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Reducing the Expectation Gap between Auditors and Stakeholders through the Readability of Key Audit Matters

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Abstract

The aim of this study is to identify and explain the factors affecting the readability of Key Audit Matters (KAM) and to present a conceptual model to reduce the expectation gap between auditors and stakeholders. This study was conducted with a mixed approach (qualitative-quantitative) and in the qualitative phase, by using the grounded theory method and conducting semi-structured interviews with 15 experts in the field of auditing and financial reporting (selected through purposive and snowball sampling), the factors affecting the readability of KAM were identified in the form of five dimensions including causal conditions, context, intervening factors, strategies, and consequences. In the quantitative part, the conceptual model extracted from the qualitative analysis was tested by designing a questionnaire and collecting data from 370 auditors, financial analysts, audit committee members, and other professional users of financial statements (using convenience sampling). Data analysis was performed using structural equation modeling and partial least squares (PLS-SEM) approach. The research findings indicate that factors such as regulatory and institutional requirements, company reporting characteristics, level of expertise and knowledge of users, and professional experience of auditors, through strategies such as simplifying the language of the report, standardizing the writing format, utilizing new technologies, and promoting professional education, have a significant impact on improving the readability of key audit matters. Finally, the results show that increasing the readability of KAM, as a mediating variable, can play an effective role in reducing misconceptions, promoting transparency, increasing public understanding, and improving stakeholder trust, and thus leading to a reduction in the expectation gap between auditors and users of audit reports. The final conceptual model of the research can be used by professional bodies, policymakers, and audit firms as a practical basis for developing standards, regulatory policies, and designing training programs to improve the quality and effectiveness of audit reporting.

Keywords: (Readability, key audit issues, expectation gap, data-based theory, structural equation modeling)
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Introduction

In recent years, there have been many efforts to increase the transparency and improve the quality of audit reports. One of the most important steps in this direction has been the introduction of International Standard on Auditing 701

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(ISA 701) by the International Auditing and Assurance Standards Board (IAASB). This standard requires auditors to disclose.

Key Audit Matters or KAMs in their reports. The aim of this measure is to increase transparency and provide deeper insights to users of financial statements. However, recent studies show that the readability and understandability of KAMs play a significant role in achieving this goal. For example, a study in Norway showed that audit partner characteristics, such as tenure and workload, have a significant impact on the readability of KAMs. In particular, increasing tenure has been shown to improve readability, while increasing audit partner workload has been shown to reduce readability. On the other hand, the concept of Audit Expectation Gap refers to the difference between what stakeholders expect from auditors and what auditors actually do. This gap can lead to a decrease in public trust in the audit profession. Studies show that disclosure of KAMs can help reduce this gap, but only if these disclosures are presented in a clear and understandable manner [14]. In addition, research has shown that earnings management by companies can lead to a decrease in the readability of audit reports. This issue has become particularly prominent after the introduction of KAM disclosure requirements, which suggests that companies may use more complex language to conceal information.

Given the importance of the subject, this study examines the effect of KAM readability on reducing the expectation gap between auditors and stakeholders. In this regard, mediating variables such as stakeholders' perception of KAM content and their level of trust in the audit report are also examined. The main objective of this study is to provide solutions for improving the writing of KAMs and, as a result, increasing transparency and trust in audit reports.

Theoretical foundations and research background

In recent decades, with the increase in economic complexity, developments in financial markets, and the expansion of users' expectations of financial reports, the role of the audit report as one of the main tools for building trust, transparency, and information in the business environment has become more and more prominent. Therefore, international standard-setting bodies have tried to improve the quality of disclosure and understandability of financial reports by reviewing the way audit information is presented. In this regard, International Auditing Standard No. 701 (ISA 701) was introduced by the International Auditing and Assurance Standards Board (IAASB), the main goal of which is to improve the transparency of audit reports by disclosing Key Audit Matters - KAMs. According to this standard, KAMs are those subjects that require the most professional judgment from the auditor in the audit process and, as a result, are of particular importance in presenting the auditor's final report (IAASB, 2015 [9]). However, recent research findings show that simply disclosing KAMs alone cannot achieve its main goal of promoting transparency and better understanding of the audit process by users; because technical language, complex structure, and excessive use of specialized terms have created a serious obstacle to the accurate understanding of this part of the report for a wide range of stakeholders [12]. In the meantime, the concept of Readability is raised as one of the key components in the effectiveness of audit information disclosure. Readability refers to the ease of understanding of a text by the audience and factors such as sentence length, vocabulary choice, sentence structure, use of technical or simple language, and the way the content is organized are involved in it. For this reason, KAM readability is not only a linguistic feature, but also a critical component in establishing effective communication between the auditor and stakeholders [2].

Studies have pointed out the key role of readability in better understanding of the audit report content by the audience, increasing trust, and facilitating financial decision-making. For example, Rainsbury et al. [16] in New Zealand showed that the readability of KAMs is significantly affected by the structure and composition of the audit committee; especially when committee members have higher financial and industry experience, KAMs are presented in simpler and more understandable language. Also, Kosaiyakanont et al. [12] in a field study concluded that using simple language, avoiding technical terms, and providing a logical structure in writing KAMs can help improve user understanding and increase the credibility of the report.

