



Auditors' Narcissism and Audit Report Readability: The Moderating Role of Auditor Specialization

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ABSTRACT

The current research examines the impact of Auditor's Narcissism (NARC) on the level of Audit Report Readability (ARR). Furthermore, investigates the moderating role of Auditor Specialization (SPEC) on the relationship between NARC and ARR. To ensure a robust analysis, this study utilizes a balanced panel dataset (2018-2023) encompassing all non-financial firms listed on the Egyptian Stock Exchange. Multiple regression techniques will be employed to comprehensively explore the relationships between the variables of interest. The analysis revealed a positive association between NARC and ARR, suggesting more NARC is linked with higher readability. Notably, SPEC presence moderated this association, strengthening the positive effect of NARC on ARR. The present investigation holds potential implications for various stakeholders within the Egyptian business landscape, including domestic firms, investors targeting the Egyptian market, and regulatory bodies governing emerging economies. This study is the first research project to explore the moderating effects of SPEC when interacting with NARC on ARR within emerging markets. By shedding light on these previously unexplored dynamics, the study significantly contributes to our understanding of how various elements influence the ARR in these evolving economic environments.

KEYWORDS

Audit firms, audit quality, emerging economy, expertise, psychology, understandability

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1. Introduction

Auditors play a critical role in communicating control and audit findings through their audit reports, which serve as the primary means of interaction between auditors and financial statement users. The effectiveness of these communications hinges partly on comprehensibility and the level of ARR (Fakhfakh, 2015). Therefore, to foster an effective relationship, auditors must ensure that their reports are easily understandable to users, enabling them to make informed decisions based on the information provided (Rajabalizadeh, 2023). In essence, financial statement users should be able to read and comprehend audit reports with ease (Fakhfakh, 2015). The level of comprehending information in the report is affected by the level of ARR as in order to comprehend, users need to understand the written texts (Rajabalizadeh, 2023; Salehi *et al.*, 2022b).

Existing research within the accounting domain has yielded a substantial body of empirical evidence regarding the comprehension of audit reports. This evidence consistently points towards a communication gap, where independent auditor reports exhibit deficiencies in user-friendliness for a significant portion of financial statement users. Transparency issues contribute to the documented "expectation gap" (Innes *et al.*, 1997). This gap signifies the divergence between auditors' intended message and user interpretations (financial statements).

Audit report readability (ARR) serves as a linguistic indicator of financial information quality. This readability measure assesses the effectiveness of written communication and the efficacy of financial reporting instruments (Fakhfakh, 2015). ARR is considered a gauge of reporting quality due to its influence on financial statement interpretation, potentially impacting user's decisions and behavior (Fakhfakh, 2015; Rajabalizadeh, 2023). Research suggests detailed and tailored audit reports might indicate heightened auditor dedication or commitment to audit quality. Zeng *et al.* (2021) examined audit report language, revealing that characteristics like

specificity, consistency, readability, and length reflect the auditor's attention to client earnings quality, the audit effort invested, and the likelihood of issuing modified opinions (Rajabalizadeh, 2023). Therefore, ARR represents a crucial feature within audit reports, warranting investigation into its potential association with auditor personality traits such as narcissism.

In psychology literature, narcissism is defined as a personality disorder characterized by an exaggerated preoccupation with oneself, leading individuals to overlook external circumstances and the welfare of others. It typically manifests through traits such as self-importance, imposing high expectations on others, justifying one's own mistakes, shifting blame onto others, and undervaluing others relative to oneself. Narcissistic individuals tend to have a comprehensive outlook, scrutinizing others extensively, and when dissatisfied with rules, they may disregard or even manipulate them to their advantage. Consequently, narcissism acts as a double-edged sword, capable of tipping the balance either by excessive or insufficient amounts (Salehi *et al.*, 2022a). Given that narcissism, characterized by elements like prioritizing personal desires, dependence on others, and cognitive biases, shapes individuals' personalities and behaviors, understanding certain behavioral factors in auditors' personalities can enhance decision-making processes. One such factor is narcissism and self-confidence among auditors, which can impact the quality of financial reporting, including the comprehensibility of accompanying notes in financial statements (Salehi *et al.*, 2023).

Building on these early studies on NARC, many auditing studies reached contradictory and mixed results. Some studies reported a negative impact on auditors' judgement, risk taking and tolerance, less tendencies in reaching negotiations, some concerns regarding ethical conduct (Church *et al.*, 2020; Mohammadi *et al.*, 2021; Olsen and Stekelberg, 2016; Salehi *et al.*, 2023). Other studies supported the positive impact of NARC on performance, independence, audit quality and the level of ARR (Chou *et al.*, 2021; Church *et al.*, 2020; Mohammadi *et al.*, 2021; Safarzadeh and Mohammadian, 2023;

Salehi *et al.*, 2023). Those contradictory results were associated with deploying different theoretical perspectives to explain the impact of NARC on auditors' work and reporting (Mohammadi *et al.*, 2021; Safarzadeh and Mohammadian, 2023; Salehi *et al.*, 2023). However, NARC was heavily studied in the literature whereas its impact on the level ARR was only studied by Salehi *et al.* (2023) who reported that NARC has a positive and significant impact on the level of ARR.

