audit was shown to have a significant positive impact on information content. Additional testing will reveal whether this positive effect is derived from a review or an audit. The RA variable will be omitted and replaced with Review and Audit. Review is a dummy variable in which 1 is a review, and 0 is otherwise. Audit is a dummy variable in which 1 is audit, and 0 is otherwise.

Table 14 Regression Results – Additional Test

Variable	Prediction	AVAR		AVOL	
		Coef.	P(z-test)	Coef.	P(z-test)
Reviu	(+)	0.1987	0.378	-0.0104	0.499
Audit	(+)	1.0332	0.069*	9.0317	0.001***
LMC	(-)	-0.9590	0.001***	-2.6896	0.000***
RepLag	(-)	-0.0108	0.005***	0.0063	0.363
Lev	(-)	0.4774	0.264	4.3435	0.012**
Loss	(+)	0.4445	0.060**	-1.6484	0.069*
UE	(+)	9.2440	0.018***	1.2515	0.472
Constant		2.1095	0.000***	4.3672	0.005***
Prob > chi2		0.0006		0.0000	
R-sq		0.0114		0.0201	
N		2649		2649	

***, **, * are significant 1%, 5%, 10%. **Review:** Binary variable where 0 is interim financial report not reviewed or in audit, 1 for review. **Audit:** Binary variable where 0 is interim financial report not reviewed or audit, 1 for audited.

The Audit variable is positively and significantly related to AVAR and AVOL. This indicates that the auditing of interim financial statements has a significant positive effect on the information content of interim financial statements. The Review variable does not show significant results. This indicates that in the previous test, it was the audit that was the cause of the significant influence on the information content, not the review. Thus, an audit has a significant positive influence on information content while the same is not true of a review. This result is consistent with Gay et al. (1998), who found that an audit yields a higher level of confidence than a review. When investors have a high degree of confidence in a company's interim financial statements, they will use the information that the statements contain. The use of information from interim financial statements by investors is reflected in the information content of the financial statements themselves. This result is also in line with the purpose of a review and/or audit, whereby the level of assurance generated by an audit is greater than that for a review.

CONCLUSION

This study aimed to test whether there is a relationship between a review or audit by external auditors and the information content of interim financial statements. In addition, the study has examined whether audit quality strengthens the relationship between a review or audit and information content.

This research found that the first hypothesis is proved since a review or audit of the interim financial information increases the information content as proxied by AVAR. However, the same was not found when using AVOL. Since price changes (AVAR) reflect changes in overall market expectations and volume changes (AVOL) reflect changes in individual investor expectations, this means that a review or audit of interim financial information will increase the information content presented to the whole market but will have no impact on the individual investor. It is also proof that the effect of a review or audit by an external auditor differs between a financial statement in a strong form of efficient market and in a weak form of efficient market.

Audit quality, as proxied by the size of the public accounting firm, can strengthen the impact of reviews or audits on the information content of interim financial statements. This effect is proved by the AVOL proxy, whereby there is an increase in abnormal trading volume volatility if interim financial statements are reviewed or audited by a Big 4 firm. This is because the Big 4 firms produce a higher audit quality than non-Big 4 firms, which can act as a positive signal for investors.

Hypothesis 3, that a review/audit of the interim financial report will increase assurance value, is not proven, meaning that reviews/audits have no impact on either discretionary accruals or the ERC. According to Kajüter et al. (2016), if Hypothesis 1 is proved but Hypothesis 3 is not proven, there is signalling value generated by a review or audit. This study has found that Hypothesis 1 is proved but Hypotheses 3a and 3b (assurance value) are not proved; thus, it can be concluded that there is signalling value. These findings indicate that a review/audit of interim financial statements is performed in the context of providing signalling value and not in order to increase assurance value.

Additional testing was performed to determine the difference between a review and audit. The results showed that an audit has a positive effect on the information content of the interim financial report, but the same does not apply for a review. The implication is that an audit yields a higher level of confidence than a review. When investors have a high degree of confidence in the interim financial statements of a company, they will use the information from the report.

This study has the following limitations and could be further developed for subsequent research:

1. The practice of reviewing or auditing interim financial reports in Indonesia remains limited.
2. This research did not look at dates of publication in other media prior to publication on the IDX website.
3. The proxy AVOL does not consider the amount of stock ownership traded on the exchange, meaning that trading volume does not reflect the actual market situation.
4. This study does not consider whether the dates included in the window and estimate periods were free of corporate action. When any company activity is performed in the estimated period and window period other than the publication of the financial statements on day 0, an alleged abnormal return or other abnormal volume occurs on that day.

This study found that reviews/audits of interim financial statements were performed in the context of providing signalling value and not in order to increase assurance value (earnings quality). Thus, there is no need for a regulation requiring a review of interim financial statements as this would eliminate the opportunity for companies to use the review as a positive signal to investors.

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