On the other hand, one of the negative consequences of low readability in KAMs is an increase in the gap or expectation gap between auditors and stakeholders. The Audit Expectation Gap refers to the discrepancy between what users expect from audit reports and what auditors actually deliver [15]. This phenomenon, which has a long history in the audit literature, is largely rooted in a lack of public understanding of the scope of auditors' professional responsibilities, the complexity of audit processes, and the limitations of full disclosure (IAASB, 2020 [10]). In such circumstances, insufficient readability in sections such as KAM can lead to ambiguity, misunderstanding, and reduced effectiveness of the audit report, thereby deepening the expectation gap.

Research conducted in different countries also confirms this. In a study conducted in Saudi Arabia, it was found that despite the mandatory disclosure of KAM in audit reports, a significant portion of users were unable to properly

understand the contents of these reports, which itself indicated linguistic and conceptual challenges in writing KAMs [1]. Also, a study in Iran by Dashtbayaz et al. [13] showed that low levels of readability in audit reports led to misconceptions about auditors' legal responsibilities and undermined users' trust in the auditing profession.

In this regard, some studies have emphasized the role of professional and institutional factors in improving or weakening the readability of KAMs. For example, the findings of Santy & Rosadi [17] indicate that the auditor's individual characteristics, such as experience, specialized knowledge, and level of familiarity with the industry, as well as the type of audit firm (large or small), and the presence of time or legal pressures, can affect the way KAMs are written. In addition, the characteristics of the audited company, such as size, ownership structure, complexity of activities, and financial transparency, also affect the level of readability and style of the auditor's writing. In summary, improving the readability of KAMs is not only a technical issue in writing texts, but also a macro strategy for improving the effectiveness of audit reporting and reducing the expectation gap between auditors and stakeholders. Based on empirical evidence and theoretical concepts, paying attention to this component in professional policy-making, designing standards and training programs for auditors can lead to increased transparency, improved accountability, and ultimately, public trust in the auditing profession. Given global trends in the field of financial reporting, the need for continuous review of audit report writing methods and attention to readability as a fundamental component is felt more than ever before.

Research Method

The present study is applied in terms of purpose and developmental-composite in nature. This research aims to identify and explain the factors affecting the readability of key audit matters and provide a model to reduce the expectation gap between auditors and stakeholders. The research approach is designed in two complementary stages: qualitative and quantitative. In the first stage, using the qualitative data-driven analysis method and semi-structured interview tool, initial indicators and concepts were extracted. Data from interviews with 15 experts in the fields of auditing, financial reporting, and audit committee members were collected using purposive and snowball sampling methods and continued until theoretical saturation. Qualitative data analysis was conducted using MAXQDA software and a three-stage coding technique (open, axial, selective), leading to the extraction of conceptual dimensions, components, and indicators related to the readability of key audit topics. In the second stage, the results of the qualitative stage formed the basis for designing a quantitative instrument. Accordingly, a structured questionnaire consisting of 37 items was designed and developed in the form of five main categories of causal conditions, strategies, intervening conditions, contextual conditions, and consequences. The measurement scale of the questions was a five-point Likert scale (from strongly disagree to strongly agree). To examine the face and content validity, the questionnaire was provided to 5 professors and experts in the field of auditing and research methods, and after receiving corrective comments, it was revised and finalized. Also, confirmatory factor analysis and factor loading, AVE, and divergent validity indices were used to measure the construct validity. All items had factor loadings higher than 0.6, and AVE values for all constructs were higher than 0.5, indicating adequate convergent validity. Also, divergent validity values were examined and confirmed based on the Fornell-Larker criterion, by the difference between the mean square of AVE and the correlation coefficients between constructs. To assess the reliability of the instrument, two indices, Cronbach's alpha coefficient and composite reliability (CR), were used. The results showed that Cronbach's alpha for different dimensions was between 0.78 and 0.88 and composite reliability was between 0.81 and 0.90, all of which were above the threshold of 0.7, indicating acceptable reliability of the measurement tool. Therefore, the designed tool has appropriate validity and reliability for future quantitative analyses and can be a suitable basis for structural equation modeling.

The statistical population in the quantitative section includes auditors working in audit firms, financial analysts, members of audit committees and other professional users of financial statements. Given the dispersion of the population, the convenience sampling method was used and to determine the sample size, the sample adequacy formula for structural equation modeling (at least 10 times the maximum number of input paths to a structure) was used. In total, 400 questionnaires were distributed, of which 370 valid questionnaires were collected and entered into the analysis.

In the final analysis, the measurement and structural model was fitted using indicators such as coefficient of determination ($\mathbb{R}^2$), $\mathbb{Q}^2$, overall goodness of fit (GOF) and assessment of the significance of the paths (path coefficient and t value). The results of the analyses indicated the validity, reliability and good fit of the proposed model and the final research model was presented as a valid model for explaining the mechanism of reducing the expectation gap by improving the readability of key audit topics.