To fill part of this gap in the literature, the current research extends this early endeavor and examines the impact of NARC on the level of ARR by all listed Egyptian companies. The current research also investigates the moderating role of SPEC on the relationship between NARC and ARR. Although auditor specialization is heavily studied in the literature, only Salehi *et al.* (2023) studied its impact as an independent variable and how it has a direct impact on the level of ARR, and reported a negative significant relationship between this variable and the level of ARR.

This study represents a novel exploration of the relationship between NARC and ARR within the Egyptian context, through examining the moderating effects of SPEC. The research is structured around two primary research questions: Does NARC directly impact ARR levels? Does SPEC presence moderate the NARC-ARR relationship? The analysis revealed a positive correlation between NARC and ARR, suggesting more narcissism is associated with higher readability. Furthermore, SPEC presence was found to strengthen this positive association, implying SPEC may enhance ARR. Interestingly.

This research addresses a significant gap in the audit literature by examining audit practices within the under-researched context of developing economies, specifically Egypt. Previous studies have predominantly focused on developed economies, overlooking the potential impact of distinct socio-political and economic conditions characteristic of the Middle East and North Africa (MENA) region (Abdelazim *et al.*, 2023; Ali *et al.*, 2024; Diab *et al.*, 2023; Metwally *et al.*, 2024). Egypt, a pivotal emerging market in Africa and a financial powerhouse within the MENA region (Metwally, 2022), presents a compelling context for exploring these potential influences. Furthermore, Egypt's recent history, marked by economic liberalization initiatives and the Arab Spring uprisings, mirrors the experiences of other MENA countries, suggesting potential generalizability of findings (Abdelazim *et al.*, 2023).

This study examines the interrelationships among two core variables: NARC and SPEC, in relation to ARR. By examining these factors within the unique context of a developing nation undergoing post-revolution transitions, this study aims to elucidate previously unexplored dynamics that may influence financial reporting practices and user comprehension. The findings of this research have the potential to significantly contribute to the existing body of knowledge by enriching our understanding of audit practices in emerging markets with comparable economic, political, and social characteristics. Additionally, the study seeks to translate its discoveries into actionable recommendations for investors in the Egyptian Exchange (EGX) and regulators in similar MENA economies. By equipping these stakeholders with practical insights, the research can ultimately contribute to the development of more informed decision-making practices within these evolving market landscapes.

The remaining of this research unfolds as follows: Section 2 establishes the context with an overview of the Egyptian audit market. Section 3 outlines the theoretical framework. Section 4 integrates the literature review and theoretical foundations, culminating in hypothesis development. Section 5 details the research methodology and employed methods. Section 6 presents and discusses the empirical findings. Finally, Section 7 concludes and discusses research implications.

2. Contextual Ramifications

The distinctive characteristics of the Egyptian audit market motivated us to initiate this study. Specifically, Egyptian audit firms can be broadly classified into two groups: those linked with international audit firms and local audit firms (El-Dyasty and Elamer, 2021). The majority of audit firms in Egypt strives to differentiate themselves by establishing affiliations with foreign audit firms (El-Dyasty, 2017). In this developing market, the big four audit firms are seen more as recognizable brands than distinct legal entities due to limitations set by the Egyptian law (El-Dyasty and Elamer, 2021). Moreover, the audit profession in Egypt remains regulated by Law No. 133 of 1951, which lacks an inclusive professional code of conduct and associated penalties. This situation raises concerns about the independence of auditors, potentially leading to unforeseen uncertainties and consequences (El-Dyasty and Elamer, 2021). These attributes have the potential to affect the oversight of the audit process, consequently influencing the overall quality of audits. Corroborating this viewpoint, El-Dyasty and Elamer (2021) observed that Egyptian audit firms tend to exhibit enhanced audit quality when they are affiliated with a foreign audit firm. Conversely, state-owned enterprises and local audit firms focused on preserving client relationships to sustain revenue levels as they were found to exhibit lower levels of audit quality.

Since the Egyptian Government introduced economic reforms and privatization initiatives in the late 1980s and early 1990s, firms in Egypt have embraced global accounting standards. This adoption aims to accurately reflect economic growth and enhance transparency in reporting. The commitment to these international standards is crucial for attracting foreign investments and adapting to the evolving dynamics of the business sector (Aly *et al.*, 2023).

