

The impact of key audit matter characteristics on financial statement understandability and investor decision-making: An empirical study

Nidal Neiroukh^{a*} and Dilber Caglar^a

^aGirne American University, Turkey

CHRONICLE

Article history:

Received: February 2, 2024

Received in the revised format:

July 26, 2024

Accepted: August 1, 2024

Available online:

August 1, 2024

Keywords:

Key Audit Matters

Financial Statement

Understandability

Investor Decision-Making

Audit Quality

Financial Reporting Quality

Investment Decisions.

ABSTRACT

This study investigates how key audit matter (KAM) characteristics influence financial statement understandability and subsequent investor decision making. Using Structural Equation Modeling-Variance Based (SEM-VB) through Partial Least Squares (PLS), the analysis was conducted on a diverse global sample of investors from Europe, North America, Asia-Pacific, Africa, and Latin America. The results indicate that KAM accuracy, reliability, audit quality, and financial reporting quality significantly enhance perceived financial statement understandability, which in turn positively impacts investor judgments. The mediating role of understandability is confirmed, emphasizing its crucial influence on investors' decisions. Additionally, an importance-performance map analysis (IPMA) identified KAM reliability and accuracy as the most critical factors. This study contributes to the theoretical and managerial understanding of audit practices and investor behavior.

© 2024 by the authors; licensee Growing Science, Canada.

1. Introduction

In today's complex financial markets, transparency and reliability of financial reporting are crucial for making informed investment decisions. Investors increasingly depend on comprehensive and accurate disclosures to guide their decision-making processes (Salehi, 2022). At the heart of these disclosures are Key Audit Matters (KAMs), which highlight the most significant areas of audit. The accuracy and reliability of KAMs are important because they offer investors insights into the auditor's perspective on financial reporting risks and overall quality of financial statements. This study examines how the precision of KAMs and overall quality of financial reporting influence investors' judgments and decisions (Chang et al., 2024). The introduction of KAMs by regulatory bodies, such as the International Auditing and Assurance Standards Board (IAASB) (IAASB | IAASB, 2024), aims to improve the communicative value of audit reports (Alshdaifat et al., 2024). By emphasizing areas that require significant auditor attention, KAMs provide a further understanding of a company's financial health and risk (Camacho-Miñano et al., 2024). However, the effectiveness of KAMs centers on its accuracy and reliability. Investors must trust that these disclosures not only reflect actual audit concerns but are also transparently and comprehensively (Ebirim et al., 2024). Recent studies suggest that high-quality KAM disclosures can significantly impact investor confidence and decision-making. For example, Lennox, Schmidt, and Thompson (Lennox et al., 2023) found that clear and precise KAMs contribute to a more robust investment environment by reducing information asymmetry. Moreover, the clarity and understandability of these matters are crucial. When KAMs are articulated straightforwardly, they become powerful tools for investors, helping them gauge potential risks and opportunities more effectively (Moroney et al., 2021). Despite the growing importance of KAMs, questions remain regarding their actual influence on investor behavior. This study evaluates the interplay between KAM accuracy, financial reporting quality, and investor judgment. By investigating these elements, this study aims to provide empirical evidence on how they shape investment strategies and decisions, ultimately contributing to a higher understanding of the role of audit disclosure in financial markets.

* Corresponding author.

E-mail address: nidal.neiroukh@std.gau.edu.tr (N. Neiroukh)

© 2024 by the authors; licensee Growing Science, Canada.

doi: 10.5267/dsl.2024.8.001

KAM accuracy and reliability are integral to the audit quality. High-quality audits boost the credibility of financial reports and foster greater investor trust (Guo et al., 2024). Investors rely on the precision of KAMs to form judgments about financial statements' understandability and reliability (Ong et al., 2022a). Accurate reporting of KAMs can substantially improve the quality of financial reporting, reduce uncertainties, and enhance investor decision-making processes (Velte, 2023). Financial statement understandability is another critical factor that is influenced by the quality of KAM disclosure. Clear and comprehensible financial statements enable investors to make informed judgments (Allee et al., 2024). Thus, the communicative effectiveness of KAMs directly affects financial reporting quality and investor behavior. When investors find KAMs reliable and easy to understand, they are very likely to make abreast investment decisions (Godi, 2024).

This study not only complements the existing literature on audit practices, but also provides practical insights for auditors and regulatory bodies aimed at enhancing the transparency and effectiveness of financial reporting (Fuadah & Setiyawati, 2020). By understanding the impact of KAMs on investor behavior, stakeholders can better appreciate the critical role of accurate and reliable audit disclosures in fostering a stable and trustworthy financial environment (Baatwah et al., 2022). This empirical study underscores the importance of KAM accuracy and reliability in improving audit quality, financial reporting quality, and, ultimately, investor decision-making. Accordingly, the subsequent research questions were proposed:

RQ1: In what ways do the characteristics of KAMs collectively influence the understandability of financial statements?

RQ2: Does the understandability of financial statements mediate the relationship between the characteristics of KAMs and investors' decision-making judgments?

2. Theoretical Background and Hypotheses

2.1. Information Asymmetry Theory

Information Asymmetry Theory (Akerlof et al., 1970) is crucial for understanding the discrepancies in information between company management and investors, emphasizing how unequal access to information can lead to poor decision making and impact market efficiency and trust. In the context of our research, KAMs are crucial for bridging this information gap by providing investors with insights into significant audit findings and areas of concern. This transparency helps reduce information asymmetry, enabling investors to make informed decisions based on a clearer understanding of a company's financial health (Christensen et al., 2014). When KAMs are accurate and reliable, they enhance the quality of financial reporting, boosting investor assurance. Access to detailed and trustworthy audit disclosures allows investors to assess risks and opportunities better, leading to more rational investment choices (Ismail et al., 2018). This study inspects how the accuracy and reliability of KAMs influences investors' judgments and decisions. By applying the Information Asymmetry Theory, this study highlights the crucial role of transparent and precise audit disclosures in mitigating information gaps, ultimately fostering a more stable and efficient market. This theoretical framework underpins this research by explaining the mechanisms through which KAMs affect investor behavior (Moroney et al., 2021).