Findings

1 Qualitative Phase: Data Analysis from Interviews

The qualitative data analysis process was conducted by conducting 15 semi-structured interviews with professional and academic experts in the field of auditing and financial reporting. The data was analyzed using thematic analysis (three-stage coding: open, axial, and selective) with the aim of identifying and organizing the factors affecting the readability of key audit matters using MAXQDA software. At each stage, the concepts and categories obtained were systematically extracted, explained, and organized into a preliminary conceptual model. The result of this stage was the identification of dimensions, components, and indicators that explain the factors affecting the readability of key audit matters (KAMs) and their impact on reducing the expectation gap between auditors and stakeholders. The classification of the core codes based on the Strauss and Corbin paradigm model and in the form of causal conditions, intervening conditions, context conditions, strategies and consequences is as follows, which is also presented in Figure 1:

Causal conditions (causes of the phenomenon of readability of key audit matters)

1. **Characteristics of the audit firm**
   - Size and reputation of the firm
   - Specialization in a specific industry
   - Education, experience and diversity of the team
   - Respect for independence and professional ethics
   - Quality control mechanisms
2. **Characteristics of the client company**
   - Size and complexity of the company
   - Type of industry and level of risk
   - Transparency of reports
   - Timely submission of documentation
   - Financial and social responsibility
3. **Corporate governance structure**
   - Audit committee effectiveness
   - Board structure and diversity
   - Internal audit efficiency
   - Management independence
4. **Existence or absence of guiding standards for writing KAM**
   - Lack of detailed and structured instructions for setting clear and understandable KAM
   - Ambiguity in interpreting existing standards (such as ISA 701 and lack of coordination in their implementation
   - Lack of localized templates and examples appropriate for different industries
   - Lack of sufficient training and supervisory requirements to improve the quality of writing and evaluating KAM
5. **Technical and time factors**
   - Use of modern audit technologies
   - Mastery of financial reporting software
   - Appropriate time planning
   - Reducing time pressure when preparing reports

Context conditions (areas in which strategies are implemented):

1. **Cultural and professional characteristics of the audit environment**
   - Level of financial literacy and users' familiarity with audit concepts
   - Culture of disclosure and transparency in the audit profession

- Professional attitude of auditors towards the report audience

2. **Educational system and Professional empowerment**
   - Quality of university education in the field of auditing and reporting
   - In-service training and improvement of auditors' communication skills
   - Attention to developing the ability to convey complex concepts in simple language in professional education
3. **Structure of the audit services market**
   - The degree of competition between audit firms over the quality of reporting
   - Structure of the audit market concentration or dispersion (size and influence of large versus small firms)
   - Expectations of the capital market and supervisory institutions from the level of readability of the report
4. **Characteristics of the report user community**
   - The composition of professional and non-professional audiences of audit reports
   - The level of general financial literacy and analytical knowledge in society
   - Increasing expectations of users from quality and understandable disclosures
5. **Media space and public opinion pressure**
   - The influence of the media and analysts on the importance of readability of reports
   - The role of cyberspace and social networks in reflecting complex or ambiguous disclosures
   - Public opinion pressure to clarify key issues in reports

Intervening conditions:

1. **Institutional pressures and Professional**
   - Regulatory and standard requirements (such as ISA 701)
   - Pressure to adopt conservative language from regulatory authorities
   - Lack of clear guidance from professional bodies
   - Conservative approaches by auditors to reduce legal risk
2. **Time and operational constraints**
   - Insufficient time budget for report writing and review
   - Deadlines imposed by companies or capital markets
   - Greater focus on timely report completion than on quality of writing
   - High workload during busy audit seasons
3. **Technological accessibility and capability**
   - Lack of modern tools for writing and natural language analysis (NLP)
   - Inability to use artificial intelligence or data analysis software
   - Weakness in information systems for easy retrieval of KAM-related information
   - Lack of integrated digital infrastructure in the audit organization
4. **Level of engagement with stakeholders**
   - Lack of sufficient understanding of the information needs of report users
   - Lack of feedback from the capital market and shareholders about KAMs
   - Ambiguous or conflicting expectations of company managers regarding KAM transparency
   - Lack of opportunities for direct communication with analysts and end users
5. **Professional incentives and policies**
   - Focus of the audit firm on the quantity of services and profitability
   - Lack of performance measures related to the quality of report writing
   - Lack of individual motivation for innovation in language and writing structure
   - Focusing on legal protection rather than improving communication with the audience

Strategies (suggested actions to improve readability):

1. **Improve training and professional skills**
   - Hold specialized workshops In the field of clear and precise KAM writing
   - Training in writing based on the needs of report users
   - Developing professional language and writing skills for auditors
   - Designing training modules for critical analysis of key issues
2. **Strengthening professional supervision and regulation**
   - Developing executive guidelines for more readable KAM writing
   - Assessing the quality of audit reports by supervisory bodies
   - Requirement to provide clear and transparent examples in KAM disclosure
   - Creating readability assessment indicators by the professional community
3. **Developing technology and innovation in reporting**
   - Using intelligent language analysis and transparent writing software
   - Using support tools such as standard checklists for writing
   - Implementing interaction tools for digital reports
   - Upgrading information systems to optimize the flow of audit information
4. **Improving interaction with report stakeholders**
   - Receiving feedback from financial analysts, investors and the capital market
   - Holding question-and-answer sessions with report users
   - Strengthening communication between auditors and Corporate Audit Committees
   - Designing KAMs taking into account the needs and expectations of the target audience
5. **Reviewing the policies and organizational culture of audit firms**
   - Reforming the structure of auditor performance evaluation based on the quality of reporting
   - Promoting a culture of transparency and accountability in report writing
   - Encouraging innovation and creativity in writing key issues
   - Establishing procedures for peer review of reports before publication

