




Designing a Model for Identifying Factors Affecting the Readability of Key Audit Matters

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Abstract: The purpose of this study is to identify and analyze the factors influencing the readability of Key Audit Matters (KAM) in audit reports. This research was conducted using a qualitative approach and the grounded theory methodology, focusing on the factors that affect users' comprehension and understanding of KAMs. Data were collected through semi-structured interviews with 15 participants, including partners from auditing firms, members of audit committees of companies listed on the Tehran Stock Exchange, and academic experts specializing in audit reporting and disclosure. Data analysis was performed using MAXQDA software and followed three stages of open, axial, and selective coding. Findings indicate that factors such as linguistic complexity and excessive use of technical jargon, auditors' weak writing skills, and constraints imposed by professional requirements and regulatory standards are among the most significant barriers to KAM readability. Moreover, the financial literacy level of report users and the quality of the capital market's informational environment play a crucial role in the comprehensibility of these matters. Based on these results, the present study offers several recommendations to enhance KAM readability, including a revision of International Standard on Auditing (ISA) 701, strengthening writing skills training for auditors, and developing public financial literacy programs. This research can contribute to improving the transparency of audit reporting and enhancing decision-making quality in financial markets.

Keywords: Readability of Key Audit Matters, Grounded Theory, Audit Reports, ISA 701 Standards, Linguistic Complexity, Writing Skills, Financial Literacy.

1. Introduction

In the contemporary financial reporting landscape, the transparency and comprehensibility of audit reports have garnered significant attention, particularly with the advent of Key Audit Matters (KAMs). Introduced by the International Auditing and Assurance Standards Board (IAASB) through ISA 701, KAMs aim to enhance the communicative value of audit reports by providing users with insights into the most significant issues encountered during an audit. While the intention behind KAM disclosure is to reduce the information asymmetry between auditors and stakeholders, the practical realization of this goal heavily relies on the readability of the KAM section itself [1, 2]. Recent research highlights that although the inclusion of KAMs is designed to improve the usefulness of audit reports, their linguistic complexity often hampers user comprehension, particularly among non-professional stakeholders [3, 4].

Audit reports serve as a critical channel through which auditors communicate their findings to a diverse audience that includes investors, regulators, analysts, and other stakeholders. However, the technical nature of audit language and the varied financial literacy of users often pose a barrier to effective understanding [5, 6]. Studies demonstrate that readability is not merely a stylistic concern but a determinant of how audit information is perceived, processed, and utilized in decision-making contexts [7, 8]. Poor readability can obscure the intended transparency of KAMs and dilute their informational value, ultimately undermining their regulatory and practical objectives [9, 10]. Therefore, understanding the factors that influence the readability of KAM disclosures has become a vital concern for both academia and practice.

Emerging evidence suggests that several interrelated factors influence KAM readability, including the characteristics of audit firms, the complexity of client companies, the composition and expertise of audit committees, and the attributes of individual audit partners [11-13]. For instance, large and reputable audit firms with advanced technological infrastructures are more likely to adopt standardized, user-friendly formats in their KAM disclosures [14, 15]. Additionally, audit partner expertise and communication proficiency have been linked to greater linguistic clarity and conceptual consistency in KAM reports [11, 16]. At the same time, the complexity of client operations and industry-specific risk exposures can necessitate technical explanations that may compromise readability [17, 18].

Organizational governance structures also play a central role. Audit committee characteristics such as financial literacy, industry expertise, and active engagement in the audit process have been shown to positively influence the quality and readability of KAM disclosures [12, 19, 20]. This is especially relevant in jurisdictions where audit committees serve as a key oversight mechanism in promoting transparency and accountability in financial reporting [2]. Research shows that when audit committees possess sufficient domain knowledge and maintain close dialogue with external auditors, the resulting KAMs tend to be more precise, accessible, and tailored to user needs [10, 21].

