Iranian Managers' Perceptions of the Independent Audit Report: A Qualitative Study Based on Thematic Analysis

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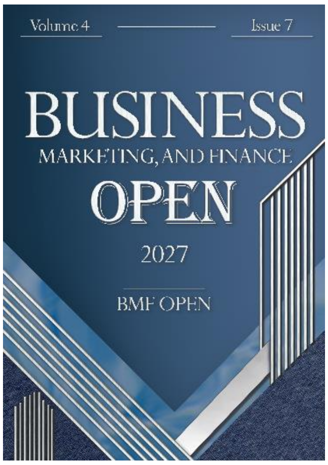

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Abstract: This study aimed to develop a qualitative thematic model explaining how Iranian managers perceive, interpret, and respond to independent audit reports, with particular attention to the conditions shaping interpretation, the strategies used to resolve ambiguity, and the consequences of this interpretive process. This qualitative study employed an exploratory–interpretive design and thematic analysis. Participants were purposively selected from accounting and auditing experts and senior managers of companies listed on the Tehran Stock Exchange. Data were collected through in-depth semi-structured interviews lasting approximately 65–90 minutes and were audio-recorded and transcribed verbatim with participants' consent. Data analysis followed the six-phase thematic analysis approach, including familiarization with the data, initial coding, generation of themes, review of themes, definition and naming of themes, and preparation of the analytical report. Coding was conducted iteratively, and methodological rigor was strengthened through independent coding of a sample of interviews, comparison between coders, consensus-based resolution of discrepancies, and documentation of the analytical process. The findings revealed an integrated interpretive model consisting of six dimensions: causal conditions, the central phenomenon, contextual conditions, intervening conditions, strategies and interactions, and consequences. Unusual audit content functioned as a threshold trigger that shifted managers from routine reading to active interpretation. The central interpretive task involved decoding the seriousness and practical meaning of audit opinions. Organizational structures, especially active audit committees and access to financial expertise, facilitated understanding, whereas individual accounting knowledge, regulatory pressure, trust in the audit firm, and prior experience shaped interpretive responses. Managers used direct auditor communication, referral to specialists, selective reading, and organizational meetings to resolve ambiguity. These processes influenced decision quality, audit literacy, and trust in the auditing process, while accumulated experience created a gradual learning feedback loop. Managers' understanding of independent audit reports is a dynamic and iterative process shaped by textual signals, individual expertise, organizational context, institutional pressures, interaction with professional intermediaries, and cumulative learning; therefore, improving audit-report usefulness requires attention not only to technical accuracy but also to comprehensibility and interpretive support.

Keywords: Independent Audit Report; Managerial Perception; Audit Report Readability; Thematic Analysis; Audit Literacy; Audit Committee; Key Audit Matters; Iran

1. Introduction

Independent auditing plays a central role in modern systems of corporate governance by providing an external assessment of the credibility, fairness, and reliability of financial information. In capital markets characterized by information asymmetry, dispersed ownership, complex reporting requirements, and increasing regulatory scrutiny, the independent auditor's report represents one of the most visible outputs of the assurance process. Although the underlying audit procedures may involve extensive evidence gathering, professional judgment, risk assessment, and verification, users generally encounter the outcome of this process through a comparatively concise formal report. Consequently, the usefulness of auditing does not depend solely on the technical quality of audit procedures; it also depends on whether intended users can understand the content, implications, qualifications, emphases, and risk signals communicated through the report. Archival auditing research has long demonstrated that audit quality is multidimensional and cannot be reduced to a single observable outcome, because the value of auditing emerges from both the process through which assurance is produced and the way the resulting information is communicated and interpreted by users [1, 2].

The communicative function of the audit report has become increasingly important as corporate financial reporting has grown more detailed, technical, and disclosure-intensive. Readability is therefore no longer a peripheral linguistic characteristic but an important component of effective financial communication. Research on annual reports shows that linguistic complexity, report length, narrative structure, and the accessibility of financial disclosures can influence how users process information and make economic decisions. Evidence indicates that easily readable financial disclosures can facilitate investment judgments, whereas excessive complexity may increase cognitive processing costs and impair the efficiency with which decision-makers extract relevant information [3]. At the same time, the effect of readability is not mechanically determined by document length alone. Longer reports may contain additional relevant information while simultaneously becoming more difficult to process, meaning that comprehensibility depends on the organization, language, and informational density of disclosure rather than simply the number of pages or words [4]. These considerations are especially important for audit reports because their formal terminology may be familiar to auditors and accounting specialists but significantly less transparent to managers with diverse educational and professional backgrounds.

The broader literature on corporate reporting further indicates that readability has meaningful economic consequences. Less readable reports can be associated with higher information-processing costs for stakeholders, greater uncertainty, and potentially less efficient capital allocation. Rjiba et al. showed that annual report readability is related to the cost of equity capital, suggesting that the clarity of corporate communication can influence the return demanded by investors when assessing firm-specific information risk [5]. Similarly, research examining agency costs has suggested that the readability and value relevance of financial information influence the informational environment in which principals, agents, and market intermediaries interact [6]. Recent work has also linked readability with organizational investment decisions, indicating that the comprehensibility of annual reporting can affect how information is incorporated into corporate decision-making processes [7]. These findings collectively position readability as an economically consequential attribute of reporting rather than a merely stylistic concern.

Nevertheless, readability is not independent of the characteristics and incentives of the reporting organization. Studies suggest that corporate performance can be reflected in the textual characteristics of annual reports, raising the possibility that narrative complexity partly corresponds to firms' economic circumstances and disclosure strategies [8]. Narrative disclosures may also contain information that correlates with business performance, implying that textual characteristics can communicate signals extending beyond standardized financial figures [9]. At the same time, managerial reporting incentives can affect how readable corporate communications become. Evidence regarding earnings management indicates that readability may vary in relation to managerial incentives and governance structures, while board composition can moderate these relationships [10]. Thus, readability should be understood not only as an outcome of technical writing conventions but also as a feature embedded within governance, accountability, incentives, and organizational communication.

