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Market Reaction Toward the Detailed Content of Disclosure in the Modified Audit Opinion: Case of Indonesia

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ABSTRACT

This study examines the market reaction toward information content in the auditors' opinions measured by the number of paragraphs and detailed disclosures in additional and modified paragraphs in the modified audit opinion. The study sample was taken from all public companies on the Indonesian Stock Exchange, except for the financial industries in 2018-2020. Hypotheses tests were carried out using linear multiple regression models. With a total sample of 1017 firm-year observations for 339 listed companies, our study found evidence that the market reacted negatively to disclosures in audit opinions in the form of the number of paragraphs in the modified audit opinions. However, this study did not find evidence that the market reacts to the number of detailed contents in additional paragraphs and modification paragraphs. Our further tests found strong evidence of incremental information captured by the capital market players in the form of positive reactions to the number of paragraphs and detailed topics in the paragraphs of modified audit opinions during the Covid-19 pandemic in 2020. Results of the study provide practical implications that capital market players use detailed information contained in paragraphs of modified audit opinions to make investment decisions, reflected in the earnings response coefficient.

Keywords: earnings response coefficient; audit opinion; information content; COVID-19; key audit matters

I. INTRODUCTION

One of the company's responsibilities towards stakeholders is publishing financial reports. The Financial Services Authority (OJK) has regulated that every issuer or public company is obliged to publish its financial reports to the public to improve the quality and transparency of information (OJK, 2022). Furthermore, Audit Standards (SA) 240, which was ratified by the Indonesian Institute of Public Accountants (IAPI), states that auditors are responsible for providing reasonable assurance that the audited company's financial statements do not contain material misstatements, either by error or fraud, and follow financial reporting standards.

As time passes, the demand for more informative and relevant auditor reports is increasing, so audit regulators worldwide are considering standards to enrich auditor reports. The International Federation of Accountants (IFAC) ratified International Standards on Auditing (ISA) 701: Communicating Key Audit Matters in the Independent Auditor's Report to increase communication value in independent auditor reports. Through ISA 701, auditors are responsible for providing more transparent information about audits carried out to users of financial statements (IAASB, 2015).

A survey conducted by the World Bank in 2018 regarding compliance with accounting standards and financial report audits found that there was a gap between the implementation of Auditing Standards (SA) in Indonesia and International Standards on Auditing (ISA). In

Indonesia, ISA itself is relatively new, and ISA 701 concerning Key Audit Matters (KAM) has not yet been implemented. Furthermore, therefore, the Financial Services Authority (OJK) encourages ISA 701 to be a top priority for immediate implementation so that it can become an effective information "signal" for investors. Until 2020, when our study was conducted, no audit standards (SA) in Indonesia regulated auditors to include KAMs in auditor reports. The information content in KAM contains communication value as a "signal" about the company's earnings quality and how the audit process is carried out by auditors (Zeng et al. 2021).

Our study is important for several reasons. First, there are no studies in Indonesia regarding the disclosure of important matters relating to audits to stakeholders as regulated in ISA 701 because ISA 701 has not been implemented in Indonesia. However, many forms of communication to capital market players in the form of audit opinions have been carried out and how the market reacts to the auditor's opinion (Badlaouni et al., 2023; Martínez et al., 2004; Basell et al., 2003; Chow & Rice, 1982; Dodd et al. al., 1984; Dopuch et al., 1986; Choi & Jeter, 1992). These previous studies found mixed evidence, possibly due to different regulations in each country (Ianniello & Galloppo, 2015). Our study expands previous studies, where previous studies more closely examine how the market reacts to disclosures in audit opinion types, while our study only examines audit opinion disclosures in the form of MAO in more detail, including the type of disclosure in the number of paragraphs and the number of detailed disclosures contained on MAO.