Consequences (Potential Results of Implementing Strategies)

1. **Improving the Understanding and Transparency of the Audit Report**
   - Improving the Understanding of Professional and Non-Professional Audiences of the Report Content, Especially KAM
   - Increasing Transparency in Explaining Major Risks and Judgment-Based Issues
   - Reducing Ambiguity and Complexity in Interpreting Key Issues
   - Facilitating the Transmission of the Auditor's Message through a Clear Structure and Understandable Language
2. **Increasing Public Trust and Professional Credibility**
   - Increasing Public Trust in the Integrity and Quality of the Audit Report
   - Improving the Auditor's Impartiality, Transparency, and Professional Integrity in the Minds of Users
   - Strengthening the Auditor's Position as an Independent Authority in the Financial Reporting Process
   - Improving the Professional Brand of Audit Firms from the Perspective of Transparency in Communication
3. **Improving the Quality of Financial Reporting and Disclosure**
   - Increasing the Coordination Between KAM Disclosures and Management Disclosures in the Explanatory Notes
   - Improving the Level of Transparency and Accuracy in Providing Supplementary and Related Disclosures
   - Improving the Consistency Between Audited Information and Financial Disclosures

- Reducing the Perceptual Gap Between the Auditor's and the Auditor's Perceptions End-user expectations

4. **Strengthening the role of governance and professional accountability**
   - Improving the position of the auditing profession in the structure of the corporate governance system
   - Playing a more active role of the auditor in protecting the rights of shareholders and the public interest
   - Increasing the accountability of audit firms towards the content reported
   - Creating positive pressure to improve the level of accountability in preparing and disclosing reports
5. **Developing competition and continuous improvement in the auditing industry**
   - Sensitizing managers and clients towards the quality of information provided to the auditor
   - • Audit firms' tendency to innovate in the style of writing and presenting reports to differentiate
   - Increasing professional competition to improve readability and quality of disclosure
   - Using readability as a competitive advantage in the audit services market
6. **Strategic use of audit reports in decision-making**
   - Turning audit reports into effective tools in the decision-making process of stakeholders
   - Improving the use of KAM content by investors, analysts and supervisors
   - Creating a common language between the auditor and the user in interpreting complex issues
   - Increasing the effectiveness of audit reports in the capital market and Risk Assessment

The research paradigm model is shown below:

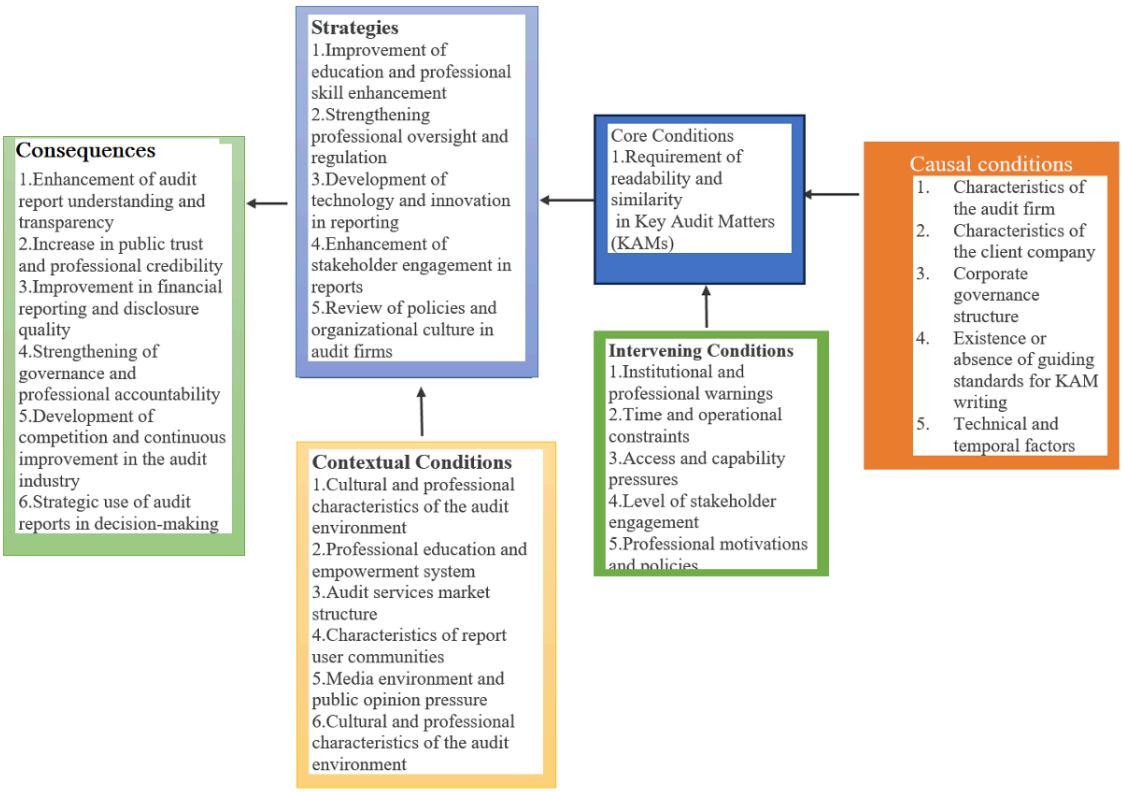

Figure 1: Paradigm model of factors affecting the readability of key audit matters (KAMs)

2 Quantitative stage: analysis of quantitative findings and structural model testing

In this section, first the demographic characteristics of the respondents are reported, then the instrument validation analyses (validity and reliability), confirmatory factor analysis (CFA) and finally the results of structural equation modeling (SEM) are presented.

