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CUMULATIVE ABNORMAL RETURNS AROUND AGM-LINKED AUDIT OPINION EVENTS: EVIDENCE FROM INDIAN LISTED COMPANIES

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Theme: Audit Opinion and Stock Market Behaviour in India

Abstract
An audit opinion is an integral part of corporate financial disclosures as the audit opinion reports on the auditor's opinion of the financhal positions of a company. Investors may have an expectation from such an opinion regarding the truthfulness of financial performance of a firm as well as the integrity of accounting information. The current research explores stock-return responses around AGM-linked audit opinion announcements in the Indian equity market, with primary interest in the direction and magnitude of cumulative abnormal returns (CARs). The research utilizes a panel of 220 Indian listed firms from the NSE 500 index list, with monthly stock-price observations from April 2014 to September 2023 and an AGM month as the event reference month (M0). Expected returns are obtained by means of Mean-Adjusted Return Model for the event-month windows from M18 to M4, and abnormal returns are tracked on five different event windows, (+3, +6), (0, +1), (0, +3), (0, +6), and (+1, +1).

The dataset used in the estimation has 22,147 observations. There were 1,941 AGM-linked events flagged in the dataset, of which 1,636 are used to estimate the outcome of interest in the key event-study analysis (following data-availability and estimation-window criteria). The results reported in the thesis confirm that the five event windows analysed all demonstrate positive mean CARs. Four of these five windows- 3, +6, 0, +1, 0, +3 and 1, +1-are statistically significant at standard levels, and the sixth-0, +6-is positive but insignificant. Bootstrap confidence intervals generally support the choice of windows, and sensitivity analysis with respect to winsorisation and trimming at the one per cent level leaves the positive sign of the fundamental reported estimates unchanged.

The paper finds that the pattern of returns is contingent upon the choice of event horizon used to accumulate abnormal returns. The AGM month is only a monthly benchmark and not the exact first public date of all audit-opinion announcements. Therefore, findings relate to aggregation of the audit-opinion issuance event at AGM linked reporting, and not to a verified causal market reaction to the audit opinion.

Key Words: Audit opinion; cumulative abnormal returns; event study; AGM; Indian equity market; monthly stock returns.

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1.Introduction

Financial statement credibility is therefore one of the motivations behind the operation of capital markets, whereby investors rely upon financial statements to evaluate the company's financial position, operating performance, cash flows and outlook. However, the information provided by financial statements are compiled by management, who may have more knowledge about the firm than external shareholders and other market participants. This is known as the "information asymmetry" - whereby there is an imbalance of information between corporate insiders and outside investors. One institutional device aimed at increasing faith in financial reporting is independent auditing, which seeks to provide an external evaluation of compliance with the reporting framework.

The audit opinion is an integral and tangible result of the statutory audit. If the auditor concludes that the financial statements are free of material misstatement, subject to audit and reporting standards, then this will typically be communicated through the provision of an unmodified opinion. If the auditor concludes differently, then this will generally be communicated through the provision of a modified opinion (including qualified opinions, or adverse or disclaimers of opinion). Due to the scope of the auditor's decision, a modified opinion may have very different implications for the investor depending on the circumstances, such as the financial position of the individual company, the corporate governance that exists and what other publicly available information is known.

The relevance of a given audit opinion from the perspective of a capital-market participant is centred on the importance of this opinion to an investor's evaluation of the credibility of the financial statements. This importance can arise because a modified opinion highlights an accounting issue, uncertainty, the presence of audit evidence constraints or other reason for concern, while an unmodified opinion signals the existence of an attestation however, one cannot construe the fact that an opinion is unmodified as an indication that a company will perform well in the future or that all uncertainty has been removed. The economic relevance of an opinion depends not only on whether it is modified or not but also on the information content of the situation and what investors already knew.

These three theories can all help us to understand why auditors might feel it is important to comment on the audited financial statements. Information asymmetry explains that it is costly for a firm's shareholders to monitor their managers and that there must be a remuneration structure in place to mitigate that. An audit assists with the monitoring and remuneration of a manager when it considers financial statements that have been prepared by that manager. Signalling explains why firms might benefit from releasing observable information that gets around other attributes that are more difficult to observe; an audit opinion is just one example of such information.