Second, our study was carried out in the 2018-2020 period, when there was uncertainty in the future, namely with the outbreak of the Covid-19 pandemic, which began to hit throughout the world in 2020, so the information conveyed in the auditor's report should be something that market players pay attention. Even though ISA 701 has not yet been implemented in Indonesia, the form of communication in detailed MAO paragraphs should concern capital market players. The quality of audits in the form of MAO opinion statements can be threatened because, during the pandemic, there is physical and social distance that limits auditors from obtaining sufficient and appropriate audit evidence to provide an opinion (Albitar et al., 2021). IFAC warns that KAM and the "emphasis of matter" paragraph are important issues for auditors to disclose in their audit opinions. If the auditor cannot obtain adequate and appropriate audit evidence, this condition will affect the auditor's report, so the auditor may have to modify the audit opinion (ISA 500).

II. LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

2.1 Signaling Theory

Investors will respond to market information related to the value of their investments (Dechow et al., 2010). The greater the correlation between market information and the condition of their investment value indicates that company profits reflect company performance. Thus, financial reports become relevant if they influence investor decision-making (Badlaouni et al., 2023; Al-Thuneibat et al., 2008). External auditors who audit financial reports are seen as being able to provide useful information and signals for the decision-making process in the capital market in the form of audit opinions and can reduce information asymmetry (Badlaouni et al., 2023; Wallace, 2004; Titman & Trueman, 1986).

Studies in Indonesia found a relationship between unsystematic risk and stock returns, which implies the existence of a signaling theory that can explain the phenomenon of the Covid-19 pandemic in the financial and non-financial sectors (Budiarso et al., 2020).

2.2 Market Reaction

Company profits can contain information content for investors (Dewi & Herusetya, 2015). The market can react to the information conveyed, and investors can make investment decisions by obtaining abnormal returns (Dechow & Schrand, 2004). The earnings response coefficient (ERC) model can measure how big the market reaction is from investors to earnings surprises when company profit information is delivered (Dechow & Schrand, 2004; Dewi & Herusetya, 2015). Apart from that, to avoid earnings surprises in the Indonesian capital market, the Financial Services Authority (OJK), through Financial Services Authority Regulation Number 29 of 2016, requires every public company to publish annual financial reports that have been audited by an external auditor to the public.

2.3 Information Content and Types of Audit Opinion

The auditor's report is an information medium that connects auditors with users of financial reports (Defond & Zhang, 2014; Al-Thuneibat et al., 2008). Chow & Rice (1982) and Dodd et al. (1984) conducted initial studies on market reactions to independent auditor opinions and found no market reaction to modified audit opinions (MAO). In contrast, Dopuch et al. (1986) and Choi & Jeter (1992) find evidence of a negative stock price reaction to MAO. Another type of audit opinion with a qualified opinion impacts the company's share price if the auditor's opinion statement contains new information about uncertainty or describes the possibility of losses that the company will experience in the future to investors (Dodd et al., 1984).

Martinez et al. (2004), who conducted a study in the Spanish capital market, found that independent audit reports did not contain influential information for investors, even when the audit opinion was categorized as unqualified, qualified, or disclaimer. In other words, their findings conclude that these types of audit opinions do not contain useful information for capital market players. Bessell et al. (2003) investigated the information content of going concern opinions in modified audit opinions (MAO) in Australia. Their study found that the emphasize matter paragraph contains information if the company is not experiencing financial distress. On the other hand, if the company experiences financial distress, MAO does not influence investors' responses to risk and does not influence their decision-making.

Ianniello & Galloppo (2015) studied market reactions on the Italian stock exchange, Borsa Italiana (BIT), to audit opinions. Their study found negative reactions to disclosures in audit opinions that received a qualified opinion. On the other hand, if a client receives an unqualified audit opinion with an additional paragraph (MAO) containing going concern and financial distress information, then the information disclosed in the audit opinion will receive a positive response from the market (Ianniello & Galloppo, 2015). The conclusions drawn from the differences in the results of previous studies are possibly due to differences in the legal systems and regulations for reporting financial statements and audits in each country (Badlaoui et al., 2023; Brunelli et al., 2020).

