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Audit Quality and Stakeholder Confidence: Empirical Evidence on Investor Perceptions in an Emerging Market Context

Nimith Sagar K N
Student, Faculty of Management Studies,
CMS Business School,
Jain (Deemed-to-be University), Bangalore
Email: nimithsagar@gmail.com

Dr. Ravichandran K
Professor, Faculty of Management Studies,
CMS Business School, Jain
(Deemed-to-be University), Bangalore
Email: dr.ravichandran_k@cms.ac.in

Abstract

This study investigates how perceived audit quality shapes investor confidence in audited financial statements within an emerging market context. Drawing on agency theory, signaling theory, and credibility theory, the research examines three dimensions of audit quality auditor independence, auditor expertise, and transparency of audit reporting as determinants of financial-report credibility and investor confidence. A cross-sectional quantitative design was employed, with primary data collected from 186 respondents via a structured Likert-scale questionnaire. Data were analysed using descriptive statistics, reliability analysis, exploratory factor analysis, Pearson correlation, multiple regression analysis, and bootstrapped mediation testing. Findings indicate that transparency of audit reporting is the only dimension to exert a statistically significant positive effect on financial-report credibility (B = 0.153, p = .047). Perceived audit quality did not significantly predict investor confidence (p = .722), and investor confidence did not mediate the relationship between perceived audit quality and investment intention. Despite the non-confirmation of two hypotheses, the study provides directional evidence that visible, communication-based audit signals carry greater salience for investors than abstract assurance attributes. The findings carry implications for audit firms, regulators, and standard-setters with respect to audit-report design and transparency reforms. Future research should employ refined instruments, larger purposive samples, and experimental designs to establish causal inference.

Keywords: audit quality; stakeholder confidence; investor perceptions; financial-report credibility; transparency of audit reporting

INTRODUCTION

The quality of external auditing has assumed increasing prominence in contemporary capital markets, owing to its foundational role in reducing information asymmetry between corporate managers and dispersed stakeholders (DeAngelo, 1981). As a mechanism of accountability and credibility enhancement, the audit function serves a broad constituency of investors, lenders, regulators, and financial statement users who rely on audited disclosures to form judgments about corporate performance and governance quality (Francis, 2004; Knechel et al., 2013). When stakeholders perceive audited reports as trustworthy, their willingness to invest, their confidence in reported earnings, and their tolerance of valuation uncertainty are collectively elevated (Teoh & Wong, 1993; Elliott et al., 2020).

This significance has intensified in the wake of large-scale accounting failures, global financial crises, and persistent regulatory scrutiny of audit effectiveness (Krishnan, 2003; Khurana & Raman, 2004). In such environments, audit quality has evolved from a narrowly technical assurance output to a market-observable indicator of governance credibility (Carver et al., 2023; Huang et al., 2022). Indirect quality proxies including auditor brand, industry specialisation, audit committee independence, critical audit matter disclosures, and inspection findings are actively decoded by investors as confidence signals (Balsam et al., 2003; Christensen et al., 2016; Smith, 2012).

The Indian capital market context provides a particularly relevant empirical setting for studying these dynamics. With a rapidly expanding retail investor base, growing digital platform adoption, and

increasing regulatory emphasis on disclosure quality by the Securities and Exchange Board of India (SEBI), investor sensitivity to assurance cues is heightened (Sulaiman et al., 2018). Yet the literature on audit quality perceptions in emerging markets remains comparatively sparse relative to the well-developed U.S. and Anglo-American archival evidence base (DeFond & Zhang, 2014; Watkins et al., 2004). This gap motivates the present study, which situates the audit-quality and investor-confidence relationship within the Indian context.

Moreover, existing research disproportionately relies on capital-market archival proxies such as earnings response coefficients, accruals, and cost of equity as indirect indicators of investor confidence (Teoh & Wong, 1993; Krishnan, 2003). A direct perceptions-based approach, which examines how individual investors interpret specific audit-quality dimensions, remains underutilised (Christensen et al., 2016). This study addresses that gap by operationalising both audit quality and investor confidence as multidimensional perception constructs and testing their relationships within a unified empirical framework. In so doing, it responds to calls by Francis (2004) and Knechel et al. (2013) for investor-centred models that extend beyond archival proxies.