To empirically evaluate market reaction needs a specific event and a suitable return benchmark. Market reaction can be investigated through event-study technique which tests for abnormal movements in security prices around a particular event to determine whether their movements were statistically significantly different from what would be predicted. The abnormal return can be defined as the difference between the actual return and the expected return of an asset as

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estimated by a particular model. The sum of abnormal returns over some period of time is the cumulative abnormal return, which measures the pattern of the cumulative return during the event window.

The sample in this study is based on data for 220 companies drawn from the total NSE 500 universe. This study adopts the monthly approach to measurement of the returns, but uses the third month around the event as the common reference month (the AGMs are all month-end). This is to have a common month of interest across companies and years, but care must be taken not to interpret the month of interest as the first-month when the audit report was available to the market. The return is thus analysed as occurring around the AGM month of interest and not around a narrow first-disclosure month.

The emphasis on one empirical dimension is a conscious decision to not combine CAR with volatility modelling, GARCH estimation, sector comparison, or panel regression. This avoided approach enables the research question, event definition, type of expected-return benchmark and interpretation of results to be in agreement. The main research question is whether the average CAR around AGM-linked audit opinion events is significantly different from zero and whether the statistical inference is affected by other event window choices.

The balance of the paper is arranged as follows. Section 2 critically surveys the theory and empirical evidence concerning audit opinions and event-study methodology. Section 3 pinpoints the research gap and discusses the research aims. Section 4 outlines the data and methodology. Section 5 discloses the empirics. Section 6 argues the significance of the results and Section 7 explains the limitations and concludes.

2.Literature Review

The literature applicable to the current study can be grouped along three related lines: (i) importance of audits for corporate reporting; (ii) the information value of audit opinions; and (iii) event-study techniques to investigate the security-market effect of corporate disclosures. These lines of literature serve as the conceptual basis for testing whether return patterns can be detected surrounding AGM-related audit-opinion events.

2.1 Audit assurance, agency relationships and information asymmetry

An important reason for demand for external auditing stems from an agency relationship between shareholders and managers. Jensen and Meckling (1976) give an explanation for agency cost which may be relevant to this agency relationship by stating that when managers are not always acting in the best interests of shareholders there will be agency costs arising from separation of ownership and control. Financial reporting is one of the main ways managers can report on their stewardship and financial information to shareholders.

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External auditing aims to mitigate part of the information asymmetry by giving a financial statement and its auditor an external test. DeAngelo (1981) measures the audit quality through "the auditor's ability to discover an accounting system breakdown, and the auditor's willingness to report such a breakdown." While audit quality generally is more than the wording of the auditors' final product of audit opinion, the scope of audit opinion can reach potential impacts on the investors' confidence in the information.

Akerlof (1970) has shown how information asymmetry can cause market inefficiencies when buyers cannot separate higher- from lower-quality products. Investors in capital markets have the same problem, namely that they cannot completely know the quality and completeness of corporate information. Independent assurance can mitigate some of this problem, but it cannot eliminate information asymmetry, and the audit opinion should therefore be interpreted as an information signal within a broader disclosure context.

2.2 Audit opinions and their relevance to the market.

One source of market significance of an audit opinion relates to the content of the message, the auditors' report, delivered to investors and other users of the financial statements. An unmodified opinion may suggest that there has been no qualification of the materiality of audit scope. A qualified opinion alerts users to the existence of a matter that is material but not pervasive or a scope limitation that is confined to some of the audit evidence. An adverse opinion suggests that the auditor has found material and pervasive misstatements and a disclaimer suggests that the auditor has not been able to acquire sufficient appropriate audit evidence in order to be able to deliver an opinion and that the effects of this may be material and pervasive.

These classifications are not always viewed the same way by investors. The economic impact of an opinion depends on the reason, the company's condition, the importance of the impact on balances or disclosures, and if the issue was already known to the market. A modified opinion may introduce new news, validate priced-in claims, or have little incremental value in situations where the issue had already been reported previously. Likewise, an unmodified opinion may not be new news if investors already had that consensus expectation.

Another background is provided by Spence (1973), with the reference to signalling theory. A signal is relevant if it signals information regarding a trait that cannot be observed directly by the receiver. In the case of corporate reporting, the audit opinion could be interpreted as signaling the auditor's implied opinion about the financial statements. The intensity of this signal is related to its believability, both in terms of clarity and of additional information that is brought to the table.