International financial reporting reforms have further intensified interest in the clarity of corporate disclosures. The adoption of International Financial Reporting Standards has often been justified partly through expectations of greater comparability, transparency, and informational usefulness, yet increased disclosure requirements may also introduce greater textual complexity. Evidence from emerging-market settings indicates that IFRS adoption can affect the readability of annual reports, demonstrating that improvements in reporting standardization do not automatically guarantee improvements in linguistic accessibility [11]. Likewise, accounting conservatism and the readability of financial reports appear to be related, suggesting that reporting choices and textual presentation can jointly shape the information environment in which users interpret corporate performance and risk [12]. These developments underscore a broader point: enhanced disclosure can increase the amount of information available while simultaneously increasing the cognitive demands placed on users.

The role of auditors within this environment is particularly significant because auditors must respond to the complexity and readability of client reporting. Evidence indicates that auditors react to low annual report readability, implying that linguistic complexity can be interpreted as a relevant feature of reporting risk and may influence audit-related judgments [13]. Financial report readability has also been associated with audit fees, suggesting that difficult-to-process reporting may be linked with greater audit effort, higher perceived complexity, or additional assurance costs [14]. In this sense, readability operates on both sides of the auditing relationship: it influences how auditors assess the reporting environment and how users subsequently interpret the auditor's conclusions. The audit report itself is therefore positioned at the intersection of technical assurance, regulatory compliance, corporate communication, and managerial sense-making.

Recent reforms to the auditor's report, particularly the introduction and expansion of Key Audit Matters, have attempted to improve its informational value by making areas of significant auditor attention more visible to users. Such changes were intended to reduce the standardized and formulaic nature of traditional audit reporting and provide more entity-specific information about areas involving significant judgment, uncertainty, or audit effort. Yet the addition of more detailed audit disclosures creates a potential tension between informativeness and readability. Sulaiman's examination of Key Audit Matters in emerging markets highlights the importance of readability in evaluating whether expanded audit disclosures actually enhance user understanding [15]. Similarly, Haider's work suggests that the readability of Key Audit Matters may interact with broader disclosure concerns such as greenwashing, demonstrating that the textual presentation of audit-related information can influence how users interpret the credibility and substance of corporate claims [16]. Accordingly, expanded auditor reporting cannot be assumed to improve communication merely because more information is disclosed.

This concern has prompted more direct attention to the determinants of Key Audit Matter readability. Recent research has sought to identify the factors that affect whether Key Audit Matters can be effectively understood, reflecting a shift from examining only the presence of such disclosures toward examining their communicative quality [17]. This distinction is crucial because a technically accurate audit paragraph may still fail in its practical communicative function if users cannot distinguish its level of seriousness, interpret its terminology, or connect it with managerial and organizational consequences. For managers, who may be required to respond to audit findings, communicate with boards, disclose information to regulators, or make decisions under time pressure, the issue is not simply whether an audit report is formally correct. The more immediate issue is whether its meaning can be decoded rapidly and accurately enough to support action.

The consequences of reporting quality are also observable at the capital-market level. High-quality annual reporting has been associated with capital-market responses, illustrating that users react not only to accounting numbers but also to the overall quality and credibility of reporting [18]. At the individual decision-maker level, the effect of readability may depend on managerial characteristics. Aldoseri found that management characteristics can affect the relationship between annual report readability and investment decision risk, emphasizing that the same report may not generate the same response among different decision-makers [19]. Recent evidence similarly indicates that readability has implications for investment decision-making and that users may face a trade-off between acquiring detailed information and the time and cognitive costs involved in processing complex reports [20]. Such findings support the proposition that understanding audit communication requires attention not only to textual features but also to the characteristics, knowledge, experience, and decision environment of the user.

Experimental research provides further support for the role of linguistic accessibility in managerial judgment. Besuglov and Crasselt demonstrated that both readability and language choice in management accounting reports can affect risk-taking behavior, suggesting that textual presentation can influence not merely comprehension but subsequent managerial decisions [21]. This has particular relevance for independent audit reports, which routinely contain standardized expressions whose technical meanings may differ substantially from their interpretation in ordinary language. Terms related to modified opinions, going concern, emphasis paragraphs, materiality, or significant audit matters may appear straightforward to accounting professionals but remain ambiguous to non-specialists. When managers must infer the seriousness of such expressions, language becomes part of the decision environment itself.

Audit opinions can also trigger psychological and behavioral responses. Research concerning going-concern opinions indicates that managers may respond asymmetrically to perceived gains and losses associated with unfavorable audit information, suggesting that managerial interpretation includes an important behavioral component [22]. The tone of corporate disclosure can likewise be associated with going-concern modified audit reports, revealing an interaction between narrative presentation, perceived organizational condition, and auditor signaling [23]. These studies imply that the reception of an audit report is not purely analytical. Managers may experience uncertainty, threat perception, concern about stakeholder reactions, or reputational anxiety before they engage in more deliberate interpretation. An unusual audit paragraph can therefore function as an immediate cognitive and emotional signal that activates further information-seeking behavior.

This interpretive process is also connected with the longstanding audit expectation gap. Differences between what auditors intend to communicate and what users believe auditors are responsible for can produce misunderstanding concerning the purpose, scope, and implications of audit assurance. Public perception research has continued to document such expectation gaps, demonstrating that users may attribute meanings or responsibilities to auditors that differ from professional auditing standards [24]. Although much of the expectation-gap literature has examined investors, members of the public, or other external stakeholders, managers constitute a particularly important and comparatively underexplored group. Senior managers occupy a distinctive position because they are simultaneously insiders familiar with the company’s operations and users of an external assurance report that evaluates information produced under their organizational responsibility.

Emerging-market settings provide an especially important context for studying this issue because institutional arrangements, corporate governance practices, regulatory enforcement, ownership structures, and financial sophistication may shape how audit reports are received and interpreted. Evidence from the Tehran Stock Exchange has recently demonstrated a relationship between audit report readability and information efficiency, directly confirming the economic relevance of audit-report comprehensibility within the Iranian capital market [25]. This finding is particularly significant because it moves the discussion beyond general annual-report readability and places the audit report itself at the center of information processing in Iran. However, evidence that readable audit reports are associated with more efficient information environments does not explain how Iranian managers actually read those reports, which sections attract their attention, how they distinguish among types of audit paragraphs, what forms of ambiguity they encounter, or which organizational resources they mobilize when meaning is unclear.