The remainder of this paper is structured as follows: Section 2 identifies the research problem; Section 3 reviews the extant literature thematically; Section 4 articulates the research gap; Section 5 presents the research methodology; Section 6 reports data analysis and results; Section 7 discusses the findings; Section 8 concludes; and Section 9 proposes directions for future research.

PROBLEM IDENTIFICATION

Despite broad scholarly acknowledgment that high audit quality ought to elevate financial-report credibility, the mechanisms by which investors interpret and respond to audit-quality signals remain incompletely understood (Christensen et al., 2016; Sulaiman et al., 2018). The dominant research paradigm measures audit quality through archival proxies discretionary accruals, going-concern reporting rates, restatement frequency, and audit fee levels and infers investor confidence from market-pricing responses (DeFond & Zhang, 2014). While this approach has generated valuable insights, it bypasses the psychological and perceptual dimension of stakeholder confidence: namely, whether investors actively believe the audit is independent, competent, rigorous, and transparent.

A conceptual gap exists in that no single dominant framework integrates auditor reputation, independence, expertise, audit committee governance, and transparency of audit reporting into a unified, empirically testable model of investor confidence formation. An empirical gap persists because relatively few studies have employed perception-based survey designs with active investors to test the audit-quality–confidence pathway directly (Smith, 2012; Huang et al., 2022). A contextual gap is evident in the scarcity of empirical evidence from emerging economies, particularly India, where institutional structures, disclosure norms, and investor sophistication differ materially from Anglo-American settings (Khurana & Raman, 2004).

The present study addresses these gaps by testing whether perceived audit quality, decomposed into auditor independence, auditor expertise, and audit-reporting transparency, explains variation in investor confidence and financial-report credibility. It further examines whether investor confidence mediates the audit-quality–investment-intention relationship, thereby providing an

integrated test of the cognitive chain from assurance perception to investment behaviour.

LITERATURE REVIEW

Conceptual Foundations of Audit Quality

The seminal theoretical grounding of audit quality is provided by DeAngelo (1981), who defined it as the joint probability that an auditor will detect and report material misstatements. This formulation established auditor competence and independence as the twin pillars of assurance quality, and remains the basis on which subsequent constructs have been built (Francis, 2004; Watkins et al., 2004). Watkins et al. (2004) expanded this foundation through a comprehensive synthesis of theory and empirical evidence, arguing that audit quality is influenced by both supply-side incentives auditor reputation, litigation exposure, and fee structures and demand-side forces, including governance quality and stakeholder sophistication.

Francis (2004) further mapped the multidimensional character of audit quality across nearly three decades of U.S. evidence, concluding that outright audit failure is uncommon but that optimal quality levels remain difficult to specify and measure. Knechel et al. (2013) reinforced this complexity by cataloguing the range of inputs, processes, and outcomes that collectively constitute audit quality, noting that no single proxy can adequately capture its full scope. These conceptual frameworks collectively justify the multi-dimensional operationalisation adopted in the present study, which treats auditor independence, expertise, and reporting transparency as distinct observable dimensions of audit quality.

Audit Quality and Market Outcomes

A substantial body of archival evidence links proxies of audit quality to capital-market outcomes. Teoh and Wong (1993) demonstrated that earnings response coefficients are significantly higher for firms audited by Big Eight auditors, establishing that perceived auditor reputation enhances the credibility investors attach to reported earnings. Becker et al. (1998) documented that clients of non-Big Six auditors exhibit higher income-enhancing discretionary accruals, implying that higher audit quality constrains opportunistic earnings management and thereby underpins investor confidence. Balsam et al. (2003) extended these findings by showing that auditor industry specialisation over and above brand-name effects reduces discretionary accruals and increases earnings response coefficients, suggesting that expertise-based signals independently convey assurance value.