2.2. Investors Judgment of Decision Making

Investors' decision-making judgment is a critical area of study in finance and behavioral economics. Researchers have explored various factors that influence investors' decisions, including cognitive biases, risk perception, and information processing strategies. According to Barber and Odean (Barber & Odean, 2001), individual investors often exhibit overconfidence and a tendency to trade frequently, leading to suboptimal investment outcomes. Thaler (Thaler, 1985) discusses the concept of mental accounting, in which investors compartmentalize their investments based on subjective criteria rather than overall portfolio performance. Additionally, behavioral finance literature, such as Kahneman and Tversky's prospect theory (Tversky & Kahneman, 1992), highlights how investors' decisions are influenced by the framing of choices and perceived gains or losses comparative to a reference point. Moreover, the role of emotions, particularly fear and greed, has been emphasized by studies such as Lo and Repin (Lo & Repin, 2002), demonstrating their impact on investment decision-making processes. Understanding these dynamics can help improve investor education and decision-support systems, promoting rational and informed investment behavior. Future research could explore interventions to mitigate biases and enhance decision-making processes among investors, thus contributing to better financial outcomes and market efficiency.

2.3. The Accuracy and Reliability of KAMs

KAMs highlight their critical role in enhancing financial reporting quality and investor decision-making. KAMs aim to provide insights into significant audit issues, thereby reducing the information asymmetry between company insiders and investors. Christensen, Glover, and Wolfe (Christensen et al., 2014) found that KAM disclosures improve the information environment for financial statement users, making it easier for investors to understand complex financial matters. Lennox, Schmidt, and Thompson (Klueber et al., 2018) demonstrate that precise and accurate KAMs significantly boost investor confidence by providing clearer insights into audit findings and risks. Furthermore, Moroney, Phang, and Xiao (Moroney et al., 2021) highlighted that high-quality KAMs contribute to better financial reporting by increasing transparency and trustworthiness, which in turn positively influences investor behavior. However, the effectiveness of KAMs depends largely on their accuracy and reliability (Dos'Santos et al., 2019). Investors must trust that KAMs reflect genuine audit concerns

and that they are presented transparently. These findings collectively suggest that improving the accuracy and reliability of KAM disclosures can significantly enhance financial reporting quality and support informed investor decision-making. Therefore, we hypothesize as follows:

H₁: *There is a positive association between the accuracy and reliability of KAMs and the perceived understandability of financial statements.*

2.4. Audit and Reporting Quality

The literature on audit and financial reporting quality emphasizes their interdependent relationship in promoting transparency and reliability in financial disclosures. High audit quality is characterized by thoroughness, integrity, and the ability to detect and report material misstatements, which contribute significantly to financial reporting quality. DeFond and Zhang (DeFond & Zhang, 2014) suggest that high-quality audits improve the credibility of financial statements, thus reducing the information asymmetry between managers and investors. Francis (Francis, 2011) further asserts that robust audit practices improve investor confidence by ensuring that financial reports are accurate and free of significant errors. Several studies explore the influence of audit quality on financial reporting. For instance, Knechel et al. (Knechel et al., 2013) find that higher audit quality is associated with greater financial statement reliability, which is crucial for effective investor decision-making. Similarly, Ball, Jayaraman, and Shivakumar (Ball et al., 2012) highlighted that stringent audit practices can deter aggressive financial reporting and earnings management, thereby improving the overall quality of financial reports. Lawrence, Minutti-Meza, and Zhang (Lawrence et al., 2011) indicate that firms audited by high-quality auditors are more likely to produce financial statements that better reflect the economic realities of the firm. Collectively, these findings highlight the essential role of audit quality in enhancing financial reporting quality, thus supporting market efficiency and investor trust. Therefore, we hypothesize as follows:

H₂: *Higher audit quality is positively associated with the perceived understandability of financial statements.*

H₃: *Higher financial reporting quality is positively associated with the perceived understandability of financial statements.*

2.5. The Mediating Character of Financial Statements Understandability

The understandability of financial statements is crucial for investors, as it directly affects their ability to make informed decisions. According to Beattie, McInnes, and Fearnley (Beattie et al., 2004), clear and comprehensible financial disclosures enable investors to accurately assess a company's financial well-being and future forecasts. This understandability is enhanced by straightforward language, logical presentation, and avoidance of excessive jargon (Jones & Scott, 2022). Studies have shown that investor confidence increases when financial statements are more understandable. Miller (Miller, 2010) found that simplified disclosures lead to better investor comprehension and more accurate evaluations of financial performance. Moreover, Lawrence, Minutti-Meza, and Zhang (Lawrence et al., 2011) highlight that transparent and easily interpretable financial statements reduce information asymmetry, thus fostering a more efficient market. The role of narrative disclosures, such as Management Discussion and Analysis (MD&A), is also significant. Smith and Taffler (Smith & Taffler, 2000) suggest that well-articulated narrative sections can improve investors' understanding by providing contexts and explanations that numerical data alone cannot convey. Collectively, these findings highlight the importance of enhancing the understandability of financial statements to support investor decision making and market efficiency. Therefore, we hypothesize as follows:

H₄: *There is a positive association between the perceived understandability of financial statements and investors' decision-making judgments.*

H_{5a-c}: *The relationship between KAM characteristics—specifically (a) KAM accuracy and reliability, (b) audit quality, and (c) financial reporting quality—and investors' decision-making judgments is mediated by the perceived understandability of financial statements.*