Research from other contexts also suggests that the consequences of disclosure readability can differ according to users' knowledge, governance environments, and information-processing capacity. Studies of disclosure readability, audit response, managerial characteristics, and risk judgment consistently indicate that the informational effects of a document cannot be understood independently of the reader [13, 19, 21]. From this perspective, a manager's understanding of an audit report may depend on financial education, previous exposure to audit findings, prior collaboration with auditors, perceived reputation of the audit firm, the presence of an active audit committee, access to financial advisers, and the organization's established culture of responding to audit observations. Such influences can either facilitate direct interpretation or encourage dependence on intermediaries who translate technical audit language into managerial terms.

An additional issue concerns the growing volume of information contained in contemporary corporate reporting. The relationship between more extensive reporting and greater comprehensibility is inherently ambiguous. Longer or more elaborate disclosures may help users by providing explanations, context, and entity-specific detail, but they may also increase cognitive load and obscure the relative importance of individual signals [4, 20]. The introduction of additional audit disclosures presents precisely this dilemma. Key Audit Matters and related reforms may increase transparency, but managers still need to determine which matters are routine, which are serious, and which require immediate organizational action. This interpretive burden may be particularly pronounced when the report lacks an accessible executive summary or when differences among categories of audit communication are meaningful in professional terminology but unclear to non-specialist users.

The literature therefore suggests a need to shift analytically from the question of whether reports are readable to the more process-oriented question of how users construct meaning from them. Most existing studies have operationalized readability through quantitative textual indicators, experimental manipulations, archival relationships with market outcomes, audit fees, investment behavior, agency costs, or corporate performance [5-7, 14]. Such research is essential for demonstrating the consequences of readability, but quantitative indicators alone cannot fully reveal how managers experience ambiguity, how they recognize a report as requiring additional attention, how prior knowledge influences interpretation, why they choose to consult an auditor or audit committee, or how repeated exposure modifies their future reading behavior. A qualitative inquiry can complement existing evidence by examining these interpretive mechanisms directly.

The importance of this qualitative perspective is reinforced by the observation that corporate and audit reporting operate within social and organizational relationships rather than through documents alone. Managers may interpret audit language through conversations with financial managers, board members, audit committees, advisers, and external auditors. These interactions can clarify technical meaning, reduce uncertainty, alter perceptions of risk, and shape trust in the audit process. Conversely, a lack of effective explanation may increase confusion and weaken confidence even when the underlying audit work is technically sound. The communicative value of auditing must therefore be understood as emerging from the interaction between report characteristics, manager characteristics, organizational context, institutional requirements, and subsequent interpretive strategies.

Furthermore, managerial learning may create a dynamic feedback mechanism. Repeated exposure to audit reports can gradually increase the reader's familiarity with terminology, attention patterns, and risk signals. Prior experience may allow managers to identify significant paragraphs more rapidly, yet it can also create heuristic shortcuts in which recurring qualifications or familiar issues are perceived as less threatening simply because similar matters did not lead to negative outcomes in the past. Thus, experience can simultaneously enhance audit literacy and create interpretive biases. The qualitative examination of this learning process is important for understanding why managers with similar formal responsibilities may respond differently to equivalent audit information.

Despite growing international attention to annual-report readability, Key Audit Matters, information efficiency, and the behavioral consequences of financial communication, limited evidence explains the lived interpretive process through which senior managers in Iranian listed companies make sense of independent audit reports. Existing research has established that readability matters for investors, auditors, corporate decisions, financing costs, risk-taking, and market efficiency [3, 18, 25], but these findings leave an important managerial-level question unresolved: what occurs between the moment a manager encounters an audit report and the moment that report is transformed into a managerial judgment or organizational action? Addressing this question can contribute to auditing research by connecting textual readability with managerial cognition, organizational context, interpretive interaction, and experiential learning, while also providing practical insights for auditors, audit committees, regulators, standard setters, and listed companies seeking to improve the communicative effectiveness of independent audit reporting.

Accordingly, this study aimed to develop a qualitative thematic model of how Iranian managers perceive, interpret, and respond to independent audit reports, with particular attention to the causal, contextual, and intervening conditions shaping interpretation, the strategies used to resolve ambiguity, and the managerial consequences of this process.

2. Methodology

This study employed a qualitative research approach with an exploratory–interpretive design to develop an in-depth understanding of how Iranian managers perceive, interpret, and make sense of independent audit reports. A qualitative design was considered appropriate because the study focused on participants' interpretations, experiences, cognitive processes, and organizational interactions rather than on the measurement of predetermined variables. The study was conducted in two sequential qualitative stages. In the first stage, expert interviews were undertaken to establish an initial conceptual understanding of the factors influencing the interpretation of independent audit reports. In the second stage, senior managers were interviewed to explore how these factors were manifested in actual managerial encounters with audit reports. The study was therefore designed to integrate specialist knowledge with practical managerial experience while preserving the distinctive perspectives of the two participant groups.

Participants were recruited through purposive sampling and consisted of eight individuals divided into two groups. The first group comprised three accounting and auditing experts, including university professors and professional auditing consultants. These participants had at least 15 years of professional or academic experience in accounting, auditing, or financial management. Their professional experience ranged from 15 to 20 years, and all had educational backgrounds in accounting, finance, or related disciplines. The second group consisted of five senior managers from companies listed on the Tehran Stock Exchange, including chief executive officers, board members, and financial managers. Their professional experience ranged from 9 to 14 years. Three had educational backgrounds in finance, accounting, or management, whereas two chief executive officers had engineering backgrounds. Eligibility criteria included at least three years of relevant professional experience, direct familiarity with organizational or financial decision-making, exposure to independent audit reports, and willingness to participate voluntarily. Sampling continued until additional interviews no longer generated substantively new organizing themes. Given the relatively homogeneous and highly specialized nature of the participant groups, this point was interpreted as practical thematic saturation within the boundaries of the study population, although the limited sample size requires cautious interpretation of saturation beyond managers and experts associated with the Tehran Stock Exchange context.