2.3 Event-study methodology and abnormal returns

Event studies are employed extensively in financial economics to infer how security prices behave around events that are potentially informative. Fama, Fisher, Jensen and Roll (1969) applied event-study methods to investigate stock-price adjustment to stock splits. Brown and Warner (1985)

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studied the statistical characteristics of event-study methods based on daily stock returns and discussed the implications of the return-generating process and assumptions underlying tests.

Mac Kinlay (1997) systematically discusses the event-study design, covering the concept of the event, the estimation period, the estimation of the event window and the calculation of abnormal returns. The event-study design needs to have a benchmark for comparing with the actual return. Various expected return models are usable, which are subject to the observation frequency, the market data and the research objectives. The model selection affects the estimated abnormal return and the occurrence of the CAR.

The Mean-Adjusted Return Model is a very straightforward expected-return specification. The expected return for a firm is simply estimated as the average return for that firm over an estimation period prior to the event. Abnormal returns are then determined as the difference between the actual return and this company-specific average. The model is relatively transparent and straightforward to apply in a large sample, but does not explicitly control for market-wide movements or other systematic risk factors, which must therefore be borne in mind when interpreting the abnormal results.

2.4 Cumulative abnormal returns and event-window selection

A single-period abnormal return may not adequately describe the return pattern associated with an event, such as when the information is sequentially released or investors have time to revise their expectations over subsequent periods. Cumulative abnormal returns remedy this problem by aggregating the abnormal returns over a sequence of periods. The selection of event window can have implications. Using a short window emphasizes the period directly surrounding the event reference point, while using a long window also captures a broader pattern of return anomalies.

Less precise, longer event windows allow for a more comprehensive approach of the return, but they also imply a greater risk that the CAR is influenced by other firm-related news, macroeconomic factors and changes in the market. Shorter windows are less prone to this problem but can't entirely suppress it. Using monthly data, the window has to be considered in light of the reduced time resolution of the observations. Therefore, five a priori chosen windows are compared here.

2.5 Summary of literature and research gap

This conceptual and methodological literature provides a framework for understanding why audit assurance might be important to investors and how event-study techniques can be employed to study return behaviour when firms release information to the market. Nonetheless, the market importance of an audit opinion is not assured. It is contingent upon the type of opinion, the prior information accessible to investors, the timing of disclosure and the benchmark for expected returns.

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The contribution of this paper is in answering a narrowly focused empirical question in the Indian listed-company context, in analysing CARs over AGM-linked audit-opinion events with monthly observations. The study's approach is unlike the way an event study is typically conducted using daily observations, in that the study uses the AGM month as the common reporting-period monthly benchmark and tests for multiple event horizons. It does not claim that the AGM month is the exact first disclosure date, but attempts to document the pattern of cumulative returns around an unvarying reporting-period benchmark across a sizeable multi-company sample.

3. Research Gap, Objectives and Hypothesis

3.1 Research gap

In order to make a genuine test of the relevance of audit-opinion, we need to have information about whether the abnormal return pattern can be seen during the one-year window of time during which the annual audit opinion is related to the company's AGM/annual reporting process. The Indian market is a good testing ground on which to investigate these questions because the listed firms are from different industry groups, sizes, and different financial health. In addition, the annual reporting process makes existing disclosure period similar.

This paper contributes in three related ways. First, it offers evidence from an Indian multi-company sample instead of single-company or narrowly defined cases. Second, the study employs a monthly event-study approach in which the date of AGM month is used as a standard event date. Third, different CAR windows are compared in order to examine whether the conclusion is affected by the length of the abnormal returns accumulation. This paper does not attempt to answer all questions on the quality of audits or causal influence of audit opinion on stock return; it simply reports on the patterns in returns related to AGM events.

3.2 The goal of the experiment

The main purpose of this study is to test the cumulative abnormal stock returns around the AGM related audit-opinion events in the selected list of Indian public companies. The specific objective of this research work is to:

- To estimate abnormal returns using the Mean-Adjusted Return Model, with the estimation window from M18 to M4.

- Cumulative abnormal returns over five event windows: (3, +6), (0, +1), (0, +3), (0, +6) and (1, +1).

- To determine if the average CAR for each event window is significantly different from zero.

