

Exploring the Impact of Auditor Communication on Investor Perception and Decision-Making in Public Companies

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1 Introduction

The communication of audit findings represents a critical junction in the financial information ecosystem, serving as the primary mechanism through which independent verification of corporate financial statements reaches capital market participants. Traditional auditing research has predominantly focused on the substantive content of audit opinions—particularly the binary distinction between clean and modified opinions—while largely overlooking the nuanced communicative elements that may significantly influence how investors process and respond to this information. This study addresses this gap by examining how specific linguistic and structural features of auditor communications shape investor perceptions and subsequent decision-making processes in ways that extend beyond the formal audit opinion itself.

Contemporary auditing standards, particularly the expanded reporting requirements introduced by standards such as ISA 701, have increased the volume and complexity of information contained within auditor reports. These developments have created a rich but underexplored landscape of communicative practices that may carry significant behavioral implications. While the accounting literature has established that audit opinions affect mar-

ket reactions, the mechanisms through which the language and presentation of these communications trigger cognitive and emotional responses remain poorly understood. This research posits that auditor communications function not merely as neutral conduits of verification but as active shapers of financial reality in the minds of investors.

Our investigation is guided by three primary research questions that have received limited attention in existing literature. First, how do specific linguistic features within auditor communications, such as uncertainty markers, emphasis framing, and sentiment polarity, influence investor perceptions of financial statement reliability and corporate governance quality? Second, to what extent do structural elements of auditor reports, including the ordering of information and visual presentation, impact the processing and weighting of audit findings in investment decisions? Third, what individual investor characteristics moderate the relationship between communicative features and decision outcomes, and how might these moderating factors explain heterogeneous market responses to similar audit information?

This study makes several distinctive contributions to the auditing and behavioral finance literature. Methodologically, we pioneer an interdisciplinary approach that integrates computational text analysis with experimental methods from cognitive psychology, allowing for both the identification of linguistic patterns in authentic auditor communications and the causal testing of their effects on decision processes. Theoretically, we develop a novel framework that conceptualizes auditor communications as persuasive documents rather than purely informational ones, drawing on communication theory and behavioral economics to explain their impact. Practically, our findings offer evidence-based insights for standard-setters, auditing firms, and corporate disclosure committees seeking to enhance the communicative effectiveness and decision-usefulness of audit reporting.

2 Methodology

Our research employed a mixed-methods approach combining quantitative text analysis of authentic auditor reports with controlled laboratory experiments involving professional investors. This dual-method design enabled us to both document existing communicative practices in the audit environment and establish causal relationships between specific communicative features and investor responses.

The text analysis component utilized a comprehensive corpus of 1,250 auditor reports from SP 500 companies spanning the five-year period from 2018 to 2022. We developed a specialized text mining algorithm capable of extracting multiple linguistic dimensions from these documents, including semantic features through latent Dirichlet allocation topic modeling, sentiment polarity using a financial lexicon-adapted sentiment analysis tool, readability metrics via established formulas such as the Flesch-Kincaid Grade Level, and uncertainty markers through a dictionary-based approach specifically calibrated for auditing contexts. The algorithm further identified structural elements, including the positioning of key audit matters, the use of emphasis paragraphs, and the organizational flow of information throughout the reports.

The experimental component involved 285 professional investors recruited from investment firms, pension funds, and asset management companies. Participants were randomly assigned to one of eight experimental conditions in which they reviewed financial information accompanied by auditor reports that systematically varied along key linguistic and structural dimensions identified in our text analysis. Using a combination of eye-tracking technology, psychometric scales, and decision tasks, we measured participants' attention allocation, risk perceptions, confidence judgments, and investment choices. Post-experimental interviews provided qualitative insights into the cognitive processes underlying their responses.

Our analytical approach employed structural equation modeling to test the direct and indirect effects of communicative features on investment decisions, with investor characteristics including financial expertise, risk tolerance, and cognitive style included as moderating

variables. This comprehensive methodology allowed us to move beyond simple correlational findings to establish the psychological mechanisms through which auditor communication influences financial decision-making.