Data were collected through in-depth semi-structured interviews. This method provided sufficient structure to ensure that the principal research issues were addressed consistently while also allowing participants to elaborate on experiences, interpretations, and examples that emerged during the interviews. Each interview lasted approximately 65 to 90 minutes. With participants' informed consent, the interviews were audio-recorded and subsequently transcribed verbatim to preserve the meaning, wording, and contextual features of participants' accounts.

Separate interview guides were developed for the two stages of the study. The expert interview guide focused on the conceptual foundations of managers' understanding of audit reports and addressed issues such as the meaning of perceptual gaps, determinants of report comprehension, professional terminology, cognitive biases, expectations concerning the auditor's responsibilities, and factors potentially influencing managerial interpretation. The managerial interview guide focused more directly on lived organizational experience. Participants were asked to describe how they typically read and interpret independent audit reports, which parts of the reports attracted their attention, which expressions or sections were difficult to understand, how audit findings affected organizational decisions, and how their understanding was influenced by prior experience, financial knowledge, interactions with auditors, and communication with audit committees. Follow-up and probing questions were used whenever clarification or elaboration was required. Data collection and preliminary analysis proceeded iteratively so that insights emerging from earlier interviews could inform subsequent probing without substantially changing the central structure of the interview protocol.

Methodological rigor was also considered during data collection. Credibility was strengthened by discussing emerging interpretations with selected participants and examining whether the interpretations adequately represented their experiences. Rich descriptions of the organizational and professional context were maintained to support transferability, while systematic documentation of interview procedures, transcription, coding decisions, and analytical revisions provided an audit trail supporting dependability and confirmability.

Interview data were analyzed using the six-phase thematic analysis framework proposed by Braun and Clarke. Analysis began with repeated reading of the transcripts and, where necessary, repeated listening to the audio recordings to achieve close familiarization with the data. Meaningful segments relevant to participants' perceptions and interpretations of independent audit reports were then identified and assigned initial open codes. Coding was initially conducted separately for the two participant groups so that expert conceptualizations would not prematurely determine the interpretation of managerial experiences.

In the first analytical stage, the three expert interviews generated 153 initial codes. Following comparison, consolidation of conceptually overlapping codes, and removal of repetitive or analytically weak codes, 42 final codes were retained and organized into nine organizing themes. In the second stage, the five managerial interviews generated 250 initial codes. Through iterative comparison, refinement, and clustering, 74 final codes were retained and grouped into ten organizing themes. Candidate themes were repeatedly reviewed against both the coded extracts and the complete dataset to determine their internal coherence, conceptual distinctiveness, and relevance to the research question. Themes were subsequently defined and named to capture the central patterns through which participants understood and responded to independent audit reports.

The primary researcher conducted the complete initial coding of all transcripts. To strengthen analytical dependability, a second researcher familiar with qualitative thematic analysis independently coded a sample of transcripts that included at least one interview from each participant group. The two coding sets were compared, and an inter-coder agreement coefficient of 0.82 was obtained, indicating a strong level of coding consistency. Remaining disagreements, primarily concerning the boundaries between closely related codes, were discussed until consensus was reached. The final phase involved integrating the themes into a coherent interpretive account explaining the principal dimensions underlying Iranian managers' perceptions of independent audit reports.

3. Findings and Results

The participants represented senior professional and managerial roles directly related to financial reporting, auditing, corporate governance, and organizational decision-making. Based on the demographic profile of the purposively selected sample, three participants were accounting and auditing experts with 15–20 years of academic or professional experience, whereas five were senior managers of companies listed on the Tehran Stock Exchange, including chief executive officers, board members, and financial managers with 9–14 years of professional experience. The participants represented both financial and nonfinancial educational backgrounds. Most had academic training in accounting, finance, or management, whereas two managers had engineering backgrounds. This diversity was analytically important because the findings indicated that professional and educational background influenced how managers interpreted technical audit terminology, assessed the seriousness of modified or unusual audit paragraphs, and selected strategies for obtaining clarification.

Table 1. Integrated Thematic Structure of Iranian Managers' Perceptions of Independent Audit Reports

Analytical Dimension	Main Categories	Related Concepts	Number of Identified Components
Causal Conditions	Receipt of a report containing an unusual audit matter; organizational and legal obligation to review the report; time pressure in decision-making	Qualified opinion; Emphasis of Matter paragraph; newly reported Key Audit Matter; presentation of the report at board meetings; mandatory disclosure to the stock exchange; proximity of the annual general meeting; quarterly reporting pressure	13
Central Phenomenon	Attempt to decode the actual meaning of the auditor's opinion; confrontation with specialized linguistic ambiguity; initial emotional and behavioral reaction to an unfavorable or unusual opinion	Distinguishing an Emphasis of Matter paragraph from a qualified opinion; assessing the implied severity of risk; uncertainty regarding distinctions among audit paragraphs; difficulty understanding audit terminology; need for intermediary interpretation; absence of an understandable executive summary; immediate concern, fear, contact with the auditor, or temporary interruption of reading	15
Contextual Conditions	Presence or absence of an active audit committee; company size and availability of analytical resources;	Participation of the audit committee chair in board meetings; regular committee reporting; separate management accounting unit; access to an independent financial adviser; explanatory	15

	organizational culture of following up audit findings	meetings; organizational practice of documenting responses to audit findings	
Intervening Conditions	Manager's level of accounting knowledge; institutional and regulatory pressure for transparency; initial trust in the reputation of the audit firm; reliance on previous experience	Academic background in accounting or finance; previous professional auditing experience; influence of educational background; stock exchange requirements; changes in auditing standards and Key Audit Matters; perceived effects of standards on transparency; long-term relationship with an audit firm; audit-firm market reputation; comparison with similar reports from previous years; reduced concern based on previous uneventful experiences	30
Strategies and Interactions	Direct communication with the auditor; referral to the audit committee or financial adviser; shorthand interpretation of the audit opinion; immediate organizational meeting	Immediate telephone contact; request for an explanatory meeting; discussion within the audit committee; consultation with an independent adviser; focus primarily on the overall type of opinion; selective attention to the opinion section; disregard of detailed paragraphs; extraordinary board meeting; immediate internal communication	19
Consequences	Improved quality of managerial decision-making; gradual improvement in managers' audit literacy; increase or decrease in trust in the auditing process	Better documented decisions; reduction in interpretive error; experiential learning over several years; greater preparedness for subsequent audit reports; increased trust following effective interaction; decreased trust when adequate explanation is unavailable	16
Total	19 major categories across six analytical dimensions	Integrated conceptual pattern of managerial interpretation of independent audit reports	108