- To investigate the degree to which the subsequent estimates of mean CAR are preserved when extreme observations are winsorised and trimmed.

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- To contextualise the results given that the data are monthly and that a month has been used as the reporting-period benchmark AGM month.

3.3 Research question
Is there a statistically significant cumulative abnormal return in Indian listed companies before and after the events on AGM-and audit-opinion related events, and is there difference of findings in different event windows?

3.4 Hypotheses construction
The test is whether the mean of the Cumulative Abnormal Return (CAR) over the event period is significantly different from zero for each of the event windows specified. The direction of the market reaction is an empirical question.

H1: The mean cumulative abnormal return of the announcement days around the audit-opinion events related to the AGM is statistically significant different from zero over the following event windows:

The null hypothesis for each event window is that the population mean CAR is equal to zero; the alternative hypothesis is that the population mean CAR is not equal to zero. The hypothesis will be tested individually for each of the five windows. Thus, rejection of the null hypothesis in one window will not be regarded as confirmation that the null hypothesis should also be rejected for the other four windows.

4. Scope and Limitations of the Study

4.1 Scope of the study
Sample selection the 220 Indian listed companies were selected from a universe of NSE 500; the thesis notes that the companies selected account for more than 85% of the market capitalisation as at 31 March 2023. The audit-opinion sample period encompasses the years 2013-14 through 2022-23, the period for which the monthly observations of stock-prices is available is April 2014 to September 2023. The study uses company-level monthly stock returns and AGM-linked audit-opinion event identification.

The main outcome variable is cumulative abnormal return. The scope of the analysis is limited to the five event windows set above and the Mean-Adjusted Return Model within which to compute expected returns. Other sensitivity checks such as one per cent winsorisation and one per cent trimming are included. The volatility analysis and GARCH modelling, sector by sector comparisons and panel regression are not considered in this paper.

4.2 Shortcomings of the investigation

Monthly frequency and event-date precision

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Monthly observations do not indicate when the audit opinion became publicly available on the first day of trading or when investors actually incorporated this information into prices. As a result, AGM month is a convenient monthly point of reference and may not necessarily be the first public release of the audit opinion.

Expected-return model
The Mean-Adjusted Return Model uses as the expected value the observed average return for the firm over the estimation window. No adjustment is made for market-wide returns, industry effects, or systematic risk factors. The actual abnormal return therefore may include effects omitted from the historical-mean benchmark.

Event-window contamination
Other company-specific announcements, macroeconomic events, or market-wide events may fall within the event windows under study. Because data are monthly in frequency, it is impossible to separate the audit opinion from other information released during the same month.

Sample and data availability
The analysis uses the 220 companies selected, and the events kept following the implementation of data availability and estimation window requirements. The conclusion should only be considered with respect to this sample and should not be generalised to all listed companies.

Inference and multiple windows
There are five event windows of analysis. Given the number of related hypotheses that are being tested, readers are warned to be mindful of the multiple-testing phenomena in judging statistical significance. The one-sample t-tests and the bootstrap confidence intervals presented are evidence both supporting and not supporting inferential concerns.

Causal interpretation
The event design finds cumulative returns relative to return events around the AGM-linked audit-opinion event. As the reference point is monthly, and with the potential for overlap, the results do not suggest that the audit opinion alone resulted in the returns.

5. Research Methodology

The analysis employs a quantitative, event-study methodology to test for abnormal cumulative returns around the points in time associated with each AGM-related audit-opinion event. The method is based on the four steps of sample selection, event dating, expected return estimation, abnormal return calculation, aggregation into CARs, and statistical testing. The tests are carried out on each of the sample firms, where the tests apply due to valid monthly return observations.

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5.1 Research design

The study adopts a descriptive and analytical quantitative approach. The descriptive stage describes the sample, the form of the event and the return observations that are available for examination. The analytical stage estimates the abnormal return and tests if the mean cumulative abnormal return is different from zero for the various event windows. The event-study methodology suits the overall aim of this research as it provides a systematic way to relate observed to benchmark returns about a well-defined event reference point.

5.2 Data sources and study period

The study adopts secondary data pertaining to listed firms, audit opinions and monthly stock prices. The sample consists of 220 firms from the NSE 500 universe. For analysis, the sample period spans the financial years 2013-14 to 2022-23 while the monthly stock-price series used to compile the cleaned data set extends from April 2014 through September 2023. The number of company-months in the cleaned data set is 22,147, and the unbalanced panel because the number of monthly observations is not equal for each company.