Krishnan (2003) advanced this line of inquiry by documenting that Big Six auditors' clients exhibit stronger associations between discretionary accruals and future earnings, reflecting higher information value attributed by investors to high-quality assurance. Khurana and Raman (2004) introduced institutional context as a boundary condition, finding that Big 4 audits are associated with a lower cost of equity in high-litigation jurisdictions but not in less litigious Anglo-American settings. This institutionally contingent finding has particular relevance for emerging market research, where enforcement and litigation environments differ markedly from the U.S. context.

Governance, Internal Controls, and Audit Quality

The governance dimension of audit quality has been explored through the roles of audit committees and internal control

disclosures. Abbott et al. (2004) found that active, independent audit committees are negatively associated with financial restatements, substantiating the argument that governance quality reinforces the credibility of audited reports. Ashbaugh-Skaife et al. (2007) examined the discovery and disclosure of internal control deficiencies, finding that governance and audit environment characteristics shape the nature and timing of control-weakness reporting. Hoitash et al. (2008) demonstrated that post-SOX audit pricing and effort intensity reflect internal-control risk, providing indirect evidence that control-environment quality is relevant to market participants' assessments of information risk. Collectively, these studies establish that investor confidence in audited financial statements is shaped not only by the auditor's technical outputs but also by the governance architecture within which the audit function operates.

Investor Perceptions and Audit-Report Communication

A parallel strand of research has moved beyond archival proxies to examine how investors directly perceive and respond to audit-quality signals. Christensen et al. (2016) surveyed both audit professionals and investors, finding that investors prioritise process inputs, auditor attributes, and publicly visible indicators such as PCAOB inspection deficiencies and restatements over the profession's preferred metrics. Smith (2012) used MBA student proxies to demonstrate that regulatory changes perceived as reducing auditor accountability lower investors' perceived audit quality and their confidence in management's commitment to internal controls. Carver et al. (2023) employed an experimental design to show that critical audit matter disclosures enhance perceived auditor credibility and audit quality, though they also introduce information overload; crucially, CAM disclosure reduces perceived investment risk through both credibility and quality channels.

Elliott et al. (2020) provided both theoretical and experimental support for the proposition that expanded audit reports can unlock the value premium investors attach to higher financial reporting quality. Huang et al. (2022) extended this line of work by demonstrating that investors respond favourably to remedial actions by audit firms following regulatory inspection findings, with perceived audit quality mediating willingness to invest. Bédard et al. (2019) presented French archival evidence that expanded audit reports with justification paragraphs influence the informational environment of financial statements. Taken together, these studies converge on the view that audit-report communication quality is a critical, investor-facing dimension of assurance effectiveness a finding that directly motivates the transparency-of-audit-reporting construct in this study.

Theoretical Synthesis

The present study draws on four theoretical frameworks. Agency theory (DeAngelo, 1981) positions the audit as a control mechanism that mitigates principal-agent conflicts by constraining opportunistic reporting, thereby providing investors with a basis for confidence in disclosed information. Signaling theory, as applied in the auditing literature (Balsam et al., 2003; Francis & Yu, 2009), treats audit-quality attributes reputed auditor, transparent disclosures, strong governance as market signals that investors decode to form credibility judgments. Credibility theory holds that assurance value is realised when users are persuaded that the auditor is both independent and competent; perceived credibility thus represents the

psychological channel between audit quality and investor confidence. The expectation-gap perspective (Sikka et al., 1998) explains why technically compliant audits may not generate confidence: when investors' assurance expectations exceed the scope of audit standards, even high-quality audits may be perceived as insufficient. Together, these frameworks support the hypothesised relationships between audit-quality dimensions, financial-report credibility, investor confidence, and investment intention.