The coding-density analysis further demonstrated the progressive stabilization of the thematic structure. A total of 108 relevant components were identified across the interview sequence. The first interview generated 26 components, followed by 18 in the second, 15 in the third, 13 in the fourth, and nine in the fifth interview. Thus, 81 of the final 108 components, equivalent to approximately 75% of the complete conceptual structure, had already emerged by the fifth interview. By the eighth interview, the cumulative number had increased to 98, representing approximately 90.7% of the final structure. The thirteenth interview increased the cumulative total to 107 components, after which interviews 14 and 15 generated no additional components. Only one additional component emerged in interview 16, producing the final total of 108, while interview 17 produced no new component. The pattern therefore indicated rapid conceptual accumulation during the early interviews followed by a pronounced decline in new information, supporting the conclusion that the thematic structure had reached practical saturation toward the later stages of data collection. Among the six dimensions, intervening conditions produced the largest number of components, with 30 of the 108 components, followed by strategies and interactions with 19, consequences with 16, the central phenomenon and contextual conditions with 15 each, and causal conditions with 13.

The first analytical dimension concerned the **causal conditions** that initiated managers' active engagement with an independent audit report. Three categories were identified: receipt of an audit report containing an unusual matter, legal or organizational requirements to review the report, and time pressure surrounding managerial decision-making. The findings indicated that the mere receipt of an audit report did not necessarily stimulate extensive interpretation. Instead, the presence of a qualified opinion, an Emphasis of Matter paragraph, or a newly introduced Key Audit Matter frequently operated as the primary trigger for intensive managerial attention. Participant M4 explained, "When I saw a qualified opinion, I was frightened at first, and then I called the auditor." In contrast, M2 described a substantially lower level of cognitive involvement when reports contained no unusual matter: "When the report is clean, I just glance at it and move on; I become serious when I see something unusual." Taken together, these accounts indicate that unusual audit information functioned as a **threshold mechanism**.

Managers tended to shift from routine or superficial reading to active interpretation once a recognizable deviation from an ordinary unmodified report appeared. Legal disclosure requirements and time pressure associated with annual general meetings and periodic reporting further intensified this process by increasing the perceived urgency of understanding the report.

The **central phenomenon** emerging from the analysis was managers' attempt to decode the actual meaning and seriousness of the independent auditor's opinion. Three closely connected categories constituted this phenomenon: interpretation of the substantive meaning of audit paragraphs, confrontation with specialized and ambiguous audit language, and immediate emotional or behavioral responses to unfavorable information. Managers did not experience the report merely as a technical document to be read; rather, they faced the cognitive task of determining what a particular paragraph meant for the company and how seriously it should be treated. M11 stated, "It was not clear to me exactly what an Emphasis of Matter paragraph meant; is it something worrying or is it merely explanatory?" This statement illustrates an important interpretive problem: managers were required not only to understand individual technical terms but also to infer the relative severity and organizational implications of different types of audit communication. The data additionally suggested that this process was recurrent. Even managers with considerable professional experience reported needing to reassess the significance of unusual audit content whenever it appeared. Experience appeared to accelerate interpretation, but it did not completely eliminate the need to decode each new report.

The third dimension involved **contextual conditions**, referring to relatively stable structural and organizational characteristics within which managers interpreted audit reports. These conditions included the presence or absence of an active audit committee, organizational size and availability of analytical resources, and a corporate culture supportive of systematic follow-up of audit findings. The existence of an organizational intermediary substantially changed the interpretive process. M7 noted, "The audit committee chair sees the report before I do and simplifies it for me." In organizations possessing active audit committees, specialized financial departments, or access to independent advisers, interpretation became a distributed organizational activity rather than the exclusive responsibility of an individual manager. Larger organizations appeared more capable of providing such interpretive resources, whereas managers operating in environments with fewer specialized resources were more dependent on their own knowledge or direct communication with the external auditor. Organizational practices such as explanatory meetings and documented follow-up of audit paragraphs also created a context in which audit findings were treated as matters requiring systematic managerial response rather than mere compliance documentation.

A distinction emerged between these contextual factors and the **intervening conditions**, which represented individual or broader institutional influences that altered how managers responded within a given organizational context. Four intervening categories were identified: accounting knowledge, regulatory pressure for transparency, initial confidence in the audit firm, and reliance on previous experience. This dimension was the most conceptually dense component of the findings, accounting for 30 of the 108 identified components. Participants perceived regulatory changes as simultaneously improving disclosure and increasing cognitive demands. M13 observed, "Since Key Audit Matters were added, the report has become clearer but longer." Thus, increased disclosure did not necessarily correspond directly to increased comprehensibility. Greater information could enhance transparency while simultaneously creating a larger volume of technical material requiring interpretation.

Educational and professional background emerged as an especially influential intervening condition. Managers with stronger accounting or financial expertise were more likely to interpret the report personally, whereas participants with nonfinancial backgrounds relied more heavily on organizational intermediaries. M6 explained, "I am an engineer, not an accountant; I have to ask my financial manager about many of these terms." The data therefore indicated that regulatory transparency operates through the manager's existing level of audit and accounting literacy rather than independently of it. Trust in the audit firm also affected interpretation. Long-standing relationships and positive market reputations could initially increase confidence in the report, whereas previous experience with similar audit issues could decrease perceived risk. M9 stated, "Because we had a similar paragraph last year and there was no problem, I was not very worried." Unlike educational background or firm reputation, however, previous experience was cumulative. Every new encounter with an audit report potentially became an interpretive resource for subsequent encounters.