5.3 Sample selection and event observations

The first event-identification exercise identified 1,941 AGM-linked events. The thesis notes 299 events were eliminated as they did not satisfy the minimum estimation-window observation criterion, and six additional events were eliminated due to missing or flagged event-month returns. The reduced sample of 1,636 retained events is the core event-study sample, derived from the thesis analysis, and should be verified against the final event-level dataset before journal submission.

5.4 Identification of the event month

Event month is the AGM month, and is identified with M0. The month before the AGM month is M-1, and the month after the AGM month is M+1. The relative-month system is used for the entire sample. The estimation window is from M18 to M4, and the event window is from M3 to M+6.

Event Month is a practical indicator given the study occurs at a monthly frequency. It is not intended to indicate the date when any particular audit opinion first became publicly available to investors. The audit report may have been released prior to the AGM, depending on a company's reporting schedule. This needs to be taken into account, to prevent an overstated statement as to the timing of the revelation of market information.

5.5 Estimation window and minimum observations

No object in the management output diagram. 6 The expected-return benchmark is estimated over the interval from M18 to M4. In order to generate a break between the historical-return benchmark and the event window, the last three months prior to the event period are not used for estimation.

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The estimation window must contain at least 12 observations, if less the event is dropped from the core event-study analysis.

5.6 Measurement of monthly stock returns

The monthly price series in the cleaned research data set is used to calculate the monthly stock returns. The thesis data set contains the variable Log Return Monthly, which is the monthly log return. The return values for each company are matched up with the event date of the AGM they relate to, to generate the relative-month series used in the event study. The log return makes the return measure comparable for the months studied.

5.7 Estimating Expected Returns: Mean-Adjusted Return Model

Estimated return for each company-events is obtained by applying the Mean-Adjusted Return Model. The mean-adjusted return model assumes the mean monthly return for the given company during the estimation period as the expected return for any given company-event. The model is as follows:

$E(R_{it}) = \bar{R}_i,est$

Where $E(R_{it})$ is the expected return for company i, relative month t, and $\bar{R}_i,est$ is the average monthly return for company i over the estimation window M18–M4.

The Mean-Adjusted Return Model is preferred because it is transparent and the same model can be applied uniformly to the whole monthly sample. The model offers a company-specific historical reference point. It does not require the estimate of market-model parameters and it does not explicitly account for market movements. This caveat is taken into account in the analysis of abnormal-return estimates.

5.8 Calculation of abnormal returns

Abnormal return is derived by subtracting the actual return from the expected return estimated by the estimation window:

$AR_{it} = R_{it}\ \bar{R}_i,est$

Where: is the observed return of company i in the relative month t, R_{it} is the company i in relative month t, $\bar{R}_i,est$ is the average monthly return of the relative month in the estimation window. AR_{it} is the abnormal return of company i in relative month t, if $AR_{it} > 0$, then the observed return is higher than estimated historical monthly return; if $AR_{it} < 0$, then the observed return is lower than estimated historical monthly return.

5.9 Calculation of cumulative abnormal returns

The excess returns are cumulated for the different event horizon to investigate the pattern of the cumulative return. The cumulative abnormal return of firm for the period from a to b is given as:

$CAR_i(a, b) = \Sigma\ AR_{it}$, for t = a to b

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Five event windows are tested: The (3, +6) window allows for a 10 month (the event reference month plus 4 months before, 5 months after) response window for the entire event window. The (0, +1) window isolates the effect of the AGM reference month. The (0, +3) and (0, +6) windows allow longer post reference period responses to be captured. The (1, +1) window isolates a shorter range response window 2 months before and after the event reference month.

5.10 Statistical tests

A one sample t-test is used to determine whether the sample mean CAR for each event window differs significantly from zero. The t-statistic used to determine significance is the sample mean CAR divided by its standard error of the mean. The null hypothesis tested is that the population mean CAR is zero, against a two tailed alternative as there is no prespecified direction to the return pattern.

Bootstrap confidence intervals are also given based on 5000 resampling replications. The 2.5 per cent and 97.5 per cent cut-offs are used for this 95 per cent interval. From the bootstrap intervals we can see an extra indication of the uncertainty around the estimated mean CAR. However, when making a conclusion about the data in regard to the hypothesis test, the confidence interval is viewed as complementary to the t-statistic and p-value.