2.1 Descriptive demographic analysis of respondents

In this study, a total of 370 valid questionnaires were collected from the statistical population including auditors working in audit firms, financial analysts, members of audit committees and other professional users of financial statements. Descriptive analysis of the demographic characteristics of the respondents based on Table 1 indicates that among the respondents, 262 (70.8%) were male and 108 (29.2%) were female. The largest number of respondents had a master's degree (220, equivalent to 59.5%). There were also 112 (30.3%) with a bachelor's degree and 38 (10.3%) with a doctorate. In terms of professional experience, 90 (24.3%) had less than 5 years of experience, 165 (44.6%) had between 5 and 10 years, and 115 (31.1%) had more than 10 years of experience. 180 (48.6%) of the respondents worked in auditing firms, 78 (21.1%) were financial analysts or investment advisors, 55 (14.9%) were audit committee members, and 57 (15.4%) were other professional users such as financial managers and financial reporting experts. In general, the results of the descriptive analysis show that the respondents have a good mix in terms of gender, education, work experience, and field of expertise, and thus the data collected has the necessary diversity and adequacy to conduct statistical analyses.

Table 1: Demographic characteristics of respondents

Variable	Classification	Number	Percentage
Gender	Male	262	70.8%
	Female	108	29.2%
Education Level	Bachelor	112	30.3%
	Master	220	59.5%
	PhD	38	10.3%
Work Experience	Less than 5 years	90	24.3%
	5 to 10 years	165	44.6%
	More than 10 years	115	31.1%
Field of Activity	Auditors in audit firms	180	48.6%
	Financial analysts or investment advisors	78	21.1%
	Members of audit committees	55	14.9%
	Other professional users	57	15.4%

a. Research instrument validation

To examine the validity of the measurement instrument, the face and content validity of the questionnaire was evaluated by 5 university professors and auditing experts and finalized after receiving corrective feedback. Next, confirmatory factor analysis (CFA) was conducted to assess the validity of the construct. The results showed that all factor loadings were higher than 0.6 and the AVE value for all constructs was higher than 0.5; therefore, convergent validity was confirmed. Also, based on the Fornell and Larker criterion, divergent validity was also examined by comparing the AVE square root of each construct with the correlation coefficients between the constructs, which results indicated the adequacy and differentiation of the constructs from each other. To assess reliability, two indices, Cronbach's alpha and composite reliability (CR), were used. The Cronbach's alpha value for different constructs was calculated between 0.78 and 0.88, and the CR values were calculated between 0.81 and 0.90. These values are above the threshold of 0.7 and indicate appropriate stability and reliability of the research instrument.

Table 2: Validity and reliability indices of questionnaire constructs

Conceptual structure	Number of items	Average factor loading	AVE	Cronbach's Alpha (α)	Composite Composite
Causal conditions	10	0.72	0.56	0.81	0.84
Contextual conditions	8	0.75	0.58	0.83	0.86
Intervening conditions	6	0.71	0.55	0.80	0.83
Strategies	7	0.78	0.62	0.85	0.88
Consequences	6	0.76	0.60	0.84	0.87

Below, the comparative matrix of divergent validity (based on the Fornell-Larker criterion) for the five constructs of the questionnaire is given. In this matrix, the diagonal values indicate the square root of the AVE for each

construct, and the off-diagonal values indicate the correlation coefficient between the constructs. According to the Fornell-Larker criterion, in all cases, the diagonal value of the table (square root of the AVE) is larger than the correlation coefficients of each construct with other constructs; therefore, the divergent validity is confirmed for all constructs.

Table 3: Divergent validity matrix (Fornell-Larker criterion)

Structure	**Causal conditions**	**Contextual Conditions**	**Intervening conditions**	**Strategies**	**Consequences**
Causal Conditions	0.75	0.52	0.47	0.49	0.44
Contextual Conditions	0.52	0.76	0.54	0.58	0.51
Intervening Conditions	0.47	0.54	0.74	0.55	0.50
Strategies	0.49	0.58	0.55	0.79	0.61
Consequences	0.44	0.51	0.50	0.61	0.77

Table 4 presents the correlation matrix between the constructs, indicating that all correlation coefficients are less than 0.85, so there is no concern about excessive collinearity. Also, the positive relationships between the constructs indicate logical alignment of the variables in the conceptual model.

Table 4: Correlation Matrix Between Constructs

Structure	**Causal conditions**	**Contextual Conditions**	**Intervening conditions**	**Strategies**	**Consequences**
Causal Conditions	1.00	0.52	0.47	0.49	0.44
Contextual Conditions	0.52	1.00	0.54	0.58	0.51
Intervening Conditions	0.47	0.54	1.00	0.55	0.50
Strategies	0.49	0.58	0.55	1.00	0.61
Consequences	0.44	0.51	0.50	0.61	1.00

The Variance Inflation Index (VIF) for the constructs is also shown in Table 5, and since all VIF values are less than 5, it indicates that there is no multicollinearity problem in the model and the constructs play their role independently of each other.

