Accounting Across Borders

Empirical Insights into the Research-Practice Gap and Audit Transparency

Dissertation

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Bayreuth, im Januar 2026 *Florian Philipp Federsel*

Zusammenfassung

Diese Dissertation untersucht das länderübergreifende Verhältnis zwischen Forschung und Praxis im Rechnungswesen und beleuchtet die Implikationen internationaler Prüfungstransparenz, einem besonders relevanten Bereich des Rechnungswesens für die Forschung und Praxis.

Teil A bestimmt das Ausmaß eines themenbasierten Abstands in der Rechnungswesensliteratur, indem eine Methode des Unsupervised Machine Learnings auf sechs Forschungs-, Praxis- und Brückenzeitschriften aus den USA und Europa angewendet wird. Wir stellen eine statistisch signifikante Lücke zwischen Wissenschaft und Praxis fest, die zudem in den USA stärker ausgeprägt ist als in Europa. Diese Studie liefert neue Erkenntnisse zur häufig diskutierten, aber selten quantifizierten Forschungs-Praxis-Lücke. Nach unserem Kenntnisstand ist sie die erste, die einen rigorosen Algorithmus des Machine Learnings verwendet, um die Forschungs-Praxis-Lücke im Rechnungswesen empirisch zu messen. Unsere Ergebnisse unterstreichen die Bedeutung institutioneller Unterschiede und ermöglichen eine differenziertere Diskussion über Ursachen und potenzielle Wege zur Überwindung der globalen Forschungs-Praxis-Lücke.

Teil B untersucht, wie das institutionelle Umfeld die KAM-Berichterstattung in Europa beeinflusst, wo sowohl einheitliche KAM-Anforderungen als auch eine große institutionelle Diversität bestehen. Wir verwenden die Hauptkomponentenanalyse, um eine Vielzahl ökonomischer, regulatorischer, prüfungsmarktbezogener und soziologischer Ländermerkmale zu Faktoren zusammenzufassen und ihren Einfluss auf KAMs zu beurteilen. Unsere Ergebnisse zeigen, dass das länderspezifische Umfeld signifikant die KAMs beeinflusst. Dabei variiert die Bedeutung der einzelnen Länderfaktoren und sie stehen in unterschiedlichem Zusammenhang mit verschiedenen Aspekten der KAM-Berichterstattung. Unsere Ergebnisse liefern umfassende länderübergreifende Erkenntnisse zu den Determinanten von KAMs für Regulierungsbehörden und informieren Bilanzleser über den institutionellen Kontext der KAM-Berichterstattung.

Teil C analysiert, ob Rotationen von Wirtschaftsprüfern oder Wirtschaftsprüfungsgesellschaften mit einem „frischen Blick“ auf die Prüfung verbunden sind, was sich in veränderten KAMs widerspiegelt. Diese Studie untersucht eine breite europäische Stichprobe, die sich durch das seltene Zusammentreffen sowohl interner als auch externer Rotationsregelungen auszeichnet. Die Ergebnisse dokumentieren, dass ein Wechsel der Wirtschaftsprüfungsgesellschaft signifikant verschiedene Aspekte von KAM-Veränderungen beeinflusst, während die Auswirkungen von Wirtschaftsprüferwechseln begrenzt sind. Die umfassende Analyse trägt zur fortlaufenden Debatte in Forschung und Praxis rund um interne und externe Rotationspflichten bei und liefert Erkenntnisse zugunsten externer Rotationsvorschriften für Regulierer weltweit.

Abstract

This dissertation explores the cross-country relationship between research and practice in accounting and examines the implications of international audit transparency, an area of accounting particularly relevant to both academic research and professional practice.

Part A investigates the extent of a topic-based detachment in the accounting literature by applying an unsupervised machine learning technique to six research, practice, and bridging journals from the U.S. and Europe. We find a statistically significant divide between academia and practice, and that the research-practice gap is more pronounced in the U.S. than in Europe. This study provides novel evidence on an often discussed but rarely quantified gap between research and practice. To our knowledge, it is the first to use a rigorous machine learning algorithm to empirically examine the research-practice gap in accounting. Our results underscore the importance of divergences in institutional environments and enable more nuanced discussions about reasons for and better ways to narrow the research-practice divide globally.