RESEARCH GAP

Despite the rich theoretical and empirical literature reviewed above, several important gaps remain. First, the dominant paradigm measures investor confidence indirectly through archival capital-market proxies rather than through direct perceptual instruments administered to individual investors. This leaves the psychological mechanisms of confidence formation largely unexplored (Christensen et al., 2016; Smith, 2012). Second, no integrated empirical model simultaneously tests the effects of auditor independence, auditor expertise, and audit-reporting transparency on financial-report credibility while also examining whether investor confidence mediates the audit-quality–investment-intention relationship. Third, the comparative salience of different audit-quality dimensions for investors is under-researched; investors may respond more strongly to observable, communication-based signals than to abstract assurance attributes such as independence or expertise—a possibility that has not been tested in a unified framework (Huang et al., 2022; Elliott et al., 2020). Fourth, empirical evidence from India and comparable emerging market economies remains scarce, limiting the generalisability of findings from Anglo-American archival research (Khurana & Raman, 2004; Sulaiman et al., 2018). The present study addresses these gaps through a structured perception-based survey design that directly tests audit-quality–confidence relationships in the Indian investor context.

RESEARCH METHODOLOGY

Research Design

This study adopted a quantitative, explanatory, and cross-sectional research design. The primary aim was to test directional relationships between audit-quality perception constructs and investor-confidence outcomes rather than to describe distributions. A positivist epistemological stance was adopted, consistent with deductive hypothesis testing grounded in established theoretical frameworks. The unit of analysis was the individual investor or financially informed respondent.

Sampling and Data Collection

A purposive non-probability sampling approach was employed to target respondents with at least a basic familiarity with financial statements, external auditing, and investment decision-making. Data were collected via a structured questionnaire administered to retail investors, finance professionals, postgraduate students of management and finance, and equity market participants in India. A total of 186 usable responses, free of missing values, were retained for analysis. While the thesis design envisaged 250–400 responses for full structural equation modelling, the achieved sample was adequate for the descriptive, reliability, correlation, regression, and mediation analyses reported herein.

Measurement Instrument

The questionnaire comprised two parts. Part A collected respondent profile information across eight categorical items (age group, gender, educational qualification, occupation, investing experience, primary investment avenue,

frequency of financial-information review, and prior exposure to audit reports). Part B comprised 23 Likert-scale items (1 = Strongly Disagree; 5 = Strongly Agree) operationalising seven constructs: Perceived Audit Quality (PAQ; 4 items), Auditor Independence (AI; 3 items), Auditor Expertise (AE; 3 items), Transparency of Audit Reporting (TR; 3 items), Financial-Report Credibility (FRC; 3 items), Investor Confidence (IC; 4 items), and Investment Intention (II; 3 items). Items were adapted from validated scales in the audit-quality and investor-perceptions literature (Christensen et al., 2016; Smith, 2012; Carver et al., 2023).

Hypotheses

H1: Perceived audit quality exerts a significant positive effect on investor confidence in audited financial statements.

H2: Auditor independence, auditor expertise, and transparency of audit reporting each exert a significant positive effect on financial-report credibility.

H3: Investor confidence mediates the relationship between perceived audit quality and investment intention.

Analytical Procedures

Data analysis proceeded through six sequential stages: (1) descriptive statistics (mean, standard deviation, skewness, kurtosis); (2) reliability analysis using Cronbach's alpha, composite reliability, and average variance extracted (AVE); (3) validity assessment via Kaiser-Meyer-Olkin (KMO) measure, Bartlett's test of sphericity, and exploratory factor analysis (EFA) with varimax rotation; (4) Pearson bivariate correlation analysis; (5) multiple linear regression for H1 and H2; and (6) bootstrapped mediation analysis (5,000 iterations) for H3. All analyses were conducted in Python using the statsmodels, scipy, and pingouin libraries. APA 7th Edition reporting conventions were followed throughout.

DATA ANALYSIS AND RESULTS

Respondent Profile (Table 1)

The sample of 186 respondents was broadly balanced across age cohorts, with the largest group comprising 46–55-year-olds (30.6%), followed by 26–35-year-olds (26.3%). Gender representation was near-equal (49.5% male, 50.5% female), supporting the generalisability of perceptions across demographic groups. Notably, 52.7% of respondents reported prior exposure to an audit report in the context of an investment decision, indicating a functionally relevant level of audit familiarity. The professional qualification was the modal educational level, while 4–6 years of investment experience constituted the most common experience band. Taken together, these characteristics indicate a sample with moderate to high financial awareness, capable of forming informed perceptions about audit-quality dimensions, while also exhibiting sufficient heterogeneity to reflect a broad range of investor types in the Indian market.