The **strategies and interactions** adopted by managers represented the actions through which they attempted to resolve uncertainty and translate audit information into an actionable managerial understanding. Four major strategies were identified: direct contact with the auditor, referral to an audit committee or financial adviser, reliance on a shorthand interpretation of the overall audit opinion, and convening an immediate organizational meeting. Direct communication was particularly prominent when an unexpected or potentially serious audit matter was identified. Managers contacted auditors by telephone or requested explanatory meetings to understand the reasons underlying the opinion and its implications. Other managers preferred to transfer the interpretive task to specialized organizational actors, particularly audit committees, financial managers, or independent consultants. A contrasting strategy involved reducing the complexity of the report by concentrating primarily on the overall type of audit opinion and selectively disregarding detailed technical content. Although this approach facilitated rapid decision-making, it also created the possibility that potentially important information contained elsewhere in the report would receive inadequate attention. Where the perceived issue was sufficiently serious, extraordinary board meetings and immediate internal communication were used to mobilize an organizational response.

Finally, the analysis identified three major **consequences** of these interpretive processes: improved managerial decision-making, progressive development of audit literacy, and changes in confidence in the auditing process. Effective clarification and interaction with auditors or specialized organizational actors enabled managers to make more documented decisions and reduced the probability of misunderstanding the meaning of audit findings. More importantly, the results showed that audit literacy developed through repeated exposure. M9 summarized this process by stating, "Now, with experience, I understand more quickly where I need to pay greater attention." Consequently, managers' interpretation of audit reports appeared to operate as a cumulative learning cycle rather than as a series of isolated events. Previous encounters influenced subsequent interpretation, and successful interpretive experiences strengthened the manager's ability to identify critical sections of future reports.

The findings further showed that trust was not a fixed characteristic of the manager–auditor relationship but an outcome continuously reconstructed through interaction. Effective explanations, timely communication, and the ability of auditors or audit committees to clarify technically complex findings tended to strengthen confidence in the audit process. Conversely, insufficient explanation or unresolved ambiguity could weaken managerial trust. Overall, the integrated thematic model suggests that Iranian managers' understanding of independent audit reports develops through a dynamic sequence in which unusual audit content initiates active interpretation, the manager attempts to decode its substantive meaning, organizational and individual conditions shape the available interpretive resources, specific clarification strategies are adopted, and these interactions ultimately influence decision quality, audit literacy, and trust. The resulting experience then feeds back into subsequent encounters with audit reports, making prior experience itself an intervening condition in the next cycle of interpretation.

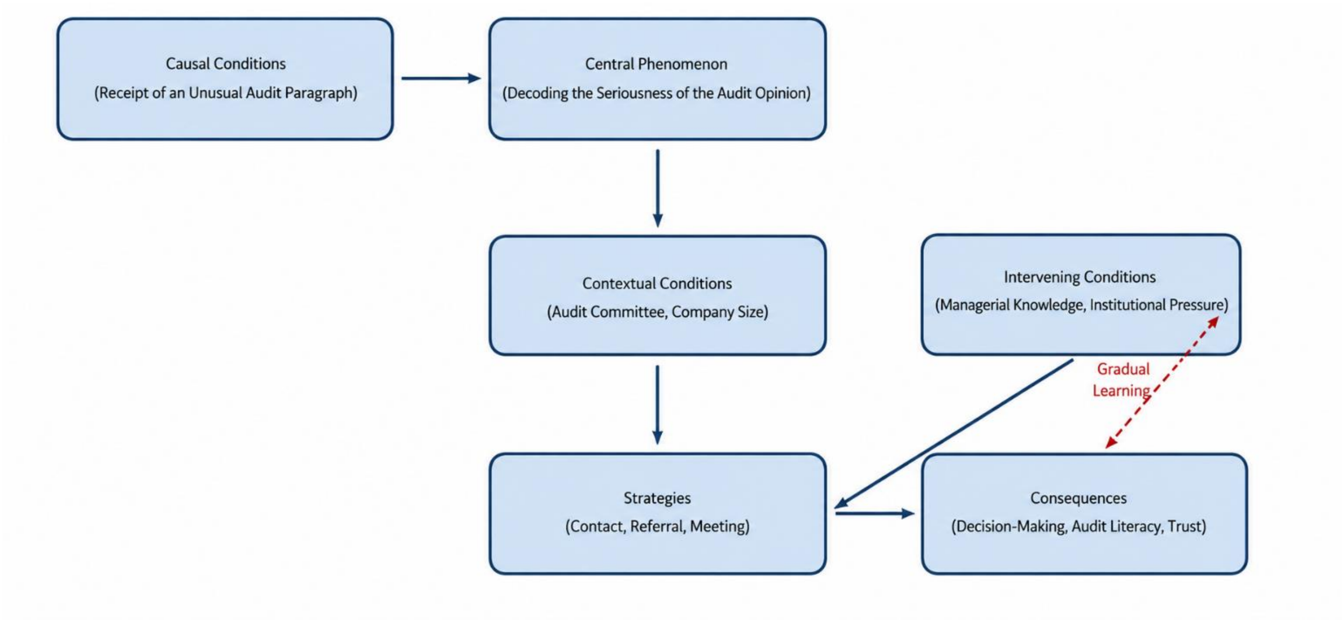

Figure 1. Final Conceptual Model

4. Discussion and Conclusion

The present study explored how Iranian managers perceive, interpret, and respond to independent audit reports and identified an integrated pattern consisting of six interconnected dimensions: causal conditions, the central phenomenon, contextual conditions, intervening conditions, interpretive strategies and interactions, and consequences. The findings showed that managers do not engage with all audit reports at the same level of cognitive intensity. Rather, an unusual audit element, such as a qualified opinion, an Emphasis of Matter paragraph, or a newly introduced Key Audit Matter, often operates as a threshold signal that transforms routine reading into active interpretation. Once such a signal is recognized, managers attempt to decode its seriousness, frequently encounter specialized linguistic ambiguity, and may initially experience concern or uncertainty. Their subsequent interpretation is influenced by organizational resources, including the audit committee and access to financial expertise, as well as individual and institutional factors such as accounting knowledge, regulatory pressure, trust in the audit firm, and prior experience. Managers then employ strategies including direct communication with auditors, referral to audit committees or advisers, selective reading of the audit opinion, and organizational meetings. These processes ultimately affect the quality of managerial decisions, the gradual development of audit literacy, and trust in the audit process.