Table 5: Variance Inflation Index (VIF) for the constructs

Structure	VIF value
Causal Conditions	2.13
Contextual Conditions	2.68
Intervening Conditions	2.21
Strategies	2.94
Consequences	2.80

b. Structural Model Evaluation After confirming the suitability of the measurement model, the next step in structural equation analysis using the PLS method is to evaluate the structural model. At this stage, the fit of the conceptual research model and the relationships between latent constructs were examined through indicators such as path coefficients, coefficient of determination ($\mathbb{R}^2$), prediction index ($\mathbb{Q}^2$), and overall fit index (GOF).

A) Path coefficients and statistical significance

To measure the significance of the relationships between constructs, the bootstrap method was used with 5000 repetitions. The results of the path coefficients and t-values tests showed that all the main paths of the model were significant at the 95% confidence level ($t > 1.96$). Table 6 and Figures 2 and 3 summarize the results of the path coefficients and their significance

Table 6: Path coefficients, t-values, and p-values for testing the research model

Conceptual Path	**Path coefficient (β)**	**t-value**	**p-value**	**Test result**
Causal Conditions → Strategies	0.41	7.86	0.000	Meaningful
Contextual Conditions → Strategies	0.26	5.13	0.000	Meaningful
Intervening Conditions → Strategies	0.19	3.82	0.000	Meaningful
Readability → Strategies	0.38	6.45	0.000	Meaningful
Professional Implications and Informativeness → Readability	0.54	9.33	0.000	Meaningful