2.4 Hypothesis Development

2.4.1 Market Reaction and Number of Paragraphs in Modified Audit Opinion (MAO)

The auditor's report is regulated in Auditing Standards (SA) 700, including regulating the number and content of each paragraph in the audit report. In general, the paragraphs in an audit report contain an introductory paragraph, Management's Responsibility for Financial Reports, Auditor's Responsibility, and Opinion. Meanwhile, Auditing Standards (SA) 706 regulates additional paragraphs in audit opinions, namely the emphasis of matter paragraphs and other matter paragraphs. These two paragraphs can be included in the audit report if the auditor considers these matters important and must be considered by users of financial reports.

Based on SA 706, a standard form audit opinion contains four paragraphs: an introductory paragraph, management's responsibility for financial statements, auditor's responsibility, and audit opinion. The auditor's report may contain additional information in the form of additional paragraphs, namely, emphasis on other matters and paragraphs on other matters. The number of paragraphs relates to the amount of important information the auditor wishes to disclose to users of the financial statements.

Smales (2021) and Huberman & Regev (2001) conclude that new information will influence the market when the information is "paid close attention" by investors. This is in line with the purpose of the paragraphs in the audit report itself, namely to draw the attention of financial report users to important information related to the audited financial report. Previous studies found that the market has difficulty interpreting important information conveyed by auditors in emphasis paragraphs and other paragraphs (Martínez et al., 2004; Soltani, 2000). Our study suspects that an additional number of paragraphs apart from the standard type of audit opinion (unmodified opinion), which is four paragraphs, could have a negative reaction because the additional paragraphs could contain negative news that could be detrimental to capital market players, for example regarding the survival of clients, inconsistent in the application of financial accounting standards, and other things.

Apart from that, the number of non-standard paragraphs other than the form of unmodified or unqualified opinion can be problematic for capital market players. The amount of information disclosure that is too extensive can have negative indications because of the perception that the client's financial statements have many deficiencies in their disclosure. This perception can reduce the level of trust and reliability of the company in the eyes of users of its financial reports. Based on the explanation above, the hypothesis proposed in this research is:

H1: The market reacts negatively to the number of paragraphs in the auditor's report other than the standard form of audit opinion.

2.4.2 Market Reaction and Number of Detailed Disclosures in Modified Audit Opinion (MAO)

Auditing Standards (SA) 706 contains standards that state the contents of additional paragraphs. SA 706 states that the auditor needs to include matters that he believes are important and relevant to the fundamental understanding of users of financial statements. This disclosure can be in the form of notes to the entity's financial reports, the accounting standards

used, information on the auditor's observations regarding the entity's future sustainability, and other things that can be disclosed regarding the entity's financial information. In other words, there is a limit to the amount of information disclosed in the paragraph. The reason is that if too much information is written, the information in the entity's financial statements will give the perception that it is incomplete and less informative.

This study suspects that for capital markets in Indonesia, which are still developing, the information conveyed through audit opinions in the form of MAOs can provide negative information for capital market players, especially concerning client survival. Previous studies found that the market had difficulty interpreting important information conveyed by auditors in the emphasis on one thing and other paragraphs in the MAO (Martínez et al., 2004; Soltani, 2000). In addition, previous studies found that information asymmetry in developing countries has different levels depending on the financial disclosure requirements, timing, and size effects (Colombage & Halabi, 2012). Based on the explanation above and in line with the hypothesis statement H1, the second hypothesis proposed in this research is:

H2: The market reacts negatively to the amount of detailed disclosure content in audit opinions other than standard audit opinions.

III. RESEARCH METHODOLOGY

3.1 Research Population and Sample

The population of this study is all companies listed on the Indonesia Stock Exchange for the observation year 2018-2020, except for companies in the financial industries. The study sample was drawn using a purposive sampling method with the following criteria: a. Companies listed on the Indonesian Stock Exchange other than the financial and banking industry; b. The Company issues audited annual financial reports every year for financial reports ending December 31, 2018, to December 31, 2020; c. Company financial reports are published in Rupiah (IDR) and d. The company did not experience bankruptcy until December 31, 2020.