A limited number of big auditing firms hold sway over the Egyptian audit market, overseeing the audit procedures for substantial state and private entities. Specifically, the Big 4 auditing companies exert control over the private audit sector, while the Central Auditing Organization is responsible for auditing state-owned enterprises (El-Dyasty, 2017). It is noteworthy that when the Egyptian government holds a minimum ownership stake of twenty-five percent in a company, a governmental auditor is assigned to audit the financial statements of that company in compliance with Law 144/1988 (El-Dyasty and Elamer, 2021).

The Egyptian Financial Supervisory Authority (EFSA), established in 2008, significantly bolstered the capital market by regulating it and overseeing both the audit profession and the quality of financial disclosures (Aly *et al.*, 2023). Being the government's representative, EFSA sets auditing and accounting standards and oversees their application through the Audit Oversight Board responsible for accrediting auditors for listed firms (Metwally and Diab, 2021). The board further ensures compliance by issuing guidelines and actively monitoring audit services.

In 2014, regulatory authorities implemented new regulations mandating the inclusion of Management Reports (MRs). These revised listing rules aimed to enhance disclosure requirements, ensuring that MRs provided decision-makers with more comprehensive information (Abdelazim *et al.*, 2023). The necessity for these changes stemmed from the complex regulatory framework governing listed companies on the Egyptian Exchange (EGX). The EGX regulations encompass numerous laws and statutes, which at times complement each other but can also present contradictions (Diab *et al.*, 2023). Therefore, the introduction of clearer guidelines for MRs aimed to streamline reporting practices and address any inconsistencies within the regulatory framework. In a recent development, on December 25th, 2018, the EFSA implemented a decree mandating the preparation of a separate corporate

governance report as a prerequisite for registration and ongoing licensing in Egypt. Additionally, both external and governmental auditors are now obligated to provide a separate audit report expressing their opinions on the corporate governance report (Metwally, 2022).

3. Theoretical Framework

The response of individuals to a given subject can vary even when they are in similar circumstances and situations. These interpersonal differences may seem peculiar or unusual behaviors to some observers, potentially indicating a personality disorder in the individual. Among the prevalent personality traits, narcissism stands out. It encompasses a combination of traits and behaviors such as self-aggrandizement, obsession with success, a sense of entitlement, a desire for admiration, fantasies of immense power and beauty, hypersensitivity to criticism, grandiosity, and a propensity for exploiting others in interpersonal relationships. This characterization of narcissism has been explored in various studies (Safarzadeh and Mohammadian, 2023).

Many studies in business literature revealed that managers with narcissistic traits are seen as catalysts for creativity, often championing innovative ideas. They tend to embellish their own abilities and rely heavily on their personal vision and assertive leadership style (Olsen and Stekelberg, 2016). Narcissistic individuals typically exhibit higher self-esteem and display better mental health behaviors. They excel particularly well in the initial stages of personal relationships. Moreover, they often present a charming social demeanor to attract new connections (Safarzadeh and Mohammadian, 2023). When it comes to management roles, narcissistic individuals are driven by a quest for significant accomplishments, which often leads them to boldly implement operational and strategic initiatives and embark on new ventures (Olsen and Stekelberg, 2016). Drawing from Nietzsche's philosophy, narcissists perceive themselves as superior beings exempt from conventional rules (Safarzadeh and Mohammadian, 2023).

Nevertheless, narcissism often leads to a plethora of adverse outcomes. Scholars posit that narcissistic individuals frequently employ their talents and capabilities to manipulate, dominate, and intimidate others. They tend to disregard their genuine needs while harboring a belief that they are entitled to more love, admiration, and attention than they receive from their peers. Moreover, they are prone to errors in professional judgments and personal actions due to their lack of attention to detail (Martinez *et al.*, 2008). Fueled by their sense of entitlement, narcissists tend to look down on others and adopt exploitative tactics to achieve their objectives. Research suggests a strong link between narcissism and aggressive behavior, which can inflict irreversible harm on organizations (Martinez *et al.*, 2008). Executive managers with narcissistic tendencies often award themselves significantly higher compensation packages, thereby consolidating their power within the organization (Safarzadeh and Mohammadian, 2023).

Additionally, various studies have employed communication theory, social identity theory, and behavioral decision theory to elucidate auditors' actions and reporting practices. From a communication theory standpoint, audit reports serve as crucial communication tools between auditors and their users. These reports outline the scope of the auditor's examination and convey conclusions regarding the appropriateness of financial statements. Seen through this lens, audit reports represent messages that auditors, as senders, intend to convey to recipients, including companies and stakeholders (Suttipun, 2022). The effectiveness of this communication is often assessed based on factors such as readability (Li, 2008) or the content and tone of audit reports

(Loughran and McDonald, 2016; Salehi *et al.*, 2023).