One of the most important findings was that unusual or non-routine audit content functioned as a threshold mechanism for managerial attention. Participants reported relatively superficial engagement with ordinary unmodified audit reports but much greater scrutiny when a qualification, emphasis paragraph, or other unusual statement appeared. This result is compatible with research showing that the informational consequences of reporting depend not only on the amount of information disclosed but also on the salience and interpretability of particular disclosures. Readable financial disclosures improve users' ability to process information and influence investment judgments, whereas complex or less accessible disclosures increase cognitive processing demands [3]. Similarly, evidence indicates that reporting quality is reflected in capital-market reactions because users distinguish between disclosures according to their perceived informational value [18]. The present findings extend this reasoning to managerial users by showing that audit-report processing is selective rather than uniform: managers may not allocate substantial attention to the entire document unless an identifiable signal indicates that greater scrutiny is necessary.

This selective attention also helps explain the central phenomenon identified in the study: decoding the actual seriousness of the auditor's opinion. Managers were not merely attempting to understand the literal wording of the report; they were trying to determine whether a specific paragraph represented a routine explanation, a meaningful warning, or a serious threat requiring managerial action. Such difficulty is understandable in light of the literature on reporting readability. The complexity and length of financial reports can restrict effective comprehension, particularly when additional disclosure does not correspond to greater linguistic accessibility [4]. Research has likewise shown that the readability of annual reports has meaningful implications for investment decision-making because the costs of processing complex information can influence the usefulness of disclosure [20]. The present findings demonstrate that this problem extends to audit terminology: even when the report complies fully with professional standards, managers may remain uncertain about the practical distinction between different forms of audit communication.

The findings concerning Key Audit Matters are particularly relevant to this interpretive challenge. Participants acknowledged that expanded audit disclosures could increase transparency but also reported that they made audit reports longer and, in some circumstances, more cognitively demanding. This dual effect closely corresponds with emerging research on the readability of Key Audit Matters. Evidence from emerging markets indicates that the effectiveness of Key Audit Matters depends partly on whether their wording can be understood by intended users [15]. Similarly, recent research has explicitly identified readability as an important dimension in determining the communicative effectiveness of Key Audit Matters [17]. Haider also demonstrated that readability is consequential when Key Audit Matters interact with broader corporate disclosure concerns, showing that expanded audit communication is not automatically informative merely because additional material is disclosed [16]. The present qualitative findings clarify why this occurs: managers are required to translate technically precise audit terminology into assessments of organizational seriousness, risk, and actionability.

Another major finding concerned the role of contextual conditions, particularly the existence of an active audit committee, company size, access to specialized financial resources, and an organizational culture of following up audit findings. Managers working in organizations with functioning audit committees or specialized financial personnel described interpretation as a distributed process in which technical meaning could be translated before reaching senior decision-makers. This supports the broader view that the effectiveness of financial communication depends on the institutional environment in which information is processed. Soesanto and Wijaya showed that the readability and value relevance of financial information are related to agency costs and that informational intermediaries can influence this relationship [6]. Likewise, research on audit quality emphasizes that auditing outcomes cannot be separated from the governance processes and institutional mechanisms surrounding the audit function [1]. The present study contributes to this literature by demonstrating that audit committees may perform not only monitoring and oversight functions but also an important interpretive function, translating technically complex information into managerially meaningful language.

The significance of organizational resources also corresponds with evidence that financial-report complexity imposes additional costs on both users and auditors. Less readable reporting has been associated with greater audit effort and higher audit fees, indicating that difficult financial communication can increase the resources required for appropriate interpretation and assurance [14]. Auditors themselves respond to low annual-report readability because complexity may signal reporting risk or require greater effort to understand the underlying financial environment [13]. Furthermore, greater audit effort can affect the quality of audit processes and outputs [2]. Viewed together with the present results, these studies suggest that complexity generates interpretive costs throughout the reporting chain. Companies possessing audit committees, financial experts, or independent advisers may be better equipped to absorb these costs, whereas organizations with limited analytical resources may place greater interpretive responsibility on individual managers.

Among the intervening conditions, managerial accounting knowledge emerged as particularly influential. Managers with accounting or financial backgrounds were more capable of directly interpreting audit language, whereas those with nonfinancial backgrounds relied more frequently on financial managers, audit committees, or advisers. This result is consistent with evidence showing that the effects of readability vary according to characteristics of the decision-maker. Aldoseri demonstrated that management characteristics shape the relationship between annual-report readability and investment decision risk [19]. Experimental evidence similarly shows that readability and language choice affect managerial risk-taking, indicating that linguistic presentation interacts with users' cognitive processing rather than operating independently of the individual reader [21]. Accordingly, the present study suggests that audit-report readability should be conceptualized relationally: the same report may be understandable to one manager and ambiguous to another depending on professional education, experience, and familiarity with auditing terminology.

The findings also identified regulatory and institutional pressure as a dual influence. Participants regarded changes in reporting and auditing standards as potentially improving transparency while simultaneously increasing the quantity and complexity of information that required interpretation. A similar tension is visible in studies of financial reporting reforms. IFRS adoption has influenced the readability of corporate annual reports in emerging markets, illustrating that greater standardization and transparency do not necessarily guarantee greater accessibility [11]. The relationship between financial-report readability and accounting conservatism likewise indicates that textual characteristics are intertwined with broader accounting and disclosure choices [12]. Consequently, regulators seeking to enhance transparency should consider not only whether additional information is disclosed but also whether managerial and non-specialist users can meaningfully interpret that information.

Another notable result was the importance of trust in the audit firm and prior experience. Managers sometimes used the reputation of an auditing firm or previous experiences with similar audit paragraphs as interpretive shortcuts. Prior positive experiences could reduce anxiety when similar issues reappeared. This finding has both constructive and potentially problematic implications. On one hand, experience facilitates faster interpretation and reduces unnecessary uncertainty. On the other hand, repeated exposure may produce heuristic judgments in which familiar issues are treated as less serious without complete reassessment. Research on managers' responses to going-concern audit opinions has shown that behavioral reactions to audit outcomes may be asymmetric, with managers responding differently to information framed in terms of gains and losses [22]. Research on abnormal disclosure tone and going-concern modified audit reports also demonstrates that users' understanding of audit signals can be affected by how information is presented and contextualized [23]. Therefore, experience may improve efficiency while simultaneously increasing the possibility of normalization or underreaction to recurring audit concerns.