Based on the sample selection above, we obtained a final sample of observations totaling 1017 firm years, as seen in the following table:

Table 1. Sample Selection

Description	Total
All listed firms on the IDX are still operating from 2018 to 2020	733
Less:	
Firms in the financial industries	(94)
Companies with incomplete financial data	(52)
Companies with the presentation of their financial statements using other foreign currencies other than IDR	(79)
Number of companies other than the financial and banking industry that experienced bankruptcy/delisting from 2018-2020	(17)
Number of new listing companies from 2018-2020	(151)
New listing firms and firms that change in the type of industry during the study period	(1)

Final sample in firms	339
Final sample in firm-year observations	1017
Source: IDX website and S&P Capital IQ	

3.2 Empirical Model

This research uses the empirical model Dewi and Herusetya (2015) used to see how the market reacts using the Earnings Response Coefficient (ERC). Models 1 and 2 are used to test the market reaction to the number of paragraphs and detailed disclosures in the modified audit opinion. Following are each related empirical models in Equation (1) and (2):

$$CARit = \alpha0 + \alpha1UEi,t + \alpha2UE*NUMPARi,t + \alpha3UE*LOSSi,t + \alpha4UE*ROAi,t + \alpha5UE*LEVi,t + \alpha6UE*QUICKi,t + \alpha7UE*SIZEi,t + \alpha8UE*BIG4i,t + \alpha9UE*GROWTHi,t + \alpha10UE*ARTA,t + \alpha11UE*INVTA,t + \alpha12NUMPARi,t + \alpha13LOSSi,t + \alpha14ROAi,t + \alpha15\ LEVi,t + \alpha16QUICKi,t + \alpha17\ SIZEi,t + \alpha18\ BIG4i,t + \alpha19\ GROWTHi,t + \alpha20\ ARTAi,t + \alpha21INVTAi,t + \varepsilon i,t \quad \text{(Eq. 1)}$$

In Model 1, the market reaction toward the number of paragraphs in the modified audit opinion can be reflected in the earnings response coefficient (ERC) of the UE*NUMPAR interaction variable (i.e., α2), while the market reaction to the number of detailed disclosures in the audit opinion is reflected in the earnings response coefficient (ERC) of the UE*NUMDISC interaction variable in Equation (2) (i.e., α2):

$$CARit = \alpha0 + \alpha1UEi,t + \alpha2UE*NUMDISCi,t + \alpha3UE*LOSSi,t + \alpha4UE*ROAi,t + \alpha5UE*LEVi,t + \alpha6UE*QUICKi,t + \alpha7UE*SIZEi,t + \alpha8UE*BIG4i,t + \alpha9UE*GROWTHi,t + \alpha10UE*ARTAi,t + \alpha11UE*INVTA,t + \alpha12\ NUMDISC,t + \alpha13\ LOSSi,t + \alpha14\ ROAi,t + \alpha15\ LEVi,t + \alpha16QUICKi,t + \alpha17SIZEi,t + \alpha18BIG4i,t + \alpha19\ GROWTHi,t + \alpha20\ ARTAi,t + \alpha21INVTAi,t + \varepsilon i,t \quad \text{(Eq. 2)}$$

3.3 Variable Measurements

3.3.1 Earnings Response Coefficient (ERC)

Earnings Response Coefficient (ERC) is a coefficient of Unexpected Earnings (UE)—as a proxy for market reactions to stock prices based on profit information from the company's published financial reports. This research refers to the research model of Dewi & Herusetya (2015) and Dechow & Schrand (2004), which uses ERC to test market reactions to information content from company profits that provide abnormal returns on shares of listed companies on the IDX. In this study, the earnings response coefficient is used to see how the market reacts to the information contained in the number of paragraphs and the number of disclosures in the auditor's opinion.