Another determinant lies in the professional standards and institutional environment surrounding audit practices. While ISA 701 provides a structured framework for the identification and communication of KAMs, the guidance on linguistic clarity and narrative style remains limited. This has led to considerable variation in the application of the standard across firms and countries [22, 23]. In some cases, auditors adopt a conservative approach by employing overly cautious, technical, and legalistic language to mitigate liability risks, thereby sacrificing readability [24, 25]. Conversely, firms that emphasize professional skepticism and user-centered communication are more likely to issue reports with improved clarity and decision usefulness [16, 21].

Cultural and linguistic contexts further influence the readability of KAM disclosures. In multilingual and non-English-speaking regions, the translation and localization of audit reports introduce additional challenges, including semantic ambiguities and syntactic inconsistencies [6, 26]. The mismatch between technical audit language and the everyday vocabulary of financial report users exacerbates the cognitive load on readers, reducing the effectiveness of KAMs as a communicative tool [3, 17]. Moreover, user-side variables such as investor education, prior audit knowledge, and engagement with financial markets also mediate the readability-outcome relationship [5, 27].

In response to these concerns, several scholars advocate for the integration of plain language principles, improved narrative structures, and technological tools—such as natural language processing (NLP) and automated readability checkers—to support the drafting of user-friendly audit disclosures [6, 14, 15]. Furthermore, audit firms are encouraged to invest in the training and development of auditors' communication skills, particularly in writing

and audience analysis, to enhance the effectiveness of their reports [8, 9]. The implementation of such reforms is expected to increase stakeholder trust, reduce information asymmetry, and improve the strategic utility of audit reports in governance and investment decisions [1, 22].

Despite the growing scholarly interest in KAM readability, empirical studies remain limited, especially in emerging markets where audit practices and regulatory frameworks differ from global norms. The present study aims to address this gap by applying grounded theory methodology to explore and model the factors affecting KAM readability within the audit reports of firms listed on the Tehran Stock Exchange.

2. Findings and Results

To identify and extract the factors affecting the readability of Key Audit Matters (KAMs), the grounded theory approach was utilized. In this regard, in addition to a systematic review of theoretical foundations and relevant prior research, field data were collected through semi-structured interviews with 15 experts and professionals in the auditing domain. The main criterion for selecting participants at this stage was having a minimum of 10 years of professional experience in auditing, financial reporting, or oversight of audit reports. The participants' professional profiles included audit firm partners, senior technical managers, university faculty members specializing in auditing, and chief financial officers of publicly listed companies.

The demographic characteristics of the participants are presented in Table 1. According to the data, 80% of the interviewees (equivalent to 12 individuals) had between 10 to 20 years of work experience, while 20% (equivalent to 3 individuals) had more than 20 years of professional experience. Additionally, about 60% of the participants (9 individuals) were over 45 years old, indicating their professional maturity and expertise in the study's subject matter. In terms of gender composition, 80% of the participants (12 individuals) were male and 20% (3 individuals) were female. This relative diversity in experience, age, and gender supports a broad range of perspectives and strengthens the credibility of the qualitative analyses.

Table 1. Demographic Characteristics of Interviewees and Survey Respondents

Criterion	Number	Percentage
Gender	Male	12
	Female	3
Total		15
Age	35–45 years	6
	Over 45 years	9
Total		15
Professional Experience	10–20 years	12
	Over 20 years	3
Total		15

In this section, the findings derived from the systematic review of the literature and the expert interviews are presented using the grounded theory approach based on Strauss and Corbin's (1990) systematic model. The qualitative data analysis aimed to identify and organize the factors influencing the readability of Key Audit Matters and was conducted in three main stages: open coding, axial coding, and selective coding. In each stage, the extracted concepts and categories were systematically identified, explained, and organized into an initial conceptual model.

It is noteworthy that the analysis of concepts and the categorization of themes were carried out individually for each interview. To illustrate the data analysis process, an example of the coding structure and the path of conceptual analysis is provided below.