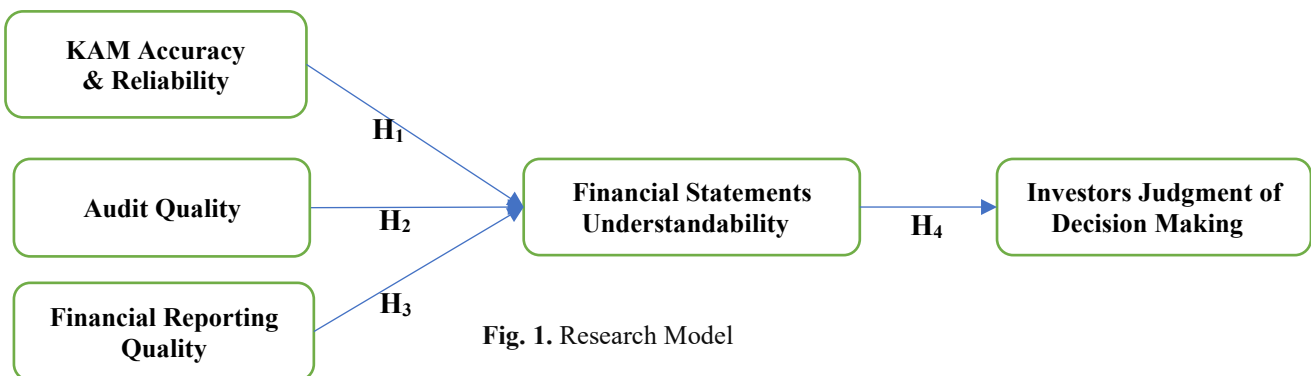


Fig. 1. Research Model

3. Research Methodology

3.1. Data Collection and Sample

To evaluate the impact of KAM accuracy and reliability and financial reporting quality on investors' judgment of decision-making, a structured survey was designed and distributed to a diverse group of investors worldwide. The survey aimed to capture investors' perceptions, experiences, and decision-making processes regarding KAM disclosure and financial reporting quality. Investors were identified through comprehensive databases such as Bloomberg, Thomson Reuters, and Morningstar and by partnering with major investment platforms, online trading platforms, and brokerage firms. Additionally, collaborations with international financial organizations such as the CFA Institute and leveraging social media platforms such as LinkedIn and Twitter have helped reach a broad audience of institutional and retail investors globally.

The survey included a quantitative question to gather comprehensive data on various aspects including demographic information, perceptions of KAM accuracy and reliability, views on the quality of financial reporting, decision-making processes influenced by KAM disclosures, and the impact of financial reporting on investment decisions. The target sample size was 1,473 investors, ensuring diverse representations across different regions, including Europe, North America, Asia-Pacific, Africa, and Latin America. The data collection process was conducted from November to December 2023. The sample comprises both institutional investors (e.g., fund managers and analysts) and retail investors (e.g., individual shareholders), aiming to provide a complete view of the investor population. 813 responses were received. A total of 672 valid complete responses were used for further analysis. The demographic data are presented in Table 1.

Table 1
Respondents profile

	Characteristics	Number	%
Respondents group	Institutional investors	408	60.7%
	Retail investors	264	39.3%
Gender	Male	470	69.6%
	Female	202	30.1%
Age	Below than 25 years old	18	2.7%
	25-34	375	55.8%
	35-44	192	28.6%
	45-54	56	8.3%
	Above 55 years old	31	4.6%
Education	No formal education	2	0.3%
	High school/Diploma	137	20.4%
	Bachelor's degree	348	51.8%
	Master's degree	103	15.3%
	PhD degree	82	12.2%
Ethnicity	North America	197	29.3%
	Europe	294	43.8%
	Asia-Pacific	119	17.7%
	Latin America	29	4.3%
	Africa	20	3.0%
	Other	13	1.9%
Total		672	100%

3.2. Measurements

Mature measurement scales were selected and adjusted appropriately for research scenarios to guarantee the reliability and validity of the measurement scale. Rendering to relevant scholarly research, KAM reliability and accuracy comprise three items (Kipp, 2017), audit quality includes nine items (Rajgopal et al., 2021), financial reporting quality includes five items (Kipp, 2017), financial statement understandability includes eight items (Rathnayake Mudiyansele, 2020), and investors' judgment of decision making includes five items (Blessing & Onoja, 2015). All items were scored on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

4. Data Analysis and Results

This study utilized the Structural Equation Modeling-Variance Based (SEM-VB) approach, specifically employing the Partial Least Squares (PLS) method using SmartPLS software (version 4.0) (Neiroukh et al., 2024; Ringle et al., 2022). This analysis adhered to the two-stage technique advocated by Anderson and Gerbing (1988). Initially, the measurement model was assessed to ensure validity and reliability, followed by an evaluation of the structural model to test hypothesized

relationships (Aljuhmani et al., 2021; Hair et al., 2017). The primary rationale for selecting PLS as the statistical method lies in its capability to simultaneously analyze both the measurement and structural models, resulting in more precise estimates (Al'Ararah et al., 2024; Barclay et al., 1995). This dual-stage analysis enhances the robustness and accuracy of the findings, and provides a comprehensive understanding of the dynamics of the research model.

4.1. Measurement Models Assessment

The measurement model assessment in this study involved evaluating the construct reliability and validity, including both convergent and discriminant validity. As shown in Table 2, construct reliability was confirmed through Cronbach's alpha coefficients, all of which exceeded the recommended value of 0.7, ranging from 0.745 to 0.921 (Al-Geitany et al., 2023; Nunnally & Bernstein, 1994). Additionally, composite reliability (CR) values ranged from 0.754 to 0.936, surpassing the 0.7 threshold (Awwad et al., 2022; Hair et al., 2019). Indicator reliability was verified using factor loadings, with all items, except FRQ5 exceeding the 0.5 benchmark (Hair et al., 2009). Convergent validity, assessed via average variance extracted (AVE), showed values between 0.534 and 0.677, well above the 0.50 standard (Fornell & Larcker, 1981). The measurement model is shown in Table 2.

Table 2
Construct reliability and convergent validity.

Construct/ Indicators	Outer loadings	VIF	Cronbach's α	CR	AVE
Audit quality (AQ)			0.842	0.872	0.534
AQ1	0.583	1.462			
AQ2	0.618	1.728			
AQ3	0.607	2.463			
AQ4	0.622	2.454			
AQ5	0.659	1.689			
AQ6	0.707	1.921			
AQ7	0.737	2.140			
AQ8	0.757	1.956			
AQ9	0.700	1.711			
Financial reporting quality (FRQ)			0.745	0.754	0.583
FRQ1	0.517	1.379			
FRQ2	0.892	1.281			
FRQ3	0.541	1.516			
FRQ4	0.574	1.329			
FRQ5*	-	-			
Financial statement understandability (FSU)			0.921	0.936	0.647
FSU1	0.830	2.712			
FSU2	0.841	2.748			
FSU3	0.642	1.584			
FSU4	0.864	1.162			
FSU5	0.824	2.687			
FSU6	0.846	2.780			
FSU7	0.767	2.093			
FSU8	0.797	2.368			
Judgments decision-making (JDM)			0.810	0.869	0.572
JDM1	0.661	1.373			
JDM2	0.680	1.339			
JDM3	0.798	2.218			
JDM4	0.845	2.564			
JDM5	0.780	1.641			
KAM reliability and accuracy (KRA)			0.763	0.863	0.677
KRA1	0.850	1.538			
KRA2	0.840	1.673			
KRA3	0.777	1.481			

Note: Items were deleted owing to low factor loading (*), Variance inflation factor (VIF), Composite reliability (CR), and Average variance extracted (AVE).