5.11 Sensitivity analysis

The thesis tests the sensitivity of the mean CAR estimates to outliers by using one per cent winsorisation and one per cent trimming. By winsorising, the observations below the lower and above the higher percentile values are replaced by the values of the cutoff points, thereby reducing the effect of outliers. Trimming removes the observations below the lower and above the higher cutoff points. The mean CAR estimates are then compared to see whether the direction of the results is sensitive to outliers.

The summary of thesis abstract provided indicates that the average CAR estimates are all positive for all five windows following winsorising and trimming. However, the full inferential data for every adjusted estimate was not given in the evidence used to assemble this manuscript. As a consequence, the robustness evidence can only be claimed as directional stability and not as an assurance that significance is preserved for all adjusted specifications.

5.12 Validity, reliability and research ethics

It depends on a comprehensive data set, in which the monthly return observations are aggregated with company codes, industry codes, audit opinion information and AGM event indicators. The recognition of a common event and the defining estimation window ensures procedural consistency. Minimum estimation-observation rule is utilized to diminish the instances of events that are not well supported by the historical-return benchmark.

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The analysis relies upon secondary data on listed companies and publicly-reported financial-market data. The results are presented at an aggregated level; there are no beneficiary-specific data in the CAR analysis. The researcher should keep on file the processes for the data manipulation, the criteria used to identify the event days, and the outputs of the calculations, to allow others to verify the results.

6. Analysis and Findings

This section presents the cumulative abnormal return estimates reported in the thesis Data Analysis chapter. The core analysis includes 1,636 retained AGM-linked events. The results are considered across the five event windows, followed by an assessment of the sensitivity of the mean estimates to extreme observations. The figures below are reproduced as reported in the relevant thesis analysis and should be reconciled with the later discussion and conclusion tables before submission.

6.1 Descriptive interpretation of CAR estimates

The mean CAR is positive in each of the five event windows. The magnitude of the mean estimate varies across the windows, ranging from approximately 0.99 per cent for the (0, +6) window to 4.43 per cent for the (−3, +6) window. This indicates that the cumulative return pattern is not identical across event horizons. The inferential results are also not uniform: four windows are statistically significant at the five per cent level, while one window is not.

Event Window	N	Mean CAR	t-statistic	p-value	95% Bootstrap CI	Inference
(−3, +6)	1,636	4.4322%	3.729	0.000199	[2.1417%, 6.7587%]	Significant
(0, +1)	1,636	1.3795%	3.370	0.000769	[0.5415%, 2.1704%]	Significant
(0, +3)	1,636	2.7688%	4.991	<0.001	[1.6838%, 3.8424%]	Significant
(0, +6)	1,636	0.9944%	1.140	0.254514	[−0.7370%, 2.7341%]	Not significant
(−1, +1)	1,636	2.8484%	5.687	<0.001	[1.8602%, 3.7628%]	Significant

6.2 Results for the (−3, +6) event window

This is a summary table for the (3, +6) event window. The event window shows the following summary statistic for 1,636 retained events: mean CAR, 4.4322 per cent; t-statistic, 3.729; p-value, 0.000199. The 95 percent bootstrap confidence interval is from 2.1417 per cent to 6.7587 per cent and is above zero. Given the reported information, the null hypothesis of a zero mean CAR is rejected for this event window.

Positive estimate – cumulative abnormal returns are positive relative to the company-specific historical mean-return benchmark if abnormal returns are summed from three months prior to the

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AGM reference month up to six months after the AGM reference month. This window is quite large compared to the other specifications. Interpret these results with caution because other disclosures and market developments are also likely to affect the cumulative return over this interval.

6.3 (0, +1) event window outcomes

Average 0 and 1 event window CAR is 1.3795. The t-statistic of 3.370, as well as the p-value of 0.000769 implies statistical significance at the five per cent level. The lower and upper bounds of the bootstrap confidence interval at 95 per cent are 0.5415 and 2.1704.

This means that we observe a positive cumulative abnormal return over the total month of the AGM plus the next month. Compared to the length of the other windows, the shorter time span is more sensitive to the time window surrounding the event reference month. Nevertheless, since we observe the event on a monthly frequency, we cannot interpret this result as the true day to day response to the release of the audit opinion for the first time.