Part B examines how institutional environments affect KAM reporting in Europe, where uniform KAM disclosure requirements combine with broad institutional diversity. We use principal component analysis to condense various individual economic, regulatory, audit market-related, and sociological country attributes into meaningful country factors and assess their influence on KAM disclosure. Our results show that the country-specific environment significantly impacts KAM reporting. At the same time, the importance of our country factors varies, and they possess diverging associations with different aspects of KAM disclosure. Our findings contribute comprehensive cross-country evidence on the determinants of KAMs to regulators and inform financial statement users about the institutional context of KAMs.

Part C analyzes whether audit partner and audit firm rotations are associated with a "fresh look" at the audit, reflected in changes in KAM disclosure. This study examines a broad European sample as a unique setting with simultaneous internal and external auditor rotation regulations. The results document that audit firm rotations significantly influence various aspects of KAM novelty, while the impact of audit partner rotations is limited. The comprehensive analysis contributes to the longstanding debate in research and practice surrounding internal and external auditor rotation requirements and provides evidence in favor of audit firm rotational regulations to regulators worldwide.

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List of Abbreviations

AAA	American Accounting Association
AcE	Accountancy Europe
AHo	Accounting Horizons
AiE	Accounting in Europe
AS	Auditing Standard
CAM	Critical Audit Matter
EAA	European Accounting Association
EAR	European Accounting Review
EC	European Commission
EEA	European Economic Area
EQCR	Engagement Quality Control Reviewer
EUR	Euro
FASB	Financial Accounting Standards Board
FEE	Fédération des Experts Comptables Européens
GDP	Gross Domestic Product
i.a.	inter alia
i.e.	id est
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
ISIN	International Securities Identification Number
JoA	Journal of Accountancy
KAM	Key Audit Matter
KMO	Kaiser-Meyer-Olkin criterion
LDA	Latent Dirichlet Allocation
LSEG	London Stock Exchange Group
MANOVA	Multivariate Analysis of Variance
MSA	Mean Sampling Adequacy
No.	Number
OLS	Ordinary Least Squares
p.	page
PCA	Principal Component Analysis

PCAOB	Public Company Accounting Oversight Board
PoM	Psychology of Music
pp.	pages
RQ	Research Question
SIC	Standard Industrial Classification
TAR	The Accounting Review
TOEFL	Test of English as a Foreign Language
U.K.	United Kingdom
U.S.	United States of America
U.S. GAAP	U.S. Generally Accepted Accounting Principles
USD	United States Dollar
Vol.	Volume
vs.	versus

Introductory Summary

"Now the true and lawful goal of the sciences is none other than this: that human life be endowed with new discoveries and powers." Bacon et al. (2011)[1]

This quotation by Francis Bacon underscores the idea that research should ultimately translate into practice and improve daily life. Although his tenet dates back to 1620, the necessity of research to enable meaningful practical advancements remains highly relevant in today's world.

In the field of accounting, numerous researchers have noted a significant detachment between research and practice (e.g., Hopwood, 2007; Rajgopal, 2021), with some scholars even suggesting that accounting research resides in an "ivory tower" (see Ratnatunga, 2012). While most observations originate from anecdotal evidence of senior academics, few studies empirically analyze the magnitude of a research-practice gap in accounting (e.g., Orchard et al., 2020; Ratzinger-Sakel & Gray, 2015; Tucker & Parker, 2020). Moreover, the prior literature has primarily investigated the prevalence of a research-practice divide at the national level. However, different institutional settings in a country might result in varying degrees of detachment between research and practice. Consequently, the current understanding of the magnitude of a research-practice gap in accounting and its divergence in different institutional settings remains limited. For this reason, this dissertation sheds further light on these complex relationships by adopting a cross-country perspective in **Part A**, thereby enabling research and practice to better identify a research-practice divide, understand reasons for its existence, and derive more effective recommendations for bridging it (e.g., Basu, 2012; Moehrle et al., 2009; Rajgopal, 2021).