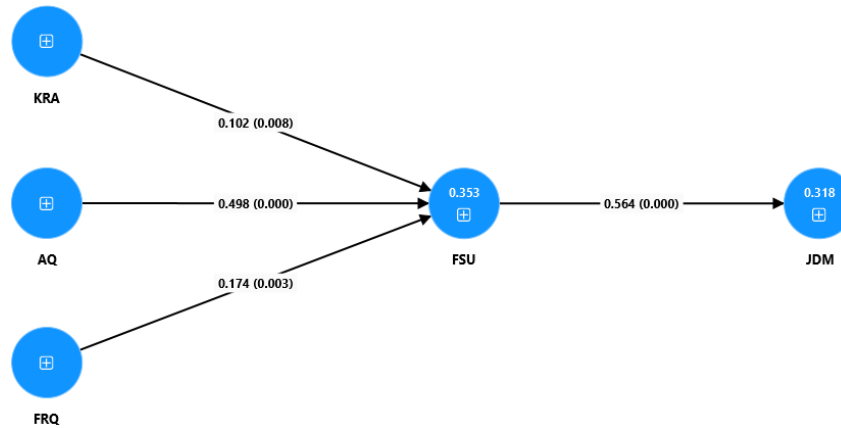
Discriminant validity was confirmed through the Heterotrait-Monotrait ratio (HTMT) (Henseler et al., 2015), with all HTMT values below 0.85 (Table 3), indicating strong discriminant validity (Hair et al., 2019).

Table 3
Discriminant validity using the Heterotrait-Monotrait ratio (HTMT).

Factors	AQ	FRQ	FSU	JDM	KRA
1. Audit quality (AQ)					
2. Financial reporting quality (FRQ)	0.216				
3. Financial statement understandability (FSU)	0.593	0.228			
4. Judgments decision-making (JDM)	0.464	0.167	0.643		
5. KAM reliability and accuracy (KRA)	0.470	0.168	0.354	0.338	

4.2. Structural Model Assessment

The structural model assessment, Following Hair et al. (2017)'s guidelines, evaluated the beta coefficients (β), R-squared (R^2) values, and their corresponding t-values were calculated using a bootstrapping procedure with 5,000 resamples (Neiroukh et al., 2024). Effect sizes (f^2) were also considered, aligning with the recommendation by Sullivan and Feinn (2012) that p-values indicate the presence rather than the magnitude of the effects. As shown in Figure 2, the structural model provides insights into the hypothesis-testing outcomes.



Note: Investors' judgments decision-making (JDM), KAM reliability and accuracy (KRA), audit quality (AQ), financial statement understandability (FSU), financial reporting quality (FRQ).

Fig. 2. PLS Structural model

The results confirm that the accuracy and reliability of KAMs positively influence the perceived understandability of financial statements (H1: $\beta=0.102$, $t=2.661$, $p=0.008$). Similarly, audit quality (H2; $\beta=0.498$, $t=14.742$, $p=0.000$) and financial reporting quality (H3; $\beta=0.174$, $t=2.981$, $p=0.003$) were positively associated with perceived understandability. Moreover, perceived financial statement understandability significantly and positively impacts investors' decision-making judgments (H4: $\beta=0.564$, $t=18.982$, $p=0.000$). Table 4 summarizes the hypothesis testing results, which underscore the robustness of the structural model in explaining the relationships hypothesized in this study.

Table 4

Hypotheses testing results.

Hypothesized Relationships	Sample Estimate	T-statistics	P-values	Decision
H1: KRA \rightarrow FSU	0.102	2.661	0.008	Supported
H2: AQ \rightarrow FSU	0.498	14.742	0.000	Supported
H3: FRQ \rightarrow FSU	0.174	2.981	0.003	Supported
H4: FSU \rightarrow JDM	0.564	18.982	0.000	Supported

Note: Investors' judgments decision-making (JDM), KAM reliability and accuracy (KRA), audit quality (AQ), financial statement understandability (FSU), financial reporting quality (FRQ).

4.3. Mediation Effect Results

The mediation analysis in this study, following Hayes' (2009, 2013) recommendations, utilized the bootstrapping method to assess indirect effects (Aljuhmani et al., 2024). Specifically, Preacher and Hayes's (2004) methods were employed to examine how the perceived understandability of financial statements mediates the relationships between KAM characteristics, namely (a) KAM accuracy and reliability, (b) audit quality, and (c) financial reporting quality, and investors' decision-making judgments. Table 5 presents the results of these analyses, demonstrating the significant indirect effects. Perceived understandability mediated the relationship between KAM accuracy and reliability (H5a; $\beta=0.058$, $t=2.567$, $p=0.010$), audit quality (H5b; $\beta=0.281$, $t=11.603$, $p=0.000$), and financial reporting quality (H5c; $\beta=0.098$, $t=2.981$, $p=0.003$) with investors' decision-making judgments. According to Preacher and Hayes (2008), the absence of a bootstrapped confidence interval straddling zero confirms the mediation (Table 5). Therefore, this study concludes that perceived financial statement understandability significantly mediates the relationships tested, supporting hypotheses H5a-c. These results underscore the essential role of perceived understandability in shaping investors' perceptions and decisions based on financial disclosures.

Table 5
Indirect effect results

Hypothesized Relationships	Sample Estimate	T-statistics	P-values	CIs		Decision
				2.5%	97.5%	
H5a: KRA → FSU → JDM	0.058	2.567	0.010	0.013	0.103	Accepted
H5b: AQ → FSU → JDM	0.281	11.603	0.000	0.236	0.331	Accepted
H5c: FRQ x FSU → JDM	0.098	2.981	0.003	0.057	0.144	Accepted

Note: CIs: confidence intervals, investors' judgments decision-making (JDM), KAM reliability and accuracy (KRA), audit quality (AQ), financial statement understandability (FSU), financial reporting quality (FRQ).