6.4 (0, +3) event window outcomes

The (0, +3) window yields a mean CAR of 2.7688 per cent (t-stat 4.991; p-value <0.001). The 95 per cent bootstrap confidence interval for the mean CAR for this event window is between 1.6838 and 3.8424 per cent. The null hypothesis is rejected for this event window as zero is not within the confidence interval.

The positive mean CAR over the following three-month reference period is unsurprising given the positive estimate in the (0, +1) period. The size is larger than the (0, +1) estimate, and so the accumulation of this abnormal return has larger magnitude over the larger period in this sample. This simply compares the figures descriptively, and does not on it alone infer that the extra months are producing the difference.

6.5 (0, +6) event window outcomes

The (0, +6) window has a positive mean CAR of 0.9944 per cent but the t-statistic is 1.140 and p-value 0.254514. The 95 per cent bootstrap confidence interval is from 0.7370 per cent to 2.7341 per cent encompassing zero; the mean estimate is not statistically different from zero at the five per cent significance level.

This finding is important in that it moderates the positive results in the other event windows. While the point estimate is positive, there is not enough evidence to rule out the conclusion that the average CAR over the entire six-month post-reference period is zero. It would therefore be inaccurate to interpret the findings as indicating a statistically significant positive return on every post-AGM horizon.

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6.6 Outcomes for the (1, +1) event window

The (1, +1) event window yields an average CAR of 2.8484 per cent. The t-statistic reported is 5.687 and the p-value is less than 0.001. The bootstrap confidence interval is between 1.8602 per cent and 3.7628 per cent which is above zero. Null hypothesis is rejected in this event window.

The result displays a positive cumulated abnormal return for the month prior, the AGM month and the month after the AGM reference point. The short time frame between the reference point and the end of the window indicates a positive cumulated return towards the event month, but the event month definition is restrictive for further specifying the response time of the market.

6.7 Overall interpretation of hypothesis testing

The hypothesis is examined for each window independently. Table 1 reproduces the results of the Data Analysis chapter to accept rejections of the null hypothesis of zero mean CAR over four windows: (3, +6), (0, +1), (0, +3) and (1, +1) for at least one event window. The null hypothesis is not rejected for window (0, +6) thus only partial support is found for H1 in the hypothesis text.
The discrepancy in the findings between windows means that the observed return pattern is dependent upon the time horizon over which abnormal returns are accumulated. The statistically significant and positive estimates for the smaller windows can be interpreted as showing that the average return pattern around the date of the AGM reference month is positive for that window specification. The non-significance of the estimate for (0, +6) demonstrates that this pattern is not maintained as a statistically significant average cumulative return for all subsequent longer periods.

6.8 Sensitivity to winsorisation and trimming
The thesis states that the average of the CAR is still positive in the five event windows following one per cent winsorisation and one per cent trimming. This is of interest as extremely high/low stock returns may have an undue impact on the arithmetic mean of the data. The positive sign in the adjusted data implies that the original mean estimates for the CAR are not driven by the most extreme observations.
6.9 Consolidated hypothesis results summary

Hypothesis	Tested windows	Observed result	Decision
H1: Mean CAR differs from zero	(−3, +6); (0, +1); (0, +3); (0, +6); (−1, +1)	Four windows significant; (0, +6) not significant	Partially supported

7. Discussion
The empirical finding show that the mean Cumulative Abnormal returns are positive for all five event windows I analyze. But the evidence on the significance is not consistent across the five horizons: four produce significant positive estimates, while the (0, +6) window does not. The summarized interpretation of the study is that the evidence finds positive average CARs for a limited set of event horizons, but, its not able to find a significant positive cumulative return for all horizons after the AGM reference month.

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7.1 The audit opinion as part of the information environment

The results can be examined in relation to the concept of audit assurance in corporate reporting. Audit reporting results in an audit opinion, which is an expression of the auditors' conclusion regarding the accounts, and can impact investors' confidence in reported accounting data. The positive CAR estimates in the non-AGM reporting window imply that during the report window linked to the AGM, returns were above the companiespecific historical mean-return benchmark.