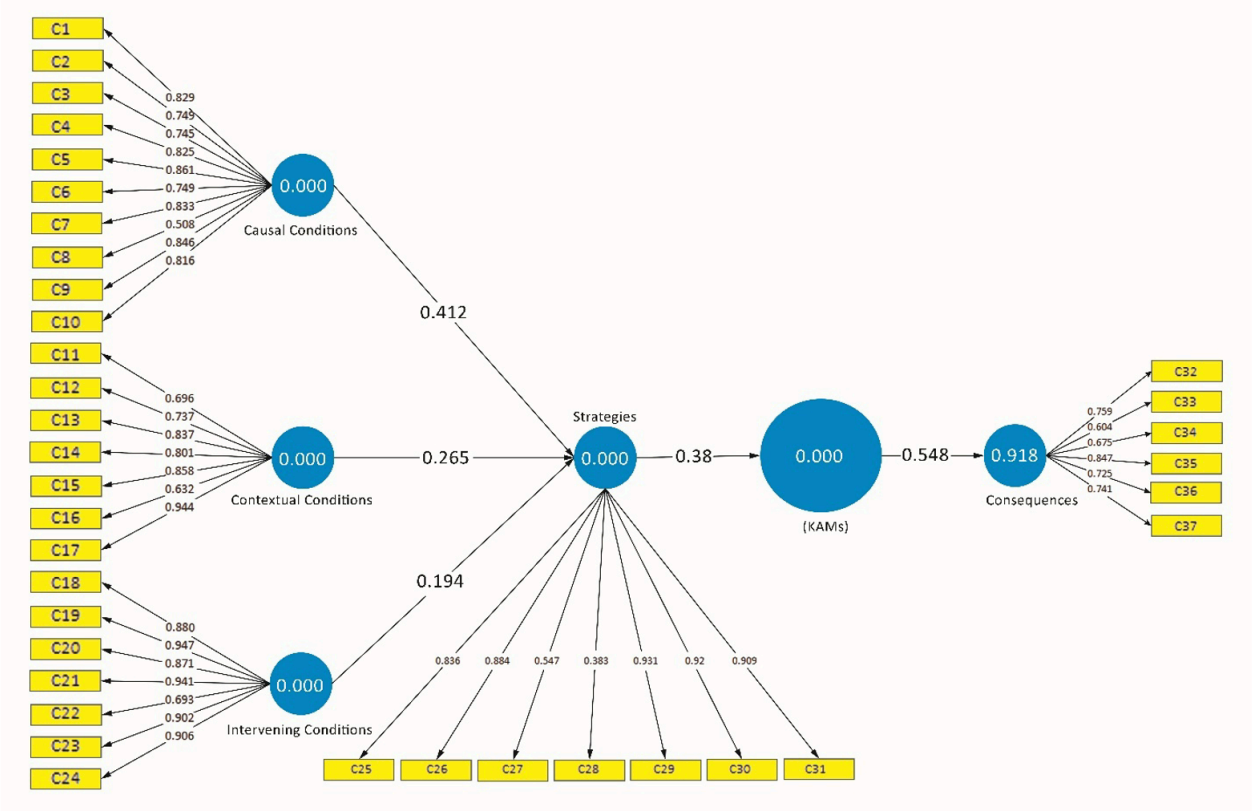

Figure 2: Path coefficient of the final model

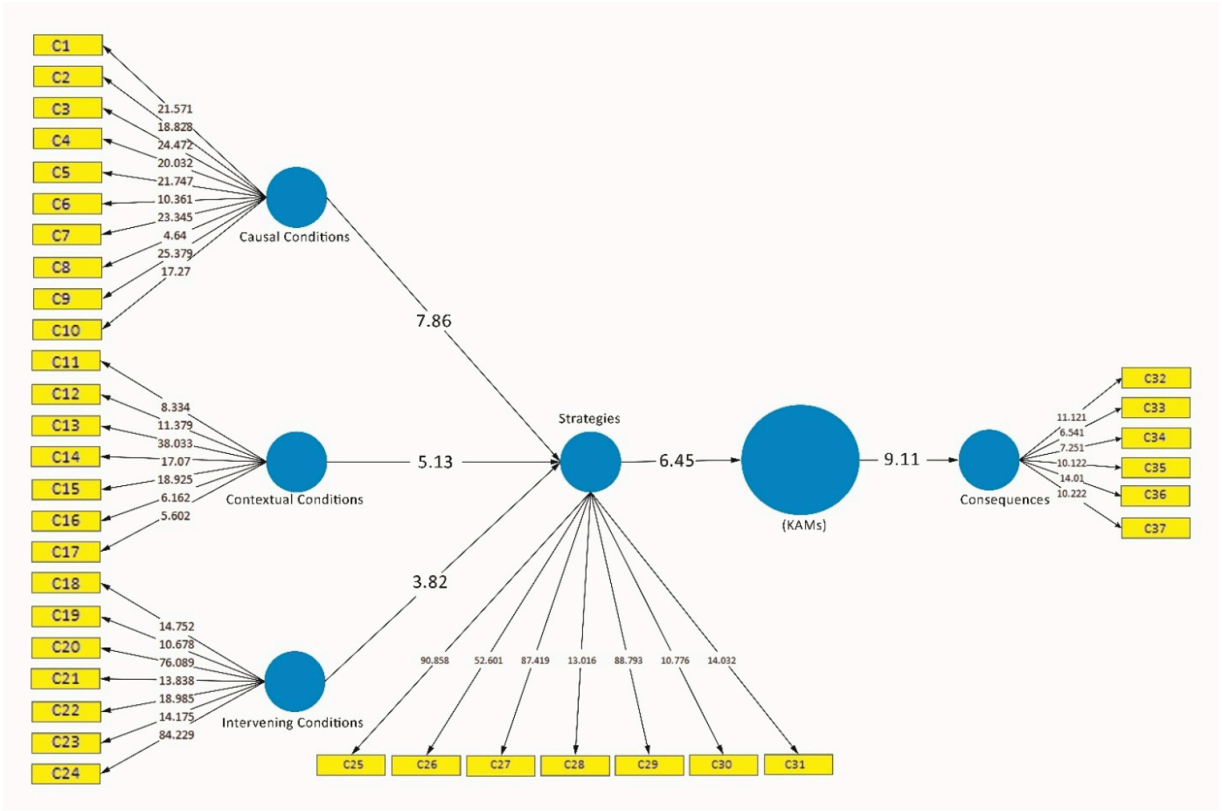

Figure 3: Significance of the path coefficients of the final model

b) Coefficient of determination ($\mathbb{R}^2$)

The coefficient of determination shows the amount of variance explained in the dependent variable by the independent variables. The results obtained indicate the desirable explanatory power of the model at the level of social science research. $\mathbb{R}^2$ values higher than 0.26 are considered acceptable in behavioral science studies [4].

Table 7: Coefficient of determination ($\mathbb{R}^2$) of dependent constructs of the structural model

Dependent variable	$\mathbb{R}^2$	**Explanation Level**
Strategies	0.61	High
Readability	0.46	Medium
Professional and informative consequences	0.52	High

c) $\mathbb{Q}^2$ Index (Model Predictability)

The $\mathbb{Q}^2$ index was calculated to evaluate the predictive power of the model through the Blindfolding method for dependent constructs. $\mathbb{Q}^2$ values greater than zero indicate that the model has good predictive ability:

Table 8: $\mathbb{Q}^2$ Index for Examining the Predictive Ability of the Research Model

Hidden Structure	$\mathbb{Q}^2$	Status
KAM Readability	0.35	Acceptable
Professional Implications and Informativeness	0.33	Acceptable

D) Overall Goodness of Fit (GOF) Index

To measure the overall fit of the model, the GOF index was calculated. The value obtained is 0.48, which is above the threshold of 0.36 (strong fit) and indicates the desired adequacy of the conceptual model of the research.

Discussion and Conclusion

The results of the present study showed that all factors considered in the conceptual model have a significant effect on the readability of key audit matters (KAM). It was also found that the readability of KAM plays an important mediating role in reducing the expectation gap between auditors and stakeholders. These findings can be analyzed and interpreted from different perspectives.

In the first step, causal conditions such as the size and reputation of the audit firm, the expertise and education of the auditors, and the complexity of the client's activities had a direct and significant effect on the quality of KAM writing. This result is consistent with the findings of Christensen et al. [5] is consistent with the findings that institutional and individual characteristics of auditors, including professional expertise, affect the level of transparency of KAM disclosure. Hussin et al., [8] also believe that auditors' linguistic and writing skills play a decisive role in increasing the comprehensibility of key issues.

In the context section, factors such as the level of financial literacy of users, the structure of the audit services market, organizational culture, and legal requirements were identified as influential contextual components. This finding is consistent with the studies of Höfmann [7] and the report (IAASB, 2022 [11]) that have emphasized the importance of institutionalizing professional training and paying attention to cultural and legal contexts in improving the quality of audit reporting.