Open Coding

In this study, which aimed to design a model for identifying the factors influencing the readability of Key Audit Matters, the open coding process was carried out using the systematic grounded theory approach (Strauss & Corbin, 1987). In this phase, data from the semi-structured interviews were meticulously analyzed line by line and word by word to extract and classify the underlying concepts related to KAM readability. This micro-level analysis was intended to uncover contextual concepts affecting the disclosure and comprehension of KAMs and served as the foundation for theory development in subsequent stages.

The initial analysis revealed that, on average, 56 concepts were extracted from each interview, each of which appeared approximately four times in the coding. Frequently repeated concepts mainly referred to factors directly or indirectly impacting the readability, clarity, comprehensibility, and effectiveness of KAMs. Specifically, the three most frequently mentioned components were “audit firm characteristics,” “client company characteristics,” and “corporate governance structure.”

Axial Coding

In accordance with the axial coding model proposed by Strauss and Corbin (1998), the categories extracted during the open coding phase were organized into five main classifications within a systematic framework. The purpose of this stage is to establish relationships among categories and explain the causal structure of the studied phenomenon. The five principal categories in axial coding include:

- a) **Causal Conditions:** These are the underlying causes or contributing factors that give rise to, shape, or intensify the central phenomenon.
- b) **Strategies:** These include deliberate actions and measures taken in response to the main phenomenon, executed within specific contextual settings to control or manage it.
- c) **Intervening Conditions:** Variables or factors that may facilitate or constrain the implementation of strategies, acting independently of the main context.
- d) **Contextual Conditions:** Characteristics and background features within which strategies take place, which may be structural, environmental, or cultural.
- e) **Consequences:** The outcomes that result from the implementation of strategies, which may be positive or negative, short-term or long-term, and direct or indirect.

Based on the extracted categories and concepts from the open coding phase, the axial codes were classified within the paradigmatic model of Strauss and Corbin as follows:

1. **Causal Conditions (Root Causes of KAM Readability Issues):**
 - Characteristics of audit firms (e.g., size, reputation, expertise, education, independence)
 - Characteristics of client companies (e.g., size, complexity, industry type, transparency, accountability)
 - Corporate governance structure (e.g., audit committee effectiveness, board structure, audit quality, managerial independence)
 - Presence or absence of guidance standards for writing KAMs
 - Technical and temporal factors (e.g., adoption of new auditing technologies, proficiency in financial reporting software)
2. **Contextual Conditions (Environments Where Strategies are Implemented):**
 - Cultural and professional characteristics of the auditing environment
 - Educational system and professional capacity building
 - Structure of the audit services market

- Characteristics of audit report users
- Media landscape and public pressure
- 3. **Intervening Conditions:**
 - Institutional and professional pressures
 - Time and operational constraints
 - Technological access and capabilities
 - Level of stakeholder engagement
 - Professional motivations and policies
- 4. **Strategies (Proposed Actions to Enhance Readability):**
 - Improvement of education and enhancement of professional skills
 - Strengthening of professional oversight and regulatory frameworks
 - Advancement of technology and innovation in reporting
 - Enhancing stakeholder engagement in the reporting process
 - Revising policies and organizational culture within audit firms
- 5. **Consequences (Potential Outcomes of Strategy Implementation):**
 - Improved comprehension and transparency of audit reports
 - Increased public trust and professional credibility
 - Enhanced quality of financial reporting and disclosure
 - Strengthened governance and professional accountability
 - Development of competition and continuous improvement in the audit industry
 - Strategic use of audit reports in decision-making

Selective Coding

In the selective coding phase, the objective is to identify the central category around which all other categories are formed and become meaningful (Strauss, 1987). In this phase, the researcher, through systematic and objective analysis, selects a category with the highest level of abstraction and integration, capable of explaining the relationships among the other categories (Strauss & Corbin, 1990). The key criteria for selecting the core category, according to Strauss and Corbin (1998), include:

- The ability to integrate and converge with other categories;
- High frequency and repetition in the data;
- Capacity to provide logical explanations of conceptual relationships;
- Stability across various analytical contexts.