Furthermore, this dissertation examines key audit matter (KAM) disclosure by statutory auditors as it represents a distinct area of accounting, particularly relevant to research and practice. Therefore, it constitutes an intriguing example of how academic research can inform practice and vice versa to narrow the research-practice gap. Audit reports were characterized by a pass-or-fail format in the past, allowing only minimal insights into the underlying audit process (e.g., Church et al., 2008). Especially in the wake of the financial crisis, academia, stakeholders, and regulators alike criticized audit reports for their limited informational value (e.g., Gold & Heilmann, 2019; Mock et al., 2013). In response, expanded auditor reporting—predominantly in the form of KAMs (e.g., IAASB, 2020)—was globally introduced to enhance transparency, encourage dialogue between stakeholders, and alleviate the expectation gap (e.g., Liggio, 1974) between public expectations of an audit and its actual performance (e.g., IAASB, 2015).

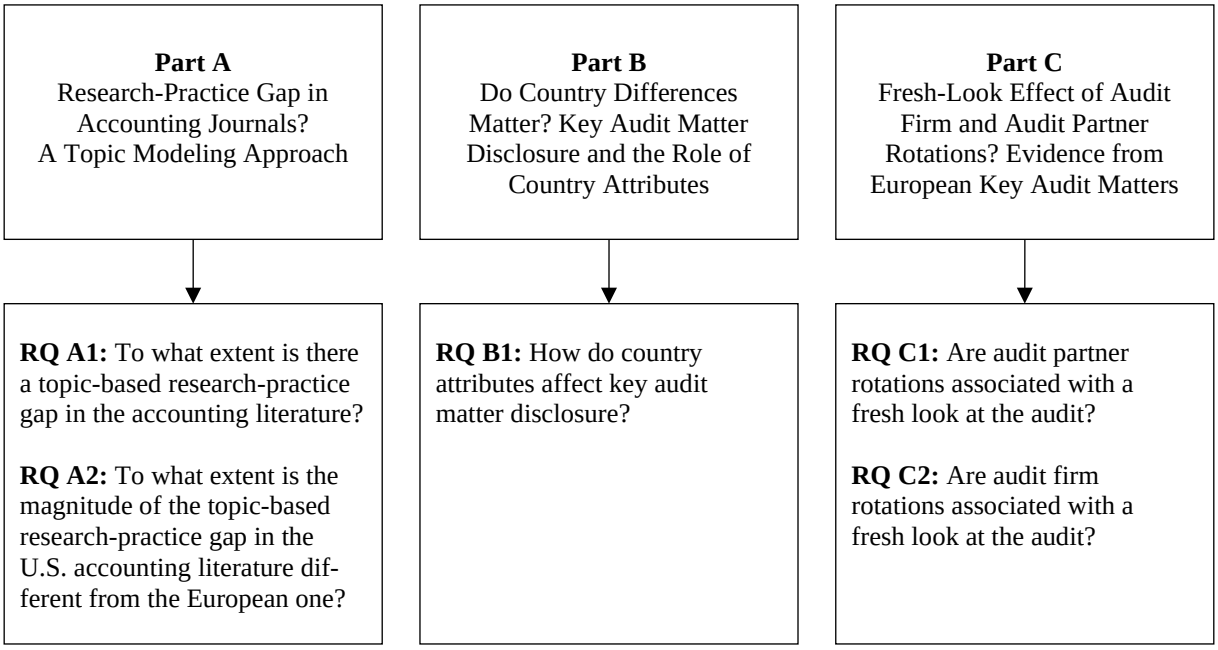
[1] Originally published in Latin by Francis Bacon in Novum Organum (1620).

KAMs offer valuable insights into the otherwise opaque auditing process since they entail the most significant matters communicated with those charged with governance that have required significant auditor attention (ISA 701.8–10). The increased audit transparency has opened intriguing new avenues for research to broaden the overall understanding of the audit process and the consequences of expanded auditor reporting in practice (see, e.g., Al-Asmakh et al., 2025; Elmarzouky et al., 2024). Since KAM disclosure decisions involve significant levels of judgement and may reflect auditors' complex environments—shaped by economic, regulatory, audit-related, and cultural factors—academia can provide valuable insights to contextualize KAM practices for stakeholders. Accordingly, **Part B** of this dissertation contributes novel and comprehensive cross-country evidence on the determinants of KAM reporting, which is highly relevant for both research and practice—and particularly to (inter)national regulators in light of post-implementation reviews on expanded auditor reporting (IAASB, 2025; PCAOB, 2025).

Lastly, **Part C** of this dissertation considers KAM disclosure