The findings do not mean that each audit opinion is positive or that investors always react favourably to all opinion types. While the results discussed here refer to the average CAR pattern, they do not imply that investors' directional or size responses are the same to unmodified, qualified or other modified opinions. The reasons that lead to a given opinion and the information available to investors are likely to cause different reactions across individual events.

7.2 Why the event window matters

Differences such as between the (0,+3) and (0,+6) returns imply the significance of event-window selection. Expansion of abnormal returns over further months may not justify the claim that the statistical evidence is getting better. Larger time windows also contain out-of-sample return moves that negate the positive abnormal returns measured in the previous months, together with isolated data on the company and the market. The (0, +6) case thus is not at odds with the positive estimates in shorter intervals.

Likewise, the large (3, +6) finding encompasses a long horizon of before and after the AGM month. It captures a longer return pattern and should not be used as a measurement of an immediate response following the date that the audit opinion is in the public domain. The significant months leading up to the AGM might be anticipatory, communicate other disclosures or simply reflect return movement of the sample returns away from the mean benchmark. This is yet another reason for referencing the results as AGM-linked return patterns rather than implying a causal effect of the audit opinion.

7.3 Monthly frequency explanations

The analysis relies on a monthly frequency. First, we chose monthly data, because it enables us to impose a standard event-time structure on a sample of multiple firms over a longer period of time. Second, using monthly data it is possible to analyze return patterns over multiple months before and after the year-end reference month of the AGM. The disadvantage of using monthly frequency compared to daily or intraday frequencies is that we are unable to determine whether the market's response was on the date of the AGM, or an earlier reporting date such as the publication of an audit report, or any other date within the month.The monthly design therefore captures the actual return pattern, rather than the market response to reportable events. A future analysis that utilizes the precise audit-report release dates and daily returns data will be more accurate in testing the immediate market response. This will not refute the general monthly evidence of the current paper.

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7.4 Contribution and implications

This study makes a contribution by providing evidence on CAR patterns at AGM-linked audit-opinion events for a sample of 220 Indian listed firms. Using a consistent monthly event perspective and comparing five different event windows, the study finds that statistical significance is event horizon-dependent and the positive sign of the mean CAR estimates endures during the presented outlier adjustments.

Implications for researchers, investors and other external users Researchers should still make an event definition, an estimation window, an expected return model and an event-window sensitivity report explicitly to specify the parameters used in the analysis. Investors and external users of financial statements should take comfort that audit opinions are only one of several pieces of information in an information environment and that they need to be used along with disclosure on audit matters and company-specific information. This paper does not give investment advice and does not show that using an audit opinion in itself can identify future returns.

8. Conclusion

This paper focused on cumulative abnormal returns surrounding the AGM-adjacent audit-opinion events for 220 Indian listed firms drawn from the NSE 500 universe. Monthly stock-return data was obtained from April 2014 to September 2023, with the month of the AGM also being treated as the event month reference. A Mean-Adjusted Return Model was used to generate expected returns for the period M18 to M4, with abnormal returns accumulated across five event windows.

The results reproduced from the Data Analysis chapter of the thesis reveal positive mean CARs for each of the five windows. Four of the five windows-- 3, +6; 0, +1; 0, +3; and 1, +1--are statistically significant, whereas 0, +6 is positive but statistically insignificant. The finding thus lend partial support to the hypothesis that mean CAR is different from zero in each of the event windows under investigation. The difference across windows suggests the cumulative return pattern is forward-looking.

As can be seen from the sensitivity analysis the sign of the mean CAR again is positive after one per cent winsorisation and trimming. Due to unavailability of full inferential statistics for all adjusted estimates in the thesis material using the semi-finished manuscript for the present paper, the evidence is regarded as directional.
Considering these results in light of the constraints of the research design are important. Monthly observations are unable to determine the precise initial date of public knowledge for each audit opinion, and the Mean-Adjusted Return Model controls for market factors. The event windows may include other firm-specific and macroeconomic information. In conclusion, the results demonstrate abnormal return phenomena for the window covering AGM events, but do not establish audit opinion as the cause of these returns.

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Areas for further investigation might include the use of precise audit-report dates, daily returns and different measures of expected return (eg the market model and multifactor specifications). Other areas of further research include investigating if the return pattern are distinguished among the different audit-opinion groups, given that there are sufficient number of events and high-quality data so as to permit valid disaggregated studies of the observed monthly return.

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