In Model 1, cumulative abnormal return (CAR) is calculated based on the total abnormal return for one year, computed from the total monthly abnormal returns from April 1 of year t to March 31 of year t+1 using the following formula:

$$CARi,t = Total\ Ri,t - Total\ Rmi,t$$

Where:

CARi,t	= Cumulative Abnormal Return for firm i at period t
Total Ri,t	= Total Actual market return for firm i at period t
Total Rmi,t	= Total Market Return for firm i at period t

The total abnormal return for each firm (Ri,t) and the market return (Rmi,t) are computed as follows:

$$Ri,t = \frac{(\boldsymbol{P}i,t - \boldsymbol{P}i,t\boldsymbol{t-1})}{\boldsymbol{P}i,t-\boldsymbol{1}}$$

Where:

Ri,t	= Actual Return for firm i at period t
Pi,t	= Adjusted Closing Price for firm i at period t
Pi,t-1	= Adjusted Closing Price for firm i at period t-1

$$Rmi,t = \frac{(IHSGi,t - IHSGi,t-1)}{IHSGi,t-1}$$

Where:

Rmi,t	= Market Return for firm i at period t
IHSGi,t	= Cumulative Market Stock Index for firm i at period t
IHSGi,t-1	= Cumulative Market Stock Index for firm i at period t-1

Whereas unexpected return (UE) is computed as follows:

$$UEit = \frac{(EPSit - EPSit-1)}{EPSit-1}$$

Where:

UEit	= Unexpected Earning for firm i at period t-1
EPSit	= Earnings per share for firm i at period t-1
EPSit-1	= Earnings per share for firm i at period t-1

3.3.2 Number of Paragraphs (NUMPAR)

The NUMPAR variable represents the number of paragraphs in the company i's auditor's report in period t. Audit Standards (SA) 700 regulates the format for writing an auditor's report, that the auditor's report must contain the following paragraphs: Introductory Paragraph, Management Responsibility for Financial Reports, Auditor Responsibility, and Opinion Paragraph. If disclosure is required or other things that are considered important for users of financial statements to know, the auditors can add two additional paragraphs, i.e., emphasize of matter paragraphs and other matter paragraphs as required in Auditing Standards (SA) 706. Table 2 explains the score of the number of paragraphs in the audit opinion.

Table 2. Measurement of the Number of Paragraphs

Paragraph Composition (SA 700 & SA 706)	Number of Paragraphs	
	Unmodified or Unqualified Opinion	Other than Unmodified Opinion (MAO)

Introduction	4	4
Management's Responsibility for the Financial Statements		
Auditor Responsibility		
Opinion Paragraph		
Emphasis of Matter Paragraph		1
Other Matter Paragraph		1

3.3.3 Number of Detailed Disclosure in Modified Audit Opinion (NUMDISC)

The NUMDISC variable represents the number of disclosures made by the auditor to emphasize matter and other matter paragraphs. For unqualified or unmodified opinions in this research, we assigned 0, because it does not emphasize matter and other matter paragraphs. We assigned the numerical numbers 1, 2, and so on for the number of disclosures in both paragraphs by reading the detailed topics disclosed in the modified audit opinion (Table 3).

Table 3. Number of Detailed Disclosure

Paragraph Composition (SA 706)	Number of Detailed Topics in Additional Paragraphs
Emphasize of Matter Paragraph	- Implementation of IFRS/PSAK - Uncertainty issues (Covid-19) - Problems related to material weaknesses in the company's internal controls - Accounting issues after the reporting date - Litigation issues - Going concern problems
Other Matter Paragraph	- Acquisition/Merger - The previous audit was carried out by a different auditing firm

3.3.4 Control Variables

There are nine control variables in the empirical model used, which also influence the dependent variable, including the following: dummy variable (1; 0) where the company experiences a net loss (LOSS), return on assets (ROA), leverage (LEV), quick ratio (QUICK), company size (SIZE), dummy variables (1; 0) for the size of the public accounting firm (BIG4), growth (GROWTH), ratio of total receivables to total assets (ARTA), and ratio of total inventory to total assets (INVTA).