Regarding intervening conditions, variables such as institutional pressures, time constraints, access to information, and lack of expertise were identified as facilitating or inhibiting factors in the process of writing a readable and effective KAM. The findings of this section are consistent with the results of Bédard et al. [3], who emphasized that time pressure, resource constraints, and conflicts of interest with clients can reduce the quality of disclosure.

In the area of strategies, strategies such as specialized training of auditors, the use of new technologies (including artificial intelligence tools and natural language processing), the development of KAM standard guides and examples, and effective interaction with stakeholders had a significant impact on increasing readability. These results are consistent with the IAASB, 2022 [11] emphasis on the role of technological, educational, and communication approaches in improving the readability of audit reports.

From an impact perspective, the findings showed that increasing the readability of KAM not only leads to a better understanding of the content of the report by users, but also increases public trust, improves the quality of disclosure, and makes the role of auditing in strengthening the accountability system and corporate governance more prominent. This finding is consistent with the studies of Tarmidi et al. [6] and Suttipun [18] are consistent in emphasizing that more readable reports facilitate more informed decision-making by investors and increase the legitimacy of the audit profession in the eyes of the public. More importantly, increasing the readability of KAM as a mediating mechanism leads to better alignment of expectations between auditors and stakeholders, thereby helping to reduce the expectation gap between these two groups, a gap that is considered one of the fundamental challenges in the effective functioning of audit reporting. Therefore, paying attention to readability as a key factor not only leads to improved professional Consequences, but also enhances the communicative efficiency of the audit report and brings users' mindsets closer to the goals and constraints of the audit profession.

One of the prominent findings of this study is the confirmation of the mediating role of the readability of KAM clauses; In a way that this variable not only acts as an intermediary between causal, intervening, and contextual factors with final Consequences, but also as a key variable in enhancing the effectiveness of audit reporting. This mediating role makes readability a conceptual and operational bridge through which the structural and content quality of audit reports can directly affect user trust, risk perception, and expectation gap reduction. The importance of this finding is that readability goes beyond the level of a mere linguistic feature and becomes a strategic tool for developing standards, designing KAM disclosure guidelines, and promoting professional policies

Summary and Conclusion

The present study aims to identify and explain the factors affecting the readability of Key Audit Matters and to present a conceptual model to reduce the expectation gap between auditors and various stakeholder groups, using a mixed approach (qualitative-quantitative). In the qualitative part, using content analysis of semi-structured interviews, conceptual and contextual dimensions affecting the readability of KAM were identified, and in the quantitative stage, the extracted conceptual model was tested using the structural equation modeling method. The research findings showed that KAM readability is a complex, multi-level and multi-dimensional concept that is influenced by a set of causal conditions (such as the educational and professional structure of auditors), intervening factors (such as institutional pressures, time constraints and legal risks), contextual conditions (including the financial literacy of the

audience and the media environment), and strategies used by auditors (such as professional writing training, technology use and stakeholder engagement).

One of the most important theoretical findings of this research is the confirmation of the mediating and mechanism-oriented role of KAM readability; meaning that this mediating variable establishes a conceptual and operational link between effective factors and expected Consequences in the field of audit reporting. The results showed that improving the readability of KAM clauses can pave the way for significant improvements in several key areas; Including increasing the transparency of the information provided, improving users' understanding of risks and sensitive financial estimates, improving the level of trust in audit reports, reducing possible misconceptions, and ultimately, reducing the expectation gap between auditors and report users. This achievement elevates the importance of addressing the readability component from the level of a writing feature to a strategic and macro level in policy-making and standardization of the auditing profession.

By providing a coherent conceptual model, the present study provides the possibility of an integrated analysis of the variables affecting the quality of KAM writing and can be provided as a valid theoretical and practical framework for supervisory bodies, auditing regulators, professional associations, audit firms, and researchers. Also, this study provides a suitable platform for reviewing the guidelines for compiling and disclosing KAM and redesigning training programs to improve the writing and communication capabilities of auditors. Accordingly, strengthening auditors' writing and language skills, utilizing text analysis technologies, and increasing their interaction with stakeholders can play an important role in improving the quality of public disclosure and accountability. Despite the importance of the research findings and theoretical innovation, several limitations should be noted that could pave the way for future developments. First, the statistical population of the research was limited to listed companies and a limited sample of auditors and stakeholders in a specific cultural and economic context. Therefore, the generalizability of the findings to other cultural, legal, and professional contexts requires comparative and international studies. Second, although the qualitative approach of the research has provided the opportunity to deeply explore the hidden dimensions of readability, some psychological, behavioral, and institutional factors that may indirectly affect the way KAM is written have been less investigated. Third, the dynamics and rapid evolution of auditing standards, technological tools, and stakeholder expectations require that the presented model be updated and retested at specific intervals.

Finally, future research can take important steps towards deepening knowledge and improving the quality of audit reporting by using broader field data, focusing on diverse industries, employing modern linguistic analysis tools (such as NLP and text mining), and examining the effects of readability on the actual decision-making behavior of investors, managers, and financial analysts. Also, examining how KAM clauses are perceived in different economic conditions, market risk levels, and among different audience groups can help develop differentiated standards for different levels of disclosure.

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