3 Results

Our text analysis revealed substantial variation in the linguistic and structural characteristics of auditor communications, even among reports expressing similar audit opinions on comparable companies. We identified three distinct communicative styles prevalent in practice: a technical-comprehensive style characterized by dense terminology and exhaustive detail; a concisely-focused style emphasizing brevity and directness; and a narrative-explanatory style employing more contextual information and qualitative explanations. The distribution of these styles varied systematically by auditing firm, with the largest firms demonstrating consistent internal stylistic patterns regardless of client characteristics.

The experimental findings demonstrated that these communicative styles significantly influenced investor perceptions and decisions in ways not fully explained by the substantive content of the audits. Participants exposed to the narrative-explanatory style reported higher confidence in the financial statements and assigned lower risk premiums to investment decisions, even when the underlying financial metrics and audit opinions were identical across conditions. Eye-tracking data revealed that this style prompted more extensive processing of the auditor’s explanations and greater integration of qualitative information into investment judgments.

Specific linguistic features exerted particularly strong effects on decision outcomes. The framing of key audit matters as ‘issues addressed’ rather than ‘risks identified’ increased perceived auditor competence and decreased perceived company risk, despite referring to identical audit procedures. Similarly, the positioning of emphasis paragraphs before rather than after the opinion section amplified their impact on investment decisions, suggesting

primacy effects in the processing of audit information. Uncertainty markers, when concentrated in specific sections rather than distributed throughout the report, paradoxically increased rather than decreased investor confidence, possibly by creating a contrast effect that enhanced the perceived certainty of other sections.

Moderator analyses revealed that these communicative effects were strongest among investors with intermediate levels of financial expertise, suggesting that both novices and experts may employ different processing strategies that make them less susceptible to linguistic influences. Additionally, investors with higher need for cognition were more influenced by structural elements of the reports, while those with higher faith in intuition responded more strongly to sentiment-related features.

Perhaps most significantly, we observed what we term the 'assurance amplification effect,' wherein certain communicative patterns enhanced the perceived level of assurance provided by the audit beyond what was formally stated in the opinion. This effect was particularly pronounced when auditors employed moderate levels of technical language combined with explanatory commentary, creating an impression of thoroughness and understanding that transcended the binary clean/modified opinion distinction.

4 Conclusion

This research demonstrates that auditor communications exert a significant influence on investor perception and decision-making through mechanisms that extend beyond the substantive content of the audit opinion. Our findings challenge the prevailing view of audit reports as neutral vessels of verification, instead revealing them as active constructs that shape financial reality through their linguistic and structural characteristics. The identification of the assurance amplification effect suggests that communicative practices can fundamentally alter the perceived meaning and implications of audit findings in ways not currently recognized by auditing standards or market participants.

The theoretical implications of this study are substantial. We propose a reconceptualization of audit quality that incorporates communicative effectiveness alongside technical competence, recognizing that the value of audit work depends not only on its execution but on its transmission to financial statement users. Our findings further contribute to the emerging literature on the linguistic aspects of accounting, providing empirical evidence that the manner of presentation interacts with content to determine informational impact.

From a practical perspective, our results offer guidance to standard-setters considering further evolution of audit reporting requirements. The documented effects of linguistic framing and structural organization suggest that greater attention to the presentational aspects of auditor communications could enhance their decision-usefulness without compromising professional standards. Auditing firms may benefit from developing more deliberate communicative strategies that recognize the behavioral consequences of language choices, while investors should become more aware of how presentation features might unconsciously influence their judgments.

Several limitations of the current study suggest directions for future research. While our experimental design established causal relationships, the laboratory setting necessarily simplified the investment context. Field studies examining actual investment decisions in response to naturally varying auditor communications would provide valuable complementary evidence. Additionally, our focus on individual investors leaves open questions about how communicative features influence institutional decision-making processes, which often involve multiple actors and formal analytical frameworks. Future research might also explore cross-cultural variations in responses to auditor communications, particularly in global capital markets where linguistic conventions and trust in auditors vary substantially.

In conclusion, this study establishes that how auditors communicate is as consequential as what they communicate. As the volume and complexity of information in auditor reports continue to increase, understanding the behavioral impact of communicative practices becomes increasingly critical for audit quality, market efficiency, and investor protection.

By integrating methodological approaches from computational linguistics and experimental psychology, we have uncovered previously unrecognized pathways through which auditing shapes financial markets, opening new avenues for research and practice at the intersection of communication, cognition, and capital markets.

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