Descriptive Statistics (Table 2)

All construct means cluster around the scale midpoint of 3.0, ranging from 2.921 (AE) to 3.057 (TR). This near-neutral pattern is consistent with moderate, ambivalent investor perceptions of audit-quality signals respondents neither strongly affirmed nor dismissed audit relevance. The highest mean for transparency of audit reporting (M = 3.057) offers an early indication that visible, communicative audit attributes resonate more readily with investors than abstract assurance attributes. Skewness and kurtosis values are within acceptable bounds of approximate normality

(|skewness| < 1.0; |kurtosis| < 1.0 for all constructs), confirming the distributional adequacy for ordinary least squares regression analyses.

Reliability Analysis (Table 3)

Reliability diagnostics reveal a uniformly weak measurement structure. All seven constructs fall below the Cronbach's alpha threshold of 0.70, with values ranging from -0.089 (II) to 0.150 (PAQ); several coefficients are negative, indicating that item inter-correlations are near zero or inversely directional. Composite reliability values range from 0.517 to 0.646, and AVE values range from 0.287 to 0.384 all substantially below the 0.50 convergent validity benchmark. These results indicate that the items within each theoretical construct do not co-vary sufficiently to represent a single latent concept, which fundamentally undermines the confirmatory utility of the measurement model. Consequently, all subsequent regression and mediation findings are interpreted as exploratory, directional evidence rather than confirmatory statistical inference.

Validity Analysis (Table 4)

The construct validity diagnostics are consistent with the reliability findings. A KMO value of 0.459, below the commonly accepted threshold of 0.60, indicates that the inter-item correlation matrix is insufficiently structured for stable factor extraction. The non-significant Bartlett's test ($p = .213$) further confirms that the correlation matrix does not differ meaningfully from an identity matrix, implying insufficient shared variance among items. Exploratory factor analysis produced a fragmented loading pattern, with numerous cross-loadings and several items contributing primarily to factors that do not correspond to the intended theoretical constructs. Confirmatory factor analysis and structural equation modelling were accordingly not attempted. These validity limitations reinforce the need for instrument refinement before definitive hypothesis testing.

Correlation Analysis (Table 5)

The correlation matrix reveals predominantly weak and non-significant bivariate associations. Two statistically significant relationships merit attention. First, a positive correlation between transparency of audit reporting and financial-report credibility ($r = .151$, $p < .05$) is consistent with signaling theory: the more visible and communicative the audit disclosure, the more credible respondents perceive the reported financial information. Second, a weak but significant negative correlation between perceived audit quality and investment intention ($r = -.146$, $p < .05$) was unexpected and is interpreted with caution; given the weak reliability of both constructs, this relationship likely reflects measurement artefact or heterogeneous response patterns rather than a genuine inverse association. The absence of a significant positive correlation between PAQ and IC is noteworthy and foreshadows the non-confirmation of H1.

Hypothesis Testing

H1: Perceived Audit Quality and Investor Confidence (Table 6)

H1 is not supported by the data. The regression of investor confidence on perceived audit quality produced a non-significant, weakly negative coefficient ($B = -0.025$, $\beta = -0.027$, $p = .722$), with the model explaining less than 0.1% of variance in investor confidence ($R^2 = .001$). This finding does not imply that the theoretical relationship between audit quality and investor confidence is invalid; rather, it indicates that the current instrument did not capture a reliable representation of PAQ sufficient to generate the hypothesised positive association. Consistent with the reliability diagnostics, this result

underscores the importance of measurement precision in testing perceptions-based hypotheses.

H2: Audit-Quality Dimensions and Financial-Report Credibility (Table 7)

H2 is partially supported. Although the overall model explains only 3.0% of variance in financial-report credibility and does not attain conventional model-level significance (F = 1.882, p = .135), transparency of audit reporting emerges as the sole statistically significant individual predictor (B = 0.153, β = 0.147, p = .047). Auditor independence and auditor expertise both yield positive but non-significant coefficients. This directional finding is substantively important: it suggests that among the three audit-quality dimensions, visible reporting transparency carries the greatest signal value for investors in this sample. This is consistent with Elliott et al. (2020) and Carver et al. (2023), who demonstrated that expanded, informative audit reporting positively influences investor confidence and credibility perceptions. The non-significance of independence and expertise may partly reflect the lower observability of these attributes relative to the tangible content of audit disclosures (Huang et al., 2022).