4.4. Importance-Performance Map Analysis (IPMA)

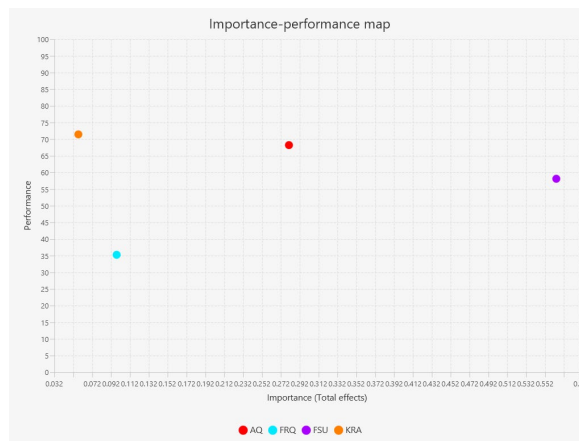
The importance-performance map analysis (IPMA) conducted in this study provides insights into the factors influencing investors' judgment decision-making (JDM) as the consequence construct in PLS modeling. The IPMA assesses both the importance (total effects) and performance (index values) of the predecessor constructs. According to Hair et al. (2017), performance scores were computed by rescaling latent variable scores to a 0-100 range, reflecting their effectiveness in influencing the target construct. Ringle and Sarstedt (2016) note that IPMA enhances PLS analysis by integrating the importance and performance dimensions, aiding in prioritizing areas for improvement. Table 6 displays the findings, detailing the relative importance and performance of the key constructs.

Table 6
IPMA results for investors' decision-making judgments.

Constructs	Total effect of the JDM (Importance)	Index values (Performance)
KAM Reliability and accuracy (KRA)	0.058	71.434
Audit quality (AQ)	0.281	68.210
Financial statement understandability (FSU)	0.564	58.098
Financial reporting quality (FRQ)	0.098	35.258

Note: Investors' judgments decision-making (JDM).

Fig. 3 illustrates that KAM reliability and accuracy (KRA) has emerged as highly influential for investors' decision-making, followed by audit quality (AQ) and financial statement understandability (FSU). Financial reporting quality (FRQ) was found to be less influential. The IPMA highlights areas where enhancements in performance could significantly impact decision-making outcomes, aligning with the study's goal of identifying critical factors that merit attention and improvement.



Note: Investors' judgments decision-making (JDM), KAM reliability and accuracy (KRA), audit quality (AQ), financial statement understandability (FSU), financial reporting quality (FRQ).

Fig. 3. Importance-performance map for investors' JDM.

5. Discussion and Implications

5.1. Discussion of Findings

The findings of this study offer valuable insights into how KAM characteristics influence the understandability of financial statements, and subsequently affect investors' decision-making judgments. The structural model analysis revealed that KAM accuracy and reliability, audit quality, and financial reporting quality positively impact the perceived understandability of

financial statements, supporting hypotheses H1-4. This aligns with prior research emphasizing the importance of audit quality and reliable financial reporting in enhancing the clarity and usefulness of financial disclosures (Kitiwong & Sarapaivanich, 2020; Ong et al., 2022b; Reid et al., 2019; Suttipun, 2021).

Moreover, the study found that perceived understandability of financial statements significantly mediates the relationship between KAM characteristics and investors' decision-making judgments, validating hypotheses H5a-c. This finding is constant with recent studies (Alharasis et al., 2024; Bepari et al., 2023; Gambetta et al., 2023; Hegazy & Kamareldawla, 2021; Klueber et al., 2018; Rautiainen et al., 2021) that argue that the indirect effect can be critical in understanding complex relationships within financial reporting contexts. By applying the bootstrapping method, this study substantiates the mediating role of financial statement understandability, highlighting its significance in investors' decision-making processes.

The importance-performance map analysis (IPMA) further enriches the study by identifying KAM reliability and accuracy as the most crucial factors influencing investor judgments, followed by audit quality and financial statement understandability. The IPMA results suggest that enhancing the performance of these constructs can significantly improve investors' decision-making outcomes. Ringle and Sarstedt (2016) advocate for IPMA's utility in pinpointing areas requiring attention to bolster performance, where it lags despite its high importance.

The robustness of this study's findings is further bolstered by the diverse sample of investors who participated, providing a comprehensive evaluation of the effect of KAM accuracy, reliability, and financial reporting quality on investor decision-making. By capturing perspectives from various markets and cultures, this study offers a holistic view of how KAM characteristics impact financial statement understandability, and consequently, investors' decision-making judgments. This approach aligns with recent research (Abdullatif et al., 2023; Suttipun, 2021) by including diverse samples for more generalizable and robust research outcomes. This wide-ranging sample enhances the validity of the findings and underscores the universal importance of audit quality and reliable financial reporting in shaping informed investor decisions.

5.2. Theoretical Implications

The results of this study have substantial theoretical implications for auditing and financial reporting. The positive association between KAM characteristics - specifically accuracy, reliability, and audit quality - and the perceived understandability of financial statements underscores the critical role of transparent and detailed auditing in enhancing financial statement clarity. This aligns with previous research that stresses on the importance of high-quality audits in financial reporting (Christensen et al., 2014; Lennox & Wu, 2018). Additionally, the mediating role of financial statement understandability between KAM characteristics and investors' decision-making judgments extends the existing theories on the influence of audit quality on investor behavior (Gold et al., 2020; Lennox et al., 2023; Moroney et al., 2021). By incorporating a diverse global sample, this study highlights the universal applicability of these theoretical constructs across different cultural and regulatory environments, supporting the generalizability of these theories in a global context (DeFond & Zhang, 2014; Francis, 2011; Knechel et al., 2013; Rajgopal et al., 2021). This contributes to a deeper understanding of how audit practices affect investors' perceptions and decision-making worldwide.

5.3. Managerial Implications

This study's findings propose critical managerial implications, emphasizing the need for auditors and financial managers to prioritize the accuracy, reliability, and quality of financial reporting. Enhanced transparency in KAMs significantly boosts the understandability of financial statements, thereby positively influencing investors' decisions. Managers should focus on improving audit quality and ensuring detailed and clear disclosures to foster investor confidence. Additionally, organizations should consider the global applicability of these practices, recognizing that clear and reliable financial reporting is valued across diverse markets, thereby supporting better investor relations and decision-making on a worldwide scale.