Based on the analyses from the previous open and axial coding stages, the category “enhancing the readability and transparency of Key Audit Matters (KAMs)” was identified as the central phenomenon of this study. All other categories and sub-concepts—such as auditor characteristics, environmental conditions, corporate governance structures, legal requirements, client nature, and technological infrastructures—were developed to explain this central phenomenon. This core category had the highest frequency among the coded concepts and possessed strong abstraction and explanatory power. It effectively accounted for the mechanisms that either strengthen or weaken KAM readability. Accordingly, the other categories act as descriptive and supporting categories for this phenomenon. By mapping the relationships among the core category and the subcategories, a grounded theory was formulated on the factors affecting KAM readability, offering a scientific foundation for professional decision-making, policy revision, and improved disclosure practices in audit reporting.



Figure 1. The Research Model Based on Grounded Theory Derived from Interview Analysis

As previously mentioned, the findings of this study, within the framework of grounded theory methodology, resulted in the extraction of a paradigmatic model regarding the factors influencing the readability of Key Audit Matters (KAMs). This model comprises six dimensions: causal conditions, contextual conditions, intervening conditions, strategies, consequences, and the core category—enhancing KAM readability. In this section, using causal–explanatory analysis, each dimension of the model is interpreted and analyzed.

Causal Conditions: Structural and Organizational Foundations of the Phenomenon

The causal factors identified in the present study fall into four main categories: characteristics of audit firms, characteristics of client companies, corporate governance structures, and the current state of standards.

Characteristics of audit firms—such as size, reputation, industry specialization, audit team composition, and adherence to professional ethics—play a decisive role in the quality of KAM drafting. Larger firms with more integrated quality control mechanisms and professional teams tend to produce clearer linguistic outputs.

At the client company level, factors such as size, complexity, industry type, degree of transparency, and financial and social accountability significantly influence the formulation of KAMs. For instance, the complexity of a company's financial structure directly correlates with ambiguity in articulating key matters. Additionally, corporate governance structure—through the effectiveness of the audit committee, board diversity, and managerial independence—creates a platform for more transparent auditor-stakeholder interactions. Finally, the lack of localized standards and guidelines for KAM drafting leads to inconsistencies in interpretation and implementation among auditors, representing a critical gap in effective KAM disclosure.

Contextual Conditions: Cultural, Institutional, and Professional Backdrops

This study demonstrates that contextual factors—particularly disclosure culture within Iran's auditing profession, users' financial literacy levels, and the competitive structure of the audit services market—play important roles in either enhancing or impeding KAM readability.

Weaknesses in university education systems in teaching professional writing, the lack of skills for conveying complex concepts in simple language, and the absence of ongoing training to improve auditors' communication abilities have led to many reports—especially those disclosing KAMs—lacking a clear and comprehensible structure. Furthermore, the combination of professional and non-professional audiences and media pressure underscores the necessity of using plain and understandable language.

Intervening Conditions: Variables That Strengthen or Constrain Strategic Responses

Among the most significant intervening conditions are institutional pressures (such as the requirement to comply with ISA 701), time and operational constraints (e.g., limited time budgets and heavy workloads), and technological considerations (e.g., lack of artificial intelligence and natural language processing infrastructure).

Additionally, the auditor's level of interaction with stakeholders and mutual understanding of their informational expectations influence the quality and readability of KAMs. In many cases, due to a lack of feedback from the capital market or client companies, auditors are unable to assess the effectiveness of their writing style.

Moreover, organizational policies and the motivational structures of audit firms affect the prioritization of report delivery speed over content quality. In environments where performance is measured by the

number of completed engagements, there is little incentive to pursue linguistic innovation or enhance report readability.