H3: Mediation by Investor Confidence (Tables 8 & 9)

H3 is not supported. The bootstrapped indirect effect of perceived audit quality on investment intention via investor confidence is negligible (-0.001) and its 95% confidence interval straddles zero [-0.017, 0.013], confirming statistical non-significance. The non-significance of both the a-path (PAQ → IC, p = .722) and the b-path (IC → II | PAQ, p = .885) precludes mediation. A weak negative direct effect of PAQ on II (c' = -0.154, p = .047) exists, but this should be interpreted with caution given the measurement inadequacies documented above. The theoretical model of investor confidence as the central intervening mechanism is not confirmed in this dataset, a finding that may reflect measurement limitations rather than a genuine absence of mediation. Future studies employing refined instruments should revisit this pathway.

DISCUSSION

The findings of this study present a mixed but theoretically informative picture. The most consistent empirical signal across the dataset is the positive directional relationship between transparency of audit reporting and financial-report credibility. This finding aligns with Elliott et al. (2020), who demonstrated that expanded audit reports unlock investor confidence in financial reporting quality, and with Carver et al. (2023), who found that critical audit matter disclosures enhance perceived auditor credibility. It further resonates with Bédard et al. (2019), whose French evidence indicated that informational richness in audit communication improves the assurance environment for financial statement users. In contrast, auditor independence and auditor expertise did not independently predict financial-report credibility, suggesting that these more abstract attributes while theoretically important are less observable and therefore less salient for investors than the tangible content of audit disclosures (Huang et al., 2022).

The non-confirmation of H1 and H3 is noteworthy. Christensen et al. (2016) found that investors prioritise publicly visible signals of audit quality, a finding that may explain why abstract composite perceptions of PAQ failed to translate into measurable investor confidence in this sample. This aligns with the expectation-gap perspective advanced by Sikka et al.

(1998): investors may hold heterogeneous and internally inconsistent conceptions of what audit quality means, resulting in construct scores that are too diffuse to capture reliable perceptual patterns. Smith (2012) similarly observed that regulatory changes affecting the observability of audit quality alter investor perceptions, implying that cognitive salience not mere presence of assurance determines whether audit quality generates confidence.

The near-neutral construct means provide a further interpretive angle. The absence of strong positive or negative perceptions across all dimensions suggests that respondents in this sample are aware of auditing as a concept but do not actively engage with audit-quality signals in a discriminating way. This is consistent with Khurana and Raman (2004), who observed that institutional context moderates how investors interpret auditor reputation signals, and with Sulaiman et al. (2018), who noted conceptual fragmentation in stakeholder perceptions of audit quality across institutional settings. In the Indian context, where retail investor exposure to detailed audit report content is likely limited relative to institutional investors, it is plausible that transparency is the most accessible quality signal precisely because it is embedded in the readable content of audit reports rather than inferred from credentials or brand.

From a managerial perspective, the transparency finding carries practical implications for audit firms, audit committees, and regulators. If visible audit communication is the channel through which quality signals reach investors, then investments in reporting clarity plain-language summaries, explicit commentary on key estimates, and accessible disclosure of scope limitations may yield higher confidence dividends than improvements in technical assurance procedures that are not communicated to report users (Elliott et al., 2020; Huang et al., 2022).

CONCLUSION

This study examined whether perceived audit quality, decomposed into auditor independence, auditor expertise, and transparency of audit reporting, shapes investor confidence and financial-report credibility in an Indian emerging market context. Using a structured questionnaire administered to 186 respondents and a combination of reliability analysis, correlation analysis, multiple regression, and bootstrapped mediation, the study found that transparency of audit reporting is the only dimension to exert a statistically significant positive effect on financial-report credibility ($B = 0.153$, $p = .047$). Perceived audit quality did not significantly predict investor confidence, and investor confidence did not mediate the audit-quality–investment-intention pathway. The measurement instrument exhibited uniformly low reliability and validity diagnostics, constraining the confirmatory scope of the findings.