5.4. Limitations and Future Research Directions

The study's limitations include dependence on self-reported survey data, which may introduce response biases, and a focus on investors' perceptions, which may not fully capture actual decision-making behaviors. While the sample was diverse, it may not represent all investor types, potentially limiting its generalizability. Future research could address these limitations by using experimental or longitudinal designs to observe actual investor behavior over time and by expanding the sample to include a broader range of investors from different markets and regions. Additionally, investigating the specific mechanisms through which KAMs influence investor decisions, such as qualitative interviews or case studies, could provide deeper insights. Exploring the impact of technological advancements and automated financial analysis tools on the interpretation and effectiveness of KAM disclosures could also be valuable (Christensen et al., 2014; Lennox & Wu, 2018; Moroney et al., 2021). Such research could enhance our understanding of how KAMs and advanced analytical tools shape investor decision making in various contexts.

References

- Abdullatif, M., Alzebdieh, R., & Ballour, S. (2023). The effect of key audit matters on the audit report lag: Evidence from Jordan. *Journal of Financial Reporting and Accounting, ahead-of-print*(ahead-of-print). <https://doi.org/10.1108/JFRA-07-2022-0245>
- Akerlof, G. A. (1970). The Market for "Lemons": Quality Uncertainty and the Market Mechanism. *The Quarterly Journal of Economics*, 84(3), 488–500.
- Al'Ararah, K., Çağlar, D., & Aljuhmani, H. Y. (2024). Mitigating Job Burnout in Jordanian Public Healthcare: The Interplay between Ethical Leadership, Organizational Climate, and Role Overload. *Behavioral Sciences*, 14(6), Article 6. <https://doi.org/10.3390/bs14060490>
- Al-Geitany, S., Aljuhmani, H. Y., Emeagwali, O. L., & Nasr, E. (2023). Consumer Behavior in the Post-COVID-19 Era: The Impact of Perceived Interactivity on Behavioral Intention in the Context of Virtual Conferences. *Sustainability*, 15(11), Article 11. <https://doi.org/10.3390/su15118600>
- Alharasis, E. E., Alkhwalidi, A. F., & Hussainey, K. (2024). Key audit matters and auditing quality in the era of COVID-19 pandemic: The case of Jordan. *International Journal of Law and Management*, 66(4), 417–446. <https://doi.org/10.1108/IJLMA-11-2023-0248>
- Aljuhmani, H. Y., Ababneh, B., Emeagwali, L., & Elrehail, H. (2024). Strategic stances and organizational performance: Are strategic performance measurement systems the missing link? *Asia-Pacific Journal of Business Administration*, 16(2), 282–306. <https://doi.org/10.1108/APJBA-09-2021-0445>
- Aljuhmani, H. Y., Emeagwali, O. L., & Ababneh, B. (2021). The relationships between CEOs' psychological attributes, top management team behavioral integration and firm performance. *International Journal of Organization Theory & Behavior*, 24(2), 126–145. <https://doi.org/10.1108/IJOTB-06-2020-0089>
- Allee, K. D., Erickson, D., Esplin, A. M., & Yohn, T. L. (2024). *Financial Analysts' Preferences Regarding Income Statement Presentation* (SSRN Scholarly Paper 4049941). <https://doi.org/10.2139/ssrn.4049941>
- Alshdaifat, S., Abdul-Hamid, M., Saidin, S., & Ab Aziz, N. (2024). Insight of ISA 701: Key Audit Matter Disclosure in Extended Audit Report. *International Journal of Academic Research in Business and Social Sciences*, 14, 278–287. <https://doi.org/10.6007/IJARBS/v14-i2/20482>
- Anderson, J. C., & Gerbing, D. W. (1988). Structural equation modeling in practice: A review and recommended two-step approach. *Psychological Bulletin*, 103(3), 411–423. <https://doi.org/10.1037/0033-2909.103.3.411>
- Awwad, R. I., Aljuhmani, H. Y., & Hamdan, A. (2022). Examining the Relationships Between Frontline Bank Employees' Job Demands and Job Satisfaction: A Mediated Moderation Model. *SAGE Open*, 12(1), 215824402210798. <https://doi.org/10.1177/21582440221079880>
- Baatwah, S. R., Almoataz, E. S., Omer, W. K., & Aljaaidi, K. S. (2022). Does KAM disclosure make a difference in emerging markets? An investigation into audit fees and report lag. *International Journal of Emerging Markets*, 19(3), 798–821. <https://doi.org/10.1108/IJOEM-10-2021-1606>
- Ball, R., Jayaraman, S., & Shivakumar, L. (2012). Audited financial reporting and voluntary disclosure as complements: A test of the Confirmation Hypothesis. *Journal of Accounting and Economics*, 53(1), 136–166. <https://doi.org/10.1016/j.jacceco.2011.11.005>
- Barber, B. M., & Odean, T. (2001). The Internet and the Investor. *Journal of Economic Perspectives*, 15(1), 41–54. <https://doi.org/10.1257/jep.15.1.41>
- Barclay, D., Higgins, C., & Thompson, R. (1995). The partial least squares (PLS) approach to casual modeling: Personal computer adoption and use as an Illustration. *Technology Studies*, 2(2), 285–309.
- Beattie, V., McInnes, B., & Fearnley, S. (2004). A methodology for analysing and evaluating narratives in annual reports: A comprehensive descriptive profile and metrics for disclosure quality attributes. *Accounting Forum*, 28(3), 205–236. <https://doi.org/10.1016/j.accfor.2004.07.001>
- Bepari, M. K., Nahar, S., Mollik, A. T., & Azim, M. I. (2023). Content characteristics of key audit matters reported by auditors in Bangladesh and their implications for audit quality. *Journal of Accounting in Emerging Economies*, 14(4), 855–885. <https://doi.org/10.1108/JAEE-12-2022-0344>
- Blessing, A., & Onoja, E. E. (2015). The role of financial statements on investment decision making: A case of united bank for Africa PLC (2004-2013). *European Journal of Business, Economics and Accountancy*, 3(2), 12–37.
- Camacho-Miñano, M.-M., Muñoz-Izquierdo, N., Pincus, M., & Wellmeyer, P. (2024). Are key audit matter disclosures useful in assessing the financial distress level of a client firm? *The British Accounting Review*, 56(2), 101200. <https://doi.org/10.1016/j.bar.2023.101200>
- Chang, Y.-T., Chi, W., & Stone, D. N. (2024). Is Client-Specific Information Useful to Investors? Evidence From Key Audit Matter Reports. *Journal of Accounting, Auditing & Finance*, 39(3), 786–806. <https://doi.org/10.1177/0148558X221091804>
- Christensen, B. E., Glover, S. M., & Wolfe, C. J. (2014). Do Critical Audit Matter Paragraphs in the Audit Report Change Nonprofessional Investors' Decision to Invest? *AUDITING: A Journal of Practice & Theory*, 33(4), 71–93. <https://doi.org/10.2308/ajpt-50793>
- DeFond, M., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2), 275–326. <https://doi.org/10.1016/j.jacceco.2014.09.002>