IV. RESEARCH RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The following table, i.e., Table 4, is a descriptive statistical profile of the variables in this study.

Table 4. Statistic Descriptive

Variable	Mean	Std. Dev.	Min	Max
CAR	4.348	11.322	-0.660	47.084
UE	0.006	0.174	-1.919	1.411
NUMPAR	4.623	0.684	4.000	6.000
NUMDISC	3.334	0. 915	0.000	5.000
LOSS	0.324	0.468	0.000	1.000
ROA	-0.072	1.582	-33.110	17.000
LEV	1.212	1.378	0.000	5.600
QUICK	1.530	1.645	0.080	6.570
SIZE	14.777	1.881	8.090	21.990
BIG	0.268	0.443	0.000	1.000
GROWTH	0.016	0.411	-1.084	1.764
ARTA	0.136	0.163	0.000	0.997
INVTA	0.169	0.185	0.000	0.969
Source: Stata output results; N= 1017 firm-year observations and all continuous data are winsorized at 1% to avoid outliers.				

In Table 4, the average number of paragraphs (NUMPAR) of the audit opinion for 1017 observations is around 4 and 5 paragraphs, with a minimum number of paragraphs being 4 and a maximum number of paragraphs being 6. The average number of observations studied was mostly in the form of modified audit opinions because it exceeds the number of standard unqualified opinions by 4 paragraphs. Meanwhile, the number of detailed topics (NUMDISC) in additional paragraphs is 3.334 with a minimum of 0, and the maximum number of topics expressed in the emphasis of matter paragraph and other matter paragraph is 5.

4.2 Hypothesis Testing

Hypothesis Testing Results 1 (H1)

Model 1 has adjusted R2 and R2 values of 0.0472 and 0.0270, respectively, and the F-test value using a robust standard error of 2.18 (prob.= 0.0016). Based on Table 5 (Eq. 1), the interaction variable UE*NUMPAR has a significance level of 0.121 > 10% with a two-tailed test (α2= - 4.679). However, due to our directional hypothesis where the market reacts negatively to the number of paragraphs in the audit opinion using the one-tailed test, the coefficient is significant at the 10% level (t-test= 0.0605, prob.= 0.060), so the hypothesis is supported. The results of this study show that the market reacts negatively to the information conveyed through the number of paragraphs in the auditor's opinion. These findings indicate that the greater the number of paragraphs in the audit opinion, the more the market considers that the information in the opinion gives a less favorable perception of capital market players. Capital market players consider an unmodified audit opinion with a standard number of paragraphs unproblematic. Conversely, the more paragraphs in an audit opinion, the more capital market players consider listed firms to have problems, for example, going concern issues consistency in applying accounting standards. Thus, hypothesis H1 is supported. The test results for the control variables found consistent and inconsistent evidence with the results of previous studies of market reactions concerning companies that experienced net losses

(UE*LOSS), had high levels of leverage (UE*LEV), and companies with higher levels of complexity (UE*INVTA).

4.3 Hypothesis Testing Results 2 (H2)

Model 2 has adjusted R2 and R2 values of 0.0454 and 0.0252, respectively, and the F-test value with a robust standard error of 2.11 (prob.= 0.0025). Based on Table 5 (Eq. 2), the coefficient of the UE*NUMDISC interaction variable is not significant using the two-tailed test (t-test= -0.80, prob= 0.425 > 10%). The results of testing hypothesis H2 found no evidence that the amount of detailed disclosure in the audit opinion provides a market reaction. The results of this test provide an interpretation that the market does not react to the number of details or disclosure topics in the auditor's opinion. Thus, the results of hypothesis testing H2 are rejected. The test results for the control variables found evidence that is consistent with testing hypothesis H1, where the market reaction is related to companies that experience a net loss (UE*LOSS), have a high level of leverage (UE*LEV), companies with larger company size (UE*SIZE), and companies with a higher level of complexity (UE*INVTA).