Despite these limitations, the study makes three contributions. Academically, it documents that communication-based audit signals carry greater salience for investors than abstract assurance attributes, providing directional support for signaling theory in an emerging market setting. Practically, it highlights the strategic importance of audit-report transparency for confidence-building among investors. Methodologically, it provides a detailed account of measurement challenges in perception-based audit research, offering a foundation for instrument refinement in future studies. Taken together, the findings advocate for reconceptualising audit quality not solely as a technical professional output but as a

perception-based communication construct that must be actively managed to generate stakeholder confidence.

SCOPE FOR FURTHER RESEARCH

First, instrument refinement is the most immediate priority. The reliability and validity limitations of the current questionnaire indicate the need for item-level piloting, cognitive interviewing with investors, and iterative scale development before large-scale hypothesis testing. Particular attention should be paid to items operationalising auditor independence and investor confidence, which may require more concrete anchoring to reduce response ambiguity.

Second, future studies should employ larger, more precisely defined samples ideally 300 or more active retail investors stratified by investment experience, financial literacy, and regularity of audit-report engagement. This would enable stable latent-variable analysis, including confirmatory factor analysis and full structural equation modelling of the integrated conceptual model proposed in this study.

Third, scenario-based or experimental designs would provide stronger causal inference than cross-sectional surveys. Presenting respondents with manipulated audit-report formats varying levels of CAM disclosure, auditor commentary, or independence safeguard language would enable direct tests of which communication elements drive confidence formation, complementing the observational evidence reported here.

Fourth, comparative research across institutional contexts contrasting, for example, Indian investors with those in high-litigation Anglo-American settings or in Continental European disclosure regimes would advance understanding of how institutional enforcement and disclosure norms moderate the audit-quality confidence relationship (Khurana & Raman, 2004; Bédard et al., 2019). Longitudinal designs tracking confidence dynamics over regulatory reform cycles would further enrich this line of inquiry.

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Table 1

Profile of Respondents (N = 186)

Category	Sub-category	n	%
Age Group	18–25	27	14.5
	26–35	49	26.3
	36–45	33	17.7
	46–55	57	30.6
	Above 55	20	10.8
Gender	Male	92	49.5
	Female	94	50.5
Prior Audit Report Exposure	Yes	98	52.7
	No	88	47.3

Note. n = frequency count; % = column percentage. Percentages may not sum to 100 due to rounding.

Table 2

Descriptive Statistics for Composite Construct Scores (N = 186)

Construct	Code	N	Mean	SD	Skewness	Kurtosis	Min	Max
Perceived Audit Quality	PAQ	186	3.000	0.640	0.061	0.242	1.50	5.00
Auditor Independence	AI	186	2.944	0.701	-0.183	-0.557	1.33	4.67
Auditor Expertise	AE	186	2.921	0.762	0.108	-0.278	1.33	4.67
Transparency of Audit Reporting	TR	186	3.057	0.695	0.025	-0.611	1.67	5.00
Financial-Report Credibility	FRC	186	3.000	0.722	-0.055	-0.209	1.00	4.67
Investor Confidence	IC	186	2.973	0.604	-0.077	-0.641	1.50	4.25
Investment Intention	II	186	2.948	0.675	0.045	-0.391	1.33	4.67

Note. SD = standard deviation. Composite scores are computed as item means within each construct.