- Dos'Santos, T., McBurnie, A., Donelon, T., Thomas, C., Comfort, P., & Jones, P. A. (2019). A qualitative screening tool to identify athletes with 'high-risk' movement mechanics during cutting: The cutting movement assessment score (CMAS). *Physical Therapy in Sport*, 38, 152–161. <https://doi.org/10.1016/j.ptsp.2019.05.004>
- Ebirim, G. U., Unigwe, I. F., Oshioeste, E. E., Ndubuisi, N. L., Odonkor, B., Asuzu, O. F., Ebirim, G. U., Unigwe, I. F., Oshioeste, E. E., Ndubuisi, N. L., Odonkor, B., & Asuzu, O. F. (2024). Innovations in accounting and auditing: A comprehensive review of current trends and their impact on U.S. businesses. *International Journal of Science and Research Archive*, 11(1), Article 1. <https://doi.org/10.30574/ijrsra.2024.11.1.0134>
- Fornell, C., & Larcker, D. F. (1981). Evaluating Structural Equation Models with Unobservable Variables and Measurement Error. *Journal of Marketing Research*, 18(1), 39–50. <https://doi.org/10.1177/002224378101800104>
- Francis, J. R. (2011). Auditing without borders. *Accounting, Organizations and Society*, 36(4), 318–323. <https://doi.org/10.1016/j.aos.2011.07.003>
- Fuadah, H., & Setiyawati, H. (2020). The Effect of the Implementation of Transparency and Accounting Information Systems on the Quality of Financial Reports. *IJO-International Journal of Business ...*, 3(11), 1–12.
- Gambetta, N., Sierra-García, L., García-Benau, M. A., & Novejarque-Civera, J. (2023). The Informative Value of Key Audit Matters in the Audit Report: Understanding the Impact of the Audit Firm and KAM Type. *Australian Accounting Review*, 33(2), 114–134. <https://doi.org/10.1111/auar.12396>
- Godi, J. (2024). Analysis of Risk Factors for Investors in Emerging Markets. *Journal of Risk Analysis and Crisis Response*, 14(2), Article 2. <https://doi.org/10.54560/jracr.v14i2.469>
- Gold, A., Heilmann, M., Pott, C., & Rematzki, J. (2020). Do key audit matters impact financial reporting behavior? *International Journal of Auditing*, 24(2), 232–244. <https://doi.org/10.1111/ijau.12190>
- Guo, M., Su, Y., & Zhao, R. (2024). The effect of expanded audit report on IPO underpricing: Evidence from China. *Emerging Markets Review*, 58, 101092. <https://doi.org/10.1016/j.ememar.2023.101092>
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2009). *Multivariate Data Analysis* (7th edition). Pearson.
- Hair, J. F., Hult, G. T. M., Ringle, C., & Sarstedt, M. (2017). *A primer on partial least squares structural equations modeling (PLS-SEM)* (2nd ed.). SAGE.
- Hair, J. F., Risher, J. J., Sarstedt, M., & Ringle, C. M. (2019). When to use and how to report the results of PLS-SEM. *European Business Review*, 31(1), 2–24. <https://doi.org/10.1108/EBR-11-2018-0203>
- Hayes, A. F. (2009). Beyond Baron and Kenny: Statistical Mediation Analysis in the New Millennium. *Communication Monographs*, 76(4), 408–420. <https://doi.org/10.1080/03637750903310360>
- Hayes, A. F. (2013). *Introduction to Mediation, Moderation, and Conditional Process Analysis: A Regression-Based Approach* (1st ed.). Guilford Press.
- Hegazy, M. A. A., & Kamareldawla, N. M. (2021). Key audit matters: Did IAASB unravel the knots of confusion in audit reports decisions? *Managerial Auditing Journal*, 36(8), 1025–1052. <https://doi.org/10.1108/MAJ-11-2019-2464>
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science*, 43(1), 115–135. <https://doi.org/10.1007/s11747-014-0403-8>
- IAASB | IAASB. (2024, April 11). <https://www.iaasb.org/>
- Ismail, H., Abdullah Atqa, A., & Hassan, H. (2018). First Time Reporting of Key Audit Matters (KAM) by Malaysian Auditors. *International Journal of Engineering & Technology*, 7(3.30), 30. <https://doi.org/10.14419/ijet.v7i3.30.18149>
- Jones, J., & Scott, S. (2022). *Communicating Key Audit Matters: A Post Implementation Review*. <https://hdl.handle.net/10214/27277>
- Kitiwong, W., & Sarapaivanich, N. (2020). Consequences of the implementation of expanded audit reports with key audit matters (KAMs) on audit quality. *Managerial Auditing Journal*, 35(8), 1095–1119. <https://doi.org/10.1108/MAJ-09-2019-2410>
- Klueber, J., Gold, A., & Pott, C. (2018). *Do Key Audit Matters Impact Financial Reporting Behavior?* (SSRN Scholarly Paper 3210475). <https://doi.org/10.2139/ssrn.3210475>
- Knechel, W. R., Krishnan, G. V., Pevzner, M., Shefchik, L. B., & Velury, U. K. (2013). Audit Quality: Insights from the Academic Literature. *AUDITING: A Journal of Practice & Theory*, 32(Supplement 1), 385–421. <https://doi.org/10.2308/ajpt-50350>
- Lawrence, A., Minutti-Meza, M., & Zhang, P. (2011). Can Big 4 versus Non-Big 4 Differences in Audit-Quality Proxies Be Attributed to Client Characteristics? *The Accounting Review*, 86(1), 259–286. <https://doi.org/10.2308/accr.00000009>
- Lennox, C. S., Schmidt, J. J., & Thompson, A. M. (2023). Why are expanded audit reports not informative to investors? Evidence from the United Kingdom. *Review of Accounting Studies*, 28(2), 497–532. <https://doi.org/10.1007/s11142-021-09650-4>
- Lennox, C. S., & Wu, X. (2018). A Review of the Archival Literature on Audit Partners. *Accounting Horizons*, 32(2), 1–35. <https://doi.org/10.2308/acch-51942>
- Lo, A. W., & Repin, D. V. (2002). The Psychophysiology of Real-Time Financial Risk Processing. *Journal of Cognitive Neuroscience*, 14(3), 323–339. <https://doi.org/10.1162/089892902317361877>
- Miller, B. P. (2010). The Effects of Reporting Complexity on Small and Large Investor Trading. *The Accounting Review*, 85(6), 2107–2143. <https://doi.org/10.2308/accr.00000001>
- Moroney, R., Phang, S. Y., & Xiao, X. (2021). When Do Investors Value Key Audit Matters? *European Accounting Review*, 30(1), 63–82. <https://doi.org/10.1080/09638180.2020.1733040>