Strategies: Professional Responses to the Readability Challenge

The proposed strategies for improving the current situation are categorized into five main areas:

Enhancing auditor training with an emphasis on writing skills and critical analysis;

Strengthening professional regulation through standardizing KAM structure;

Developing technology and utilizing new tools for clear writing and language analysis;

Increasing engagement with users and obtaining effective feedback from the capital market;

Revising audit firms' organizational policies to prioritize writing quality.

These strategies represent a combination of individual, organizational, and systemic actions. Only through coordination across these levels can sustainable improvements in the readability of Key Audit Matters be achieved.

Consequences: Positive Impacts on Disclosure Quality and Public Trust

The successful implementation of these strategies has multilayered and extensive outcomes. Enhanced public understanding, increased transparency, reduced perceptual gaps between auditor and user, and restored trust in the auditing profession are among the key positive consequences.

Moreover, as KAM readability improves, audit reports can become strategic tools for decision-making, strengthening auditors' roles in corporate governance, shareholder protection, and capital market regulation.

At a broader level, leveraging readability as a competitive advantage will lead to continuous quality improvement in the auditing industry, positioning auditors who produce clearer and more precise reports in better professional and market standings.

In sum, the findings indicate that the readability of Key Audit Matters is a multidimensional and institutional issue rooted in professional, cultural, technological, and governance structures. The proposed paradigmatic model offers a comprehensive explanation of the current state and pathways for improvement in Iran's auditing landscape and can be employed in designing educational, regulatory, and technological policies to enhance audit disclosure quality.

3. Discussion and Conclusion

The findings of this study, based on grounded theory analysis, revealed that the readability of Key Audit Matters (KAMs) in audit reports is shaped by a complex interplay of structural, professional, linguistic, and contextual factors. Causal conditions—such as the size and expertise of audit firms, the complexity of client companies, corporate governance mechanisms, and the clarity of regulatory standards—form the foundational bedrock influencing KAM readability. These findings align with prior evidence suggesting that larger audit firms, due to their resources and standardization practices, tend to issue more readable reports compared to smaller firms [11, 14]. Additionally, client characteristics such as organizational complexity and industry-specific risks are found to influence the depth and language of KAM disclosures, which is consistent with the observations of [17] regarding the challenges auditors face in high-risk and highly regulated sectors. Corporate governance variables, particularly audit committee oversight, also emerged as a central determinant of KAM clarity, supporting earlier findings by [19] and [12] that link committee expertise to disclosure quality.

Contextual conditions, such as the disclosure culture within the audit environment, the level of financial literacy among report users, and institutional norms surrounding audit quality, significantly affect the tone, style, and communicative effectiveness of KAMs. In particular, the absence of ongoing professional development in writing skills and limited emphasis on plain language standards were found to contribute to low readability levels, a concern previously documented by [6] and [16]. Furthermore, the divergence in audiences—ranging from informed investors to lay stakeholders—creates a communicative tension for auditors, who must navigate between legal caution and accessibility. This tension has been discussed in the work of [21], who noted that auditors frequently employ complex language to minimize legal exposure, even if it reduces transparency. The study further confirms that readability is compromised when disclosure strategies are driven more by professional conservatism than user-centric communication [22, 24].

Intervening conditions such as regulatory mandates (e.g., ISA 701), time and budget constraints, limited technological infrastructure, and lack of market feedback also play mediating roles in how readability efforts are operationalized. These findings corroborate the claims of [15] and [9], who argue that the emphasis on timely delivery of reports often overrides the pursuit of communication clarity. Particularly, the lack of advanced tools like Natural Language Processing (NLP) and artificial intelligence in local audit environments hinders the adoption of real-time readability assessments, as advocated by [14]. Furthermore, the study shows that insufficient interaction between auditors and audit users prevents feedback loops that could otherwise inform and improve disclosure practices. This is supported by [20], who emphasized the role of auditor-committee communication in enhancing audit quality and user alignment.