4.5 Additional Tests

This study carried out additional tests to see how the market reacted during the Covid-19 period, namely 2020, to the number of paragraphs and disclosures in the independent auditor's opinion. Is there incremental content that is increasingly negative regarding the number of paragraphs and disclosures contained in the auditor's opinion during the Covid-19 pandemic? To find out the results of these additional tests, we use the following empirical model (Eq. 3 and Eq. 4):

$$CARit = \alpha0 + \alpha1UEi,t + \alpha2UE*NUMPAR*COVID + \alpha3UE*COVID + \alpha4UE*NUMPARi,t + \alpha5UE*LOSSi,t + \alpha6UE*ROAi,t + \alpha7UE*LEVi,t + \alpha8UE*QUICKi,t + \alpha9UE*SIZEi,t + \alpha10UE*BIG4i,t + \alpha11UE*GROWTHi,t + \alpha12\ COVIDi,t + \alpha13\ NUMPARi,t + \alpha14\ LOSSi,t + \alpha15\ ROAi,t + \alpha16\ LEVi,t + \alpha17\ QUICKi,t + \alpha18\ SIZEi,t + \alpha19\ BIG4i,t + \alpha20\ GROWTHi,t + \alpha21\ ARTAi,t + \alpha22\ INVTAi,t + \varepsilon i,t \quad \text{(Eq. 3)}$$

$$CARit = \alpha0 + \alpha1UEi,t + \alpha2UE*NUMDISC*COVIDi,t + \alpha3UE*COVIDi,t + \alpha4UE*NUMDISCi,t + \alpha5UEt*LOSSi,t + \alpha6UE*ROAi,t + \alpha7UE*LEVi,t + \alpha8UE*QUICKi,t + \alpha9UE*SIZEi,t + \alpha10UE*BIG4i,t + \alpha11UE*GROWTHi,t + \alpha12\ COVIDi,t + \alpha13\ NUMDISCi,t + \alpha14\ LOSSi,t + \alpha15\ ROAi,t + \alpha16\ LEVi,t + \alpha17\ QUICKi,t + \alpha18SIZEi,t + \alpha19\ BIG4i,t + \alpha20\ GROWTHi,t + \alpha21\ ARTAi,t + \alpha22\ INVTAi,t + + \varepsilon i,t \quad \text{(Eq. 4)}$$

Table 5. Hypotheses Testing Results

Independent Variable	Predicted Sign	MODEL 1 (Eq. 1) Dependent Variable (CAR)		MODEL 2 (Eq. 2) Dependent Variable (CAR)	
		Coef.	p-value	Coef.	p-value
Contant	?	3.314	0.392	4.408	0.138

UE	+	22.814***	0.002	20.506***	0.007
UE*NUMPAR	-	-4.679	0.121	-	-
UE*NUMDISC	-	-	-	-1.750	0.425
UE*LOSS	-	6.822**	0.039	6.606**	0.040
UE*ROA	+	-0.146	0.861	0.191	0.784
UE*LEV	-	-2.817***	0.005	-2.231***	0.006
UE*QUICK	+	-2.382	0.187	-2.391	0.200
UE*SIZE	+	0.762	0.390	-0.556**	0.038
UE*BIG4	+	0.737	0.955	4.128	0.751
UE*GROWTH	+	4.213	0.246	5.585	0.114
UE*ARTA	-	24.084	0.174	20.584	0.231
UE*INVTA	-	-13.362**	0.026	-14.718*	0.095
NUMPAR	-	0.181	0.739	-	-
NUMDISC	-	-	-	0.018	0.964
LOSS	-	-0.251	0.751	-0.197	0.800
ROA	+	0.148	0.275	0.141	0.277
LEV	-	-0.745***	0.001	-0.737***	0.001
QUICK	-	-0.097	0.649	-0.098	0.649
SIZE	+	0.020	0.913	0.003	0.986
BIG4	+	2.512**	0.014	2.487**	0.014
GROWTH	+	2.141***	0.008	2.164***	0.008
ARTA	-	1.309	0.500	1.207	0.535
INVTA	-	0.606	0.722	0.559	0.789
F-value		2.18		2.11	
Probability		0.0016		0.0025	
R-Squared		0.0472		0.0454	
Adjusted R^2		0.0270		0.0252	
N		1017		1017	
Source: Stata output results; ***,**, * significant at 1%, 5%, and 10%, respectively, with robust standard errors at two-tailed tests.					