- Neiroukh, S., Emeagwali, O. L., & Aljuhmani, H. Y. (2024). Artificial intelligence capability and organizational performance: Unraveling the mediating mechanisms of decision-making processes. *Management Decision, ahead-of-print*(ahead-of-print). <https://doi.org/10.1108/MD-10-2023-1946>
- Nunnally, J. C., & Bernstein, I. H. (1994). *Psychometric theory* (3rd ed.). New York: McGraw-Hill.
- Ong, S. Y., Moroney, R., & Xiao, X. (2022a). How do key audit matter characteristics combine to impact financial statement understandability? *Accounting and Finance*, 62(1), 805–835. <https://doi.org/10.1111/acfi.12811>
- Ong, S. Y., Moroney, R., & Xiao, X. (2022b). How do key audit matter characteristics combine to impact financial statement understandability? *Accounting & Finance*, 62(1), 805–835. <https://doi.org/10.1111/acfi.12811>
- Preacher, K. J., & Hayes, A. F. (2004). SPSS and SAS procedures for estimating indirect effects in simple mediation models. *Behavior Research Methods, Instruments, & Computers*, 36(4), 717–731. <https://doi.org/10.3758/BF03206553>
- Preacher, K. J., & Hayes, A. F. (2008). Asymptotic and resampling strategies for assessing and comparing indirect effects in multiple mediator models. *Behavior Research Methods*, 40(3), 879–891. <https://doi.org/10.3758/BRM.40.3.879>
- Rajgopal, S., Srinivasan, S., & Zheng, X. (2021). Measuring audit quality. *Review of Accounting Studies*, 26(2), 559–619. <https://doi.org/10.1007/s11142-020-09570-9>
- Rathnayake Mudiyansele, S. B. (2020). *Measuring financial reporting quality: An approach based on qualitative characteristics*. https://ir.canterbury.ac.nz/bitstream/handle/10092/101683/Rathnayake%20Mudiyansele,%20Saman%20Bandara_Final%20PhD%20Thesis.pdf?sequence=3
- Rautiainen, A., Saastamoinen, J., & Pajunen, K. (2021). Do key audit matters (KAMs) matter? Auditors' perceptions of KAMs and audit quality in Finland. *Managerial Auditing Journal*, 36(3), 386–404. <https://doi.org/10.1108/MAJ-11-2019-2462>
- Reid, L. C., Carcello, J. V., Li, C., Neal, T. L., & Francis, J. R. (2019). Impact of Auditor Report Changes on Financial Reporting Quality and Audit Costs: Evidence from the United Kingdom. *Contemporary Accounting Research*, 36(3), 1501–1539. <https://doi.org/10.1111/1911-3846.12486>
- Ringle, C. M., & Sarstedt, M. (2016). Gain more insight from your PLS-SEM results: The importance-performance map analysis. *Industrial Management & Data Systems*, 116(9), 1865–1886. <https://doi.org/10.1108/IMDS-10-2015-0449>
- Ringle, C. M., Wende, S., & Becker, J.-M. (2022). *SmartPLS 4. Oststeinbek: SmartPLS GmbH* [Computer software]. <https://www.smartpls.com/>
- Salehi, A. K. (2022). Critical review of the role of accounting in the decision-making process. *Journal of Islamic Accounting and Business Research*, 15(2), 244–264. <https://doi.org/10.1108/JIABR-12-2021-0310>
- Smith, M., & Taffler, R. J. (2000). The chairman's statement - A content analysis of discretionary narrative disclosures. *Accounting, Auditing & Accountability Journal*, 13(5), 624–647. <https://doi.org/10.1108/09513570010353738>
- Sullivan, G. M., & Feinn, R. (2012). Using Effect Size—Or Why the P Value Is Not Enough. *Journal of Graduate Medical Education*, 4(3), 279–282. <https://doi.org/10.4300/JGME-D-12-00156.1>
- Suttipun, M. (2021). Impact of key audit matters (KAMs) reporting on audit quality: Evidence from Thailand. *Journal of Applied Accounting Research*, 22(5), 869–882. <https://doi.org/10.1108/JAAR-10-2020-0210>
- Thaler, R. (1985). Mental Accounting and Consumer Choice. *Marketing Science*, 4(3), 199–214. <https://doi.org/10.1287/mksc.4.3.199>
- Tversky, A., & Kahneman, D. (1992). Advances in prospect theory: Cumulative representation of uncertainty. *Journal of Risk and Uncertainty*, 5(4), 297–323. <https://doi.org/10.1007/BF00122574>
- Velte, P. (2023). The impact of external auditors on firms' financial restatements: A review of archival studies and implications for future research. *Management Review Quarterly*, 73(3), 959–985. <https://doi.org/10.1007/s11301-022-00264-x>



© 2024 by the authors; licensee Growing Science, Canada. This is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC-BY) license (<http://creativecommons.org/licenses/by/4.0/>).