The effective communication represents a high level of readability in many studies (Loughran and McDonald, 2016) as it plays a crucial role in audit report communications' effectiveness, as highlighted by (Salehi *et al.*, 2022a). The comprehension of reports is often hindered by their inherent complexity, making readability a vital bridge between users and informed decision-making (Salehi *et al.*, 2023). Recognizing its significance, this study emphasizes readability as a fundamental factor. Previous research, drawing upon communication theory, has noted that traditional annual and audit reports are often challenging to digest and offer a limited user value (Li, 2008).

Finally, behavioral decision theory posits that an individual's performance is influenced by their level of experience, knowledge, and skills (Bonner and Lewis, 1990). Francis and Yu (2009) highlight that experienced auditors thoroughly scrutinize clients' financial statements before issuance, thereby enhancing audit quality. Consequently, auditor experience has been consistently linked with audit quality in the literature (Salehi *et al.*, 2023).

4. Literature Review and Hypotheses Development

4.1. Auditor's Narcissism and the Level of Audit Report Readability:

The inception of narcissism in the realms of psychology and psychiatry can be traced back to its introduction by Ellis in 1898 (Mohammadi *et al.*, 2021). Unlike many psychological concepts, narcissism remains a subject of lively intellectual and scientific investigation (Miller *et al.*, 2010). Modern interpretations of narcissism integrate insights from distinct yet interconnected bodies of literature, grounded in clinical observation/theory, formal psychiatric classification, and social/personality psychology (Miller and Campbell, 2008; Miller *et al.*, 2010). Nevertheless, variations in how the construct is conceptualized across disciplines have resulted in differences in the choice of assessment measures, contributing to a further complication of an already intricate theoretical landscape (Miller *et al.*, 2010).

In many psychology-based business studies, narcissism has been conceptualized as a personality trait that is associated with tendencies of exhibition of a grandiose sense of self-importance, a penchant for exaggerating achievements, a preoccupation with fantasies of power and success, excessive self-determination, hostility toward criticism, and a lack of tolerance (Sudha and Shahnawaz, 2020).

The manifestation of narcissism can take both positive and negative forms. In a positive context, narcissists are perceived as performance-oriented, possessing a high need for achievement and a drive for professional advancement (Sudha and Shahnawaz, 2020). Positive attributes associated with narcissism include high self-esteem, the ability to make a lasting impact, articulate long-term goals, and motivation to excel (Sudha and Shahnawaz, 2020).

On the contrary to this positive view, narcissism can also have destructive manifestations, primarily stemming from interpersonal dominance, overconfidence in one's abilities, hypersensitivity, anger, an insatiable need for recognition and superiority, lack of empathy, irrationality, and inflexibility (Miller *et al.*, 2011). Narcissists are often known to be ineffective, overly involved, and abusive when they are in power like managers (Sudha and Shahnawaz, 2020).

Furthermore, a narcissist person exhibits a tendency to dismiss advice from advisors, attributing success solely to themselves while placing blame on others for their own failures and shortcomings. A negative correlation between narcissism and performance was reported.

Despite the multifaceted nature of narcissism, the existing body of knowledge has conflicting results which urge for more studies (Sudha and Shahnawaz, 2020). While a comprehensive discussion of this matter falls outside the scope of this paper, our current research specifically focuses on the impact of NARC on the level of ARR.

In auditing literature, narcissism is characterized as a complex personality trait accompanied by a pronounced sense of dominance and a proclivity for engaging in ethically questionable conduct (Olsen and Stekelberg, 2016). Furthermore, narcissism was found to influence auditors' judgments regarding client performance, potentially leading to inaccurate and biased reports on firm performance (Mohammadi *et al.*, 2021; Salehi *et al.*, 2023). This cognitive bias emanates from overconfidence, sense of superiority, arrogance, and excessive pride (Church *et al.*, 2020). Additionally, Church *et al.* (2020) explained that individuals with narcissistic tendencies are less inclined to reach agreements in negotiations and tend to emphasize their own perspectives, thereby exerting a potential impact on audit quality. Nevertheless, businesses with heightened political affiliations display a distinct inclination towards selecting auditors exhibiting not only elevated quality but also a commitment to pursuing their own viewpoints (Church *et al.*, 2020; Mohammadi *et al.*, 2021; Rajabalizadeh and Schadewitz, 2025).

On the contrary, narcissistic individuals consistently seek acknowledgment and attention. This inclination prompts narcissistic auditors to meticulously cultivate a flawless professional reputation within their respective domains, necessitating the safeguarding of their autonomy. Additionally, Church *et al.* (2020) reveal that auditors with higher levels of narcissism are driven to deliver superior audit quality, showcasing a penchant for stringent negotiations and a greater likelihood of attaining a conservative outcome. As a result, it is anticipated that narcissistic auditors will exhibit a reluctance to compromise with clients, especially when tasked with issuing a modified audit opinion (Chou *et al.*, 2021; Mohammadi *et al.*, 2021).