The strategies used by managers to resolve ambiguity provide further insight into the practical process of audit-report interpretation. Direct communication with the auditor and referral to audit committees or financial advisers were among the principal strategies identified. These behaviors indicate that the audit report frequently serves as the beginning rather than the end of a communicative process. When formal written language is insufficiently clear, managers construct meaning through interaction with knowledgeable intermediaries. This is particularly important in relation to the audit expectation gap, which arises when users' perceptions of the auditor's role, responsibilities, and messages diverge from professional meanings. Evidence continues to show differences between public expectations and professional audit responsibilities [24]. The present results suggest that direct communication may partially reduce such gaps by allowing managers to clarify what specific audit statements do and do not imply.

However, not all interpretive strategies enhanced comprehensive understanding. Some participants reported using a shorthand strategy in which they focused almost exclusively on the overall type of audit opinion while paying limited attention to detailed paragraphs. This finding is especially important because it illustrates how decision-makers manage information overload. Research has shown that annual-report readability is related to business performance signals and the informational content available to users [8, 9]. Yet if managers attend only to a small segment of the report, other relevant disclosures may fail to influence judgment. Research on earnings management and readability also demonstrates that textual complexity may interact with managerial incentives and governance arrangements [10]. The present results suggest that selective reading may constitute an adaptive response to complexity but can simultaneously create a risk of incomplete interpretation.

The consequences identified in this study included improved decision quality, progressive audit literacy, and changes in trust. Participants indicated that successful clarification enabled more informed and documented managerial decisions. This result is consistent with evidence demonstrating that annual-report readability influences corporate investment decisions [7] and that readable information can reduce decision risk [3]. Readability has also been associated with the cost of equity capital, indicating that clearer information reduces uncertainty in the broader informational environment [5]. Most importantly for the Iranian context, recent evidence from the Tehran Stock Exchange has shown that audit-report readability is associated with greater information efficiency [25]. The present qualitative study complements this evidence by revealing the managerial mechanisms through which such efficiency may develop: clearer understanding reduces interpretive errors, facilitates organizational action, and improves the capacity to identify significant audit information.

The gradual development of audit literacy represents one of the most theoretically important findings. Participants described becoming increasingly able to recognize significant audit signals after repeated exposure to audit reports. This suggests a feedback process in which the consequences of one interpretive episode become intervening conditions in the next. Managers therefore do not approach each report with a fixed level of competence; their interpretive capacity develops through cumulative experience. At the same time, reporting quality remains important because experience cannot fully compensate for excessively complex or ambiguous disclosure. High-quality corporate reporting generates beneficial informational outcomes [18], whereas readability affects investment behavior, information costs, and user judgments across different contexts [5, 20]. The integrated model developed in the current study thus suggests that managers' perceptions of independent audit reports should be understood as an iterative process involving textual signals, individual expertise, organizational structures, institutional pressures, interaction, and learning rather than as a one-time response to a static document.

Overall, the findings extend prior readability and auditing research by shifting attention from measurable textual characteristics to the process through which audit communication acquires meaning for organizational decision-makers. Existing studies have documented associations among readability, audit effort, investment decisions, market outcomes, agency costs, financial reporting characteristics, and audit-report information efficiency [7, 13, 25]. The present study indicates that these relationships are partly mediated at the practical level by how managers notice, decode, discuss, and learn from audit information. The independent audit report therefore operates not simply as the final technical output of an assurance engagement but as an organizational communication mechanism whose value depends on successful interpretation. Improving the usefulness of audit reporting consequently requires attention to both the linguistic properties of the report and the cognitive, professional, organizational, and relational conditions under which it is received.

Several limitations should be considered when interpreting the findings. First, the study adopted a qualitative design with a purposively selected and relatively specialized group of participants associated with Iranian listed companies; therefore, the findings are intended to provide analytical depth rather than statistical generalizability to all Iranian managers or organizations. Managers in private, non-listed, governmental, or smaller enterprises may encounter different audit-reporting environments and possess different levels of financial expertise. Second, the findings were based on participants' retrospective accounts, which may have been affected by recall bias, selective recollection, or the tendency to present professionally desirable interpretations of past decisions. Third, individual differences in managerial position, educational background, prior auditing exposure, and organizational resources could not be completely separated from company-level influences. Finally, the study examined perceptions and reported interpretive practices rather than directly observing managers while they read and respond to actual audit reports, and therefore the relationship between reported practices and real-time cognitive behavior should be interpreted cautiously.

Future studies could test and extend the proposed thematic model using larger and more heterogeneous samples drawn from listed and non-listed companies, public organizations, financial institutions, and different industrial sectors. Quantitative research could operationalize the identified dimensions and examine structural relationships among audit-report complexity, managerial accounting knowledge, audit committee effectiveness, interpretive strategies, audit literacy, trust, and decision quality. Experimental studies could expose managers to different versions of qualified opinions, Emphasis of Matter paragraphs, and Key Audit Matters to determine how wording, length, visual emphasis, and executive summaries affect comprehension and behavioral responses. Comparative studies across countries could also determine whether the identified model is specific to the Iranian institutional environment or represents a more general process of managerial audit interpretation. Longitudinal research would be particularly valuable for examining the proposed learning feedback loop and determining how repeated exposure to audit reports improves audit literacy or, alternatively, creates potentially problematic interpretive shortcuts.

From a practical perspective, auditing firms, listed companies, audit committees, and regulatory institutions should treat comprehensibility as a substantive component of effective audit communication. Auditors could complement technically standardized reports with structured explanatory meetings, particularly when reports contain modified opinions, Emphasis of Matter paragraphs, or complex Key Audit Matters. Companies should strengthen the interpretive role of audit committees and ensure that senior managers without financial backgrounds have access to competent financial advisers or internal specialists. Training programs focused on practical audit literacy could help managers distinguish among different types of audit paragraphs, assess their relative seriousness, and identify when additional clarification is required. Regulators and standard setters could also consider formatting, visual prominence, plain-language explanations, or concise executive summaries for unusual audit matters without weakening technical precision. Finally, organizations should establish formal procedures for documenting managerial responses to important audit findings so that interpretation becomes an institutional learning process rather than an informal reaction dependent solely on the experience of individual managers.

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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