We expect that the coefficients of variables UE*NUMPAR*COVID and UE*NUMDISC*COVID are positive and significant, indicating that the market requires more information on the uncertainty issues in the Covid-19 period. The results of additional testing (due to the space limitation, we do not tabulate the results in tables) found evidence of additional information content as a positive market reaction to the number of paragraphs contained in the modified audit opinion for the Covid-19 pandemic in 2020 when this pandemic just broke out. The coefficient of the EU*NUMPAR*COV interaction variable (α2=1.609) is positive and significant at 1% (t-test= 2.78, prob.= 0.005), indicating that the market reacted positively to the number of paragraphs in audit opinions in the Covid-19 period. In other words,

the additional information in the paragraph provides better certainty for capital market players during this pandemic, so the market reacts positively.

The results of other additional tests (untabulated) found no evidence that the market reacted to the information content of the number of disclosures in audit opinions during the pandemic. The interaction variable UE*NUMDISC*COV is insignificant at 10% (t-test= 1.30, prob.= 0.195) with two-tailed tests but significant at 10% with one-tailed tests (prob.= 0.092). The results of this study provide an interpretation that the market needs additional information by reacting more positively to the detailed topics in both paragraphs in the modified audit opinion in the 2020 pandemic period.

V. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

This study found that the market reacted negatively to the number of paragraphs in the independent auditor's opinion but did not find a market reaction to the number of detailed disclosures in additional paragraphs or modifications to the auditor's report. The results of this study provide an interpretation that capital market players have a negative perception of the information content contained in the number of paragraphs of the independent auditor's opinion. In other words, excessive information content in an audit opinion provides a bad interpretation for capital market players because capital market players can assume that there are problems with the public company being audited. Previous studies have found evidence that the market reacts positively to standard form audit opinions containing only four paragraphs.

This study also found strong evidence of additional information by providing positive market reactions to the number of paragraphs and detailed information contained in modified audit opinions during the 2020 pandemic period. The results of this study conclude that the market provides a positive perception of the disclosures relating to the number of audit opinion paragraphs and detailed information presented in modified audit opinion considering the uncertain conditions related to the outbreak of the Covid-19 pandemic in 2020.

This study has several limitations, so the study's results need to be drawn more carefully. First, the market reactions toward the information content in the audit opinion are only seen from the number of paragraphs and detailed disclosures in the modified audit opinion. Our study does not test how the market reacts to the disclosure of Key Audit Matters as in the SA 701 in Indonesia, where at the time this research was conducted, SA 701 was in the discussion stage to be formulated. Second, the observation period in this study, especially for the pandemic period, is too short, i.e., only one year, so future studies must extend the observation period so that the study findings are obtained more robustly.

The results of this study recommend the standard setters in Indonesia (e.g., IAPI) on how the capital market participants in Indonesia respond to the information content of the modified audit opinion related to the number of their paragraphs, especially in the pandemic period where uncertainty exists. We predict that the information contained in the Key Audit Matters- "those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period" (IAASB, 2015) which have not been applied in Indonesia and additional information in the modified audit opinions are more related

and in line with the capital market players as a media of communication for investment decision.

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