The effectiveness of auditors in navigating diverse scenarios and rendering high-quality judgments hinges on their commitment to enhancing efficiency (Chou *et al.*, 2021; Salehi *et al.*, 2023). Consequently, the empirical findings substantiate the proposition that both auditor reputation and independence wield a significant influence over the perceived audit quality and credibility of audited financial statements, consequently impacting audit market share. In summation, previous research suggests that narcissistic auditors prioritize the preservation of their independence over compromising with clients, ultimately translating into a diminished market share. Furthermore, the actual quality of audits improves in tandem with the narcissistic traits exhibited by the auditing partner (Takada *et al.*, 2021).

Notably, the impact of NARC on audit quality becomes more conspicuous in larger client settings and when the auditor shares affiliations with executive management. Partner narcissism can significantly enhance audit quality by fortifying auditor independence as opposed to mere qualification (Chou *et al.*, 2021; Mohammadi *et al.*, 2021). Beyond its influence on auditor independence, narcissism might propel auditors to invest additional effort in their work, aiming to deliver a superior audit quality and cultivate an impeccable reputation and acknowledgment (Chou *et al.*, 2021; Mohammadi *et al.*, 2021). Finally, having a high level of ARR represents one of the key aspects of audit quality, as it is the main way of communicating audit's work (Rajabalizadeh, 2023; Salehi *et al.*, 2022b). In this regard, Salehi *et al.* (2023) reported that NARC has a positive and significant impact on the level of ARR. Based on this positive impact of narcissism, the current study suggests the following hypothesis:

H1: A positive association exists between NARC and the level of ARR.

4.2. The Impact of Auditor Specialization: SPEC Moderating Role:

Considerable research has delved into the correlation between auditor tenure, industry specialization, and audit quality (Salehi *et al.*, 2023). Research, encompassing both experimental and archival approaches, consistently highlights a positive association between industry specialization and diverse indicators of audit quality. Experimental investigations reveal that industry specialization enhances proficiency across a range of audit activities (Almutairi *et al.*, 2009). For instance, specialists within the banking sector demonstrate greater confidence in evaluating an inherent risk compared to non-specialists (Taylor, 2000). Additionally, audit managers and senior auditors exhibit superior error detection abilities when handling tasks within their specialized industries. Moreover, specialist auditors outperform non-specialists in deciphering incomplete patterns indicative of potential misstatements (Almutairi *et al.*, 2009; Lim and Tan, 2008; Salehi *et al.*, 2023).

Furthermore, in comparison to companies audited by non-specialist firms, those audited by specialists tend to exhibit significantly lower absolute discretionary accruals (Krishnan, 2003). Additionally, Almutairi *et al.* (2009) identify a favourable correlation between employing industry specialist auditors and analysts' perceptions of disclosure quality. Collectively, these prior investigations indicate a positive association between audit firm specialization and both the quality of financial reporting and audit performance.

Having said this, several attempts in the literature confirmed the pivotal role of auditors' characteristics especially SPEC in validating financial statements and enhancing both audit quality and audit report readability (Salehi *et al.*, 2023). Furthermore, their findings demonstrate that firms employing auditors specialized in their industry exhibit significantly lower discretionary accruals compared to those employing non-specialized auditors. Libby and Frederick (1990) highlight that auditor's experience correlates with a deeper understanding of various potential distortions in financial statements. Consequently, accumulating experience in the field enhances the quality of auditor decisions, ultimately leading to improved service provision to society.

Finally, Salehi *et al.* (2023) identified a noteworthy negative and significant influence of SPEC on the level of ARR. Despite employing extensive examination of SPEC as an independent variable, no literature was found, to the best of our knowledge, that specifically delved into the moderating effect of SPEC on the correlation between NARC and ARR. Consequently, the absence of research exploring the moderating influence of SPEC on the relationship between NARC and the level of ARR highlights a gap in the existing literature. The present study proposes the following hypothesis:

H2: SPEC moderates the relationship between NARC and the level of ARR.

5. Research Design

5.1. Data Description:

This study mainly concentrated on all firms listed on the Egyptian Stock Exchange (ESE) from 2018 to 2023. The analysis excluded forty-four insurance and financial companies because of their diverse accounting and reporting practices, as indicated in Table 1. Furthermore, 35 companies were eliminated from the sample due to incomplete data. Consequently, the ultimate sample for this study comprised 141 non-financial firms, totalling 846 observations. Data were gathered manually from corporate websites and annual reports of the firms. Table 2 outlines the specifics of the study sample

structure. Panel data analysis was employed for data analysis in this study.