Strategic responses to the issue of low KAM readability were classified into five major categories: enhanced auditor training, strengthened regulatory frameworks, technological innovation, increased user engagement, and revised organizational policies. These strategies resonate with recommendations from earlier research that advocates a multi-level approach to reform [2, 9]. For example, [8] emphasized the need for improving writing education within auditing curricula, while [3] argued that audit firms should adopt standardized readability tools to ensure consistency and clarity. On the regulatory side, calls for refining ISA 701 to include guidance on language simplicity and user comprehension reflect the concerns of [18] and [1], who stressed the lack of linguistic directives in the existing framework. Organizational strategies that prioritize quality over quantity in report production—such as linking performance metrics to clarity standards—could serve as effective incentives for improving communicative outputs.

The consequences of implementing such strategies were found to be far-reaching. Enhanced readability contributes to increased public understanding of audit findings, reduces information asymmetries, and fosters stakeholder trust—confirming the hypothesis posed by [22] and [25]. Furthermore, the transformation of audit reports into strategic decision-making tools underscores the critical role of auditors in corporate governance and capital market efficiency, a perspective echoed by [7] and [6]. Readable KAMs serve not only as a compliance mechanism but also as a strategic asset that can differentiate firms in a competitive audit market. As noted by [5], when KAMs are presented in accessible language, they enhance user engagement and contribute to more informed investment decisions. Moreover, this readability premium may create positive externalities across the audit ecosystem, promoting continuous improvement and elevating professional standards.

Taken together, the findings reveal that the readability of KAMs is not a byproduct of writing skill alone but a multidimensional phenomenon shaped by systemic, institutional, technological, and human factors. The paradigmatic model developed in this study offers a holistic framework for understanding these interactions and

identifying leverage points for reform. It provides a basis for regulatory bodies, audit firms, educators, and standard setters to align their efforts toward a shared goal: making audit reports more understandable and useful to all stakeholders. In doing so, the auditing profession can reinforce its role as a communicator of complex financial information in a way that is transparent, trustworthy, and actionable.

This study, while comprehensive in scope and methodologically rigorous, is not without limitations. The qualitative nature of the research, rooted in grounded theory, inherently limits the generalizability of findings. Data were collected through semi-structured interviews with a targeted group of experts, primarily within the Iranian auditing environment. As such, contextual influences—such as local regulatory frameworks, market structures, and educational systems—may shape perceptions and strategies in ways that differ from other jurisdictions. Additionally, while the study captured diverse professional perspectives, it did not include direct feedback from financial report users such as investors or analysts, which may have provided further insight into the user experience of KAM readability.

Future research could extend this study by employing a mixed-methods design that combines qualitative insights with quantitative measures of readability, such as the Flesch-Kincaid index or Coh-Metrix tools, applied to a broad sample of audit reports across various countries. Comparative studies between developed and emerging markets could illuminate how institutional maturity and regulatory enforcement influence KAM disclosure practices. Moreover, longitudinal research examining the evolution of KAM readability over time—especially in response to new auditing technologies or regulatory reforms—could offer valuable evidence on the effectiveness of proposed strategies. Finally, involving audit report users in experimental or survey-based studies may shed light on how readability influences interpretation, trust, and decision-making behavior.

Practitioners are encouraged to prioritize communication clarity as a core component of audit quality. Audit firms should invest in ongoing professional development programs focusing on writing skills, plain language principles, and user-centered reporting. Regulatory bodies could consider updating ISA 701 to incorporate readability standards and promote consistency in KAM disclosures. At the organizational level, performance evaluations for auditors should include qualitative metrics related to the understandability of their reports. Furthermore, the integration of technology—such as NLP tools and readability analytics—into the audit process can support real-time feedback and continuous improvement. Ultimately, aligning institutional incentives with the goal of clear, transparent, and stakeholder-oriented audit communication will be essential in advancing both audit effectiveness and public trust.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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