Table 3

Reliability Statistics for Multi-Item Constructs

Construct	Items	Cronbach's α	Composite Reliability	AVE	Min Item-Total r	Mean Item-Total r
Perceived Audit Quality (PAQ)	4	0.150	0.602	0.287	0.059	0.070
Auditor Independence (AI)	3	-0.029	0.628	0.372	-0.067	-0.012
Auditor Expertise (AE)	3	0.134	0.558	0.384	-0.001	0.070
Transparency of Audit Reporting (TR)	3	-0.055	0.542	0.353	-0.042	-0.025
Financial-Report Credibility (FRC)	3	0.032	0.517	0.344	0.000	0.015
Investor Confidence (IC)	4	0.005	0.646	0.329	-0.155	0.006
Investment Intention (II)	3	-0.089	0.625	0.372	-0.084	-0.038

Note. AVE = average variance extracted. The conventional thresholds are Cronbach's α ≥ 0.70, composite reliability ≥ 0.70, and AVE ≥ 0.50. No construct in this sample meets any of these benchmarks.

Table 4

Construct Validity Diagnostic Summary

Diagnostic	Value	Interpretation
KMO Overall Measure of Sampling Adequacy	0.459	Below 0.60 threshold; weak factorability
Bartlett's Test of Sphericity (χ^2)	270.620	Non-significant (df = 253, p = .213)
Highest AVE Across Constructs	0.384	Below 0.50 convergent validity benchmark
Lowest Item Communality	0.144	Substantial unexplained item variance

Note. KMO = Kaiser-Meyer-Olkin. A KMO value ≥ 0.60 and a significant Bartlett's test are conventionally required before proceeding with factor analysis.

Table 5

Pearson Correlation Matrix (N = 186)

Construct	PAQ	AI	AE	TR	FRC	IC	II
PAQ	1.000***	-0.022	0.019	0.012	0.085	-0.026	-0.146*
AI	-0.022	1.000***	-0.071	0.132	0.056	0.076	0.084
AE	0.019	-0.071	1.000***	-0.028	0.069	0.001	-0.058
TR	0.012	0.132	-0.028	1.000***	0.151*	-0.134	-0.006

FRC	0.085	0.056	0.069	0.151*	1.000***	-0.032	-0.032
IC	-0.026	0.076	0.001	-0.134	-0.032	1.000***	-0.007
II	-0.146*	0.084	-0.058	-0.006	-0.032	-0.007	1.000***

*Note. *p < .05; ***p < .001. Values are Pearson r coefficients. PAQ = Perceived Audit Quality; AI = Auditor Independence; AE = Auditor Expertise; TR = Transparency of Audit Reporting; FRC = Financial-Report Credibility; IC = Investor Confidence; II = Investment Intention.*

Table 6

H1 Regression Coefficients: Perceived Audit Quality Predicting Investor Confidence

Predictor	B	SE	β	t	p
Constant	3.047	0.213	—	14.283	.000
Perceived Audit Quality (PAQ)	-0.025	0.070	-0.027	-0.356	.722

Note. R^2 = .001, F(1, 184) = 0.127, p = .722. B = unstandardised coefficient; SE = standard error; β = standardised coefficient.

Table 7

H2 Regression Coefficients: Audit-Quality Dimensions Predicting Financial-Report Credibility

Predictor	B	SE	β	t	p
Constant	2.195	0.378	—	5.805	.000
Auditor Independence (AI)	0.043	0.076	0.042	0.565	.573
Auditor Expertise (AE)	0.072	0.069	0.076	1.036	.301
Transparency of Audit Reporting (TR)	0.153	0.077	0.147	2.000	.047

Note. R^2 = .030, F(3, 182) = 1.882, p = .135. Only TR reached statistical significance at the α = .05 level.

Table 8

H3 Mediation Path Coefficients

Path	Coefficient (B)	SE	t	p
Total effect c (PAQ → II)	-0.154	0.077	-2.002	.047
a-path (PAQ → IC)	-0.025	0.070	-0.356	.722
b-path (IC → II | PAQ)	-0.012	0.082	-0.145	.885
Direct effect c' (PAQ → II | IC)	-0.154	0.077	-2.000	.047

Table 9

H3 Bootstrapped Indirect Effect Summary (5,000 Replications)

Statistic	Value
Bootstrapped indirect effect (a × b)	-0.001
95% CI lower bound	-0.017
95% CI upper bound	0.013
Sobel z	0.134
Sobel p	.893

Note. The 95% bootstrap confidence interval for the indirect effect contains zero, indicating a non-significant mediation effect.