Table 1: Study sample

Total number of firms listed on ESE	220
Excluded financial firms	(44)
Non-financial firms	176
Excluded firms with missing data	(35)
Final Sample	141

Table 2: Sample structure

Industry sector	No. of firms	No. of observations	%
Real Estate	26	156	18.4
Food, Beverages, and Tobacco	22	132	15.6
Basic Resources	15	90	10.6
Textile and Durables	8	48	5.8
Contracting and Construction Engineering	8	48	5.8
IT, Media and Communication Services	4	24	2.8
Trade and Distributors	4	24	2.8
Industrial Goods, Services and Automobiles	5	30	3.5
Healthcare and Pharmaceuticals	10	60	7.1
Energy and Support Services	2	12	1.4
Shipping and Transportation Services	4	24	2.8
Travel and Leisure	13	78	9.2
Education Services	2	12	1.4
Building Materials	14	84	10
Paper and Packaging	4	24	2.8
Total	141	846	100%

5.2. Variables’ Measurement:

5.2.1. Dependent variable

The dependent variable is audit report readability (ARR). The auditor’s reports, which were converted from PDF files retrieved from the firm websites to Word documents, provided the ARR information. To calculate the study’s audit report readability score among the sample, the whole auditor’s report narrative was used. The dependent variable of ARR was measured using the Text length index, which is used in previous research (Li *et al.*, 2023). Text length index is derived from the reciprocal of the natural logarithm of the word count in auditor reports and provides a direct measure of the readability of audit reports. Thus, a higher value on the index indicates that the auditors’ reports are easier to understand (more readable) for users.

5.2.2. Independent variable

Prior research in accounting indicated that the size of a signature can be employed as a simple and unobtrusive measure of an individual’s narcissism. These studies indicate that larger signatures are generally associated with higher self-esteem, dominance and self-regard. This correlation supports the use of signature size as a proxy for assessing narcissism (Chou *et al.*, 2021; Church *et al.*, 2020).

5.2.3. Moderating variable

Audit specialization is determined by whether the company is being audited by an audit firm that specializes in the industry (Abu Afifa *et al.*, 2023a; Abu Afifa *et al.*, 2023b).

5.2.4. Control variables

The researcher accounts for a set of variables that may have an impact on audit report readability, namely firm size, firm profitability, audit type (Salehi *et al.*, 2023; Takada *et al.*, 2021; Xu *et al.*, 2020).

Table 3: Variables’ definitions

Variable	Measurement
Independent variable	
Auditor narcissism(NARC)	The auditor’s signature size: larger signatures point to the individual’s narcissistic traits.
Dependent variable	
Audit report readability(ARR)	Length of Auditor’s report, which is measured by the reciprocal of the natural logarithm of word number in the auditor’s report.
Control variables	
Firm Profitability(ROA)	Net income relative to total assets.
Firm Size(SIZE)	The entire assets’ natural logarithm
Auditor type(BIG4)	Big 4 affiliation is captured by a nominal variable coded 1 for

firms audited by a Big 4 firm and 0 otherwise.	
Moderating variable	
Auditors’ specialization(SPEC)	Industry specialization is captured using a market share-based dummy variable. Audit firms exceeding a 20% market share within a specific industry are coded 1, signifying a specialist status. All others are coded 0.

5.3. The Study Models:

In this study, the baseline results were obtained through multiple linear regression estimations using the random effect regression approach. The choice of the random effect model was supported by the Hausman test, which indicated a preference for it over the fixed effect model ($\chi^2 = 0.56$, Prob = 1.000). Additionally, to address the issue of heteroscedasticity identified by the Breusch–Pagan/Cook–Weisberg test, the researcher applied robust standard errors to enhance the reliability of the results. All models include industry and year-fixed effects (FE), as follows:

$$ARR_{it} = \beta_0 + \beta_1 NARC_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \beta_4 BIG4_{it} + \beta_t + \beta_{ind} + \epsilon_{it} \quad (1)$$

$$ARR_{it} = \beta_0 + \beta_1 NARC_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \beta_4 BIG4_{it} + \beta_5 SPEC_{it} + \beta_6 NARC * SPEC_{it} + \beta_t + \beta_{ind} + \epsilon_{it} \quad (2)$$

Where: ARR, Audit report readability; NARC, Auditor narcissism; SPEC, auditor specialization; ROA, firm profitability; SIZE, firm size; BIG4, Auditor type; NARC*SPEC, the interaction of Auditor narcissism with auditor specialization; β_t , time FE; and β_{ind} , industry FE. Table 3 provides definitions for all the variables.

6. Main Results

6.1. Descriptive Statistics and Pairwise Correlation:

Table 4 provides a statistical summary for the variables being analyzed. It shows that the ARR min and max values were 0.23 and 0.34 respectively, and the mean value was 0.28. The mean of the absolute value of NARC is 0.49; this implies that roughly 415 observations were audited by auditors exhibiting certain narcissistic traits. Furthermore, the findings indicate that approximately 313 observations underwent audits conducted by auditors who specialize in their industries. This is what the researcher concluded through the value of mean for the SPEC variable which was 0.37. The table also reveals that the mean of BIG4 is 0.29, while SIZE has a mean value of 13.70. Moreover, ROA has a min of -0.25, and the max is 0.31, with a 0.04 mean.

Table 4: Descriptive statistics

Variables	n	Minimum	Maximum	Mean	Median	Std. Deviation
ARR	846	0.23	0.34	0.28	0.28	0.02
NARC	846	0.00	1.00	0.49	1.00	0.50
SPEC	846	0.00	1.00	0.37	1.00	0.48
BIG4	846	0.00	1.00	0.29	1.00	0.45
SIZE	846	10.84	17.56	13.70	14.77	1.66
ROA	846	-0.25	0.31	0.04	0.09	0.10

Notes: The definitions for all variables can be found in Table 3.

Table 5 illustrates the results of the pairwise correlation analysis between all variables. Generally speaking, the coefficients are medium in value, indicating the absence of significant collinearities among the independent variables. Furthermore, the findings indicated the lack of problems with multicollinearity during the calculation of the variance inflation factor (VIF), with the highest value recorded at 2.27. Consequently, there was no evidence of the studied variables’ multicollinearity. Audit report readability (ARR) has a significant positive correlation with NARC and R equal 0.078, at $p < 0.05$. This implies that financial reports of firms undergoing audits by auditors with narcissistic traits might be more easily comprehensible to users. Additionally, the results indicate that BIG4 and SIZE were significantly and negatively correlated with ARR, $R = -0.217$, -0.470 and -0.291 respectively at $p < 0.01$. Moreover, the results reveal that there is no significant correlation between SPEC, ROA, and ARR.

Table 5: Correlation

Variables	ARR	NARC	SPEC	BIG4	SIZE	ROA
ARR	1					
NARC	0.078**	1				
SPEC	-0.049	0.098***	1			
BIG4	-0.217***	0.055	0.188***	1		
SIZE	-0.470***	-0.023	0.214***	0.409***	1	
ROA	-0.027	-0.020	-0.092***	-0.052	0.129***	1

6.2. Multivariate Outcomes:

6.2.1. Auditor narcissism and Audit report readability (Model 1)

Table 6 displays the outcomes of the random effect model applied to examine the association between NARC and ARR (H1). The adjusted R2 for Model 1 estimation stands at 21.5%, indicating that 21.5% of the variability in the dependent variable (ARR) can be accounted for by the variation in the independent variables in our main model. The analysis reveals a significant and positive impact of NARC on ARR at a 0.01 significance level ($\beta = 0.009$, $p < 0.01$). This implies that higher narcissism of the auditor will lead to a higher ARR, thereby supporting H1. This finding aligns with Salehi *et al.* (2023), who discovered a negative correlation between NARC and the Fog index, a proxy for ARR, wherein lower Fog index values signify more readable and less complex auditor reports. Moreover, Chou *et al.* (2021) reveal a positive relationship between audit partner narcissism and audit quality, with partner narcissism contributing to higher audit quality, evidenced by reduced absolute values of abnormal accruals, improved accrual quality, and a decreased likelihood of restatements. Similarly, Takada *et al.* (2021) demonstrated a positive link between audit partner narcissism and the quality of client firms' financial reporting.

Regarding the control variables, the coefficients for SIZE and BIG4 are significantly negative at a 0.01 significance level ($\beta = -0.003$ and -0.010 , respectively). This implies that audit report readability experiences a decrease with a larger firm size and when audited by a Big 4 auditor (Salehi *et al.*, 2023). This can be explained by the fact that when a firm owns huge assets and they are audited by BIG 4 firms, all its attention is focused on the accuracy and quality of the auditing process without considering or taking into account the readability of the audit reports.

Table 6: The findings of random effects regression models 1and 2

Variables	Audit report readability (ARR)			
	Model 1		Model 2	
	Coef.	Z	Coef.	Z
Constant	0.316	27.68***	0.316	27.68***
NARC	0.009	4.75***	0.007	3.28***
SPEC	-----	-----	-0.001	-0.38
NARC*SPEC	-----	-----	0.004	2.02**
SIZE	-0.003	-2.85***	-0.002	-2.87***
ROA	-0.008	-1.15	-0.008	-1.05
BIG4	-0.010	-2.88***	-0.010	-2.94***
Year(FE)	Included			
industry(FE)	Included			
Adjusted R ²	0.215		0.221	
Wald chi ²	64.61***		74.74***	
Observations	846		846	

6.2.2. Auditors' specialization, auditor narcissism and audit report readability (Model 2)

The study examined whether the auditors' specialization (SPEC) affects the relationship between NARC and ARR (H2). As shown in Table 6, the adjusted R2 for Model 2 is 22.1%. The statistical results demonstrate that SPEC, on its own, has a negative and insignificant impact on ARR. However, it was observed that the interaction term's (NARC*SPEC) coefficient is positive and significant at 0.05 significance level ($\beta = 0.004$, $p < 0.05$). This result implies that the positive relationship between NARC and ARR is more noticeable when the narcissistic Auditor is specialist in the industry of client firms, thereby supporting H2. This finding aligns with Salehi *et al.*

(2023), who discovered a positive and significant association between SPEC and the ARR. Furthermore, this finding demonstrates that SPEC can enhance both audit quality and audit report readability through decreasing discretionary accruals compared to firms employing non-specialized personnel, getting a deeper understanding of various potential distortions in financial statements. In light of the above, it can be said that accumulating experience in the field enhances the quality of auditor's decisions, ultimately leading to improved service provision to society.

7. Conclusion, Limitations and Future Research

This study examines the relationship between NARC and ARR for all firms listed on the Egyptian Stock Exchange (ESE) from 2016 to 2021 (n=141, observations=846). Furthermore, it investigates the moderating effects of SPEC on this relationship. The analysis reveals a positive association between NARC and ARR, suggesting more narcissism is linked with higher readability. This result supports early studies that reported a positive impact of NARC on auditors' independence and audit quality (Chou *et al.*, 2021; Church *et al.*, 2020; Mohammadi *et al.*, 2021; Salehi *et al.*, 2023).

Furthermore, having a high level of ARR represents one of the key aspects of audit quality, as it is the main way of communicating audit's work (Rajabalizadeh, 2023; Salehi *et al.*, 2022b). In this regard, the current results support the early claim by Salehi *et al.* (2023) that NARC has a positive and significant impact on the level of ARR. The above results support our theoretical claims based on communication theory, as NARC was found to produce a higher level of effective communication through producing a higher level of ARR in their audit reports which represent a crucial communication tool between auditors and their users. Seen through this lens, audit reports represent messages that auditors, as senders, intend to convey to recipients, including companies and stakeholders (Suttipun, 2022). The effectiveness of this communication is often assessed based on factors such as readability (Li, 2008) or the content and tone of audit reports (Loughran and McDonald, 2016; Salehi *et al.*, 2023; Suttipun, 2022).

This research pioneers the investigation of SPEC as a moderator of the NARC-ARR relationship within an emerging market context. The findings reveal that SPEC strengthens the positive association between NARC and ARR, suggesting that its presence enhances user's comprehension of complex narratives. However, these results support prior studies that have highlighted SPEC's impact on audit quality and readability (Almutairi *et al.*, 2009; Salehi *et al.*, 2023).

The findings align with behavioural decision theory, which posits that experience enhances performance (Bonner and Lewis, 1990). Experienced auditors, with their accumulated knowledge and skills, are known for more consistent adherence to regulations and sound judgments (Francis and Yu, 2009), leading to thorough reviews and ultimately, higher audit quality (Salehi *et al.*, 2023). This translates, in our study, to a positive association between auditor experience and Audit Report Readability (ARR).

This study's findings hold significant implications for various stakeholders within the Egyptian capital market. Companies' audit committees can leverage these insights to prioritize SPEC when selecting auditors. By doing so, they can promote the development of more readable audit reports (ARR), ultimately enhancing the transparency and understandability of financial information for external users. Shareholders and investors stand to gain valuable knowledge from this research regarding the correlation between auditor attributes and the clarity of audit reports. Prior research suggests that poorly constructed financial reports can impede

stakeholders' understanding and hinder informed decision-making (Xu *et al.*, 2020). Therefore, comprehending how auditor characteristics influence report readability is crucial for both auditors and organizational leaders.

Finally, the theoretical underpinnings of this study offer valuable insights for academic researchers. The findings support various theories including communication theory, social identity theory, and behavioural decision theory. For instance, the discovery that heightened narcissism among auditors correlates with decreased report clarity aligns with the notion of auditor scepticism, providing further validation for social identity theory. Similarly, the observation that experienced auditors in Egypt enhance report readability resonates with principles of behavioural decision theory. Overall, this study contributes to the advancement of literature in the domain of audit report linguistics and auditor characteristics, particularly within emerging markets like Egypt and other developing nations. Additionally, the results pave the way for future research endeavors exploring novel avenues in understanding auditor traits and the stylistic aspects of business firms' audit reports.

The present study suffers from some limitations, which could represent opportunities for future research. The present study is limited to Egyptian non-financial firms registered in EGX 100 from 2018 to 2023. However, future research can replicate the current study in other role of industry specialization African settings, especially in the MENA region, where there is a scarcity of studies that concentrate on auditor narcissism. In addition, this study is limited to auditor narcissism as a trait of an individual's character and personality for auditors. Future studies can investigate other characteristics for auditors, such as self-confidence to ensure their impact on audit report readability.

Data Availability Statement

The data that supports the findings of this study are available from the corresponding author, upon reasonable request.

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Conflict of Interest

The author declare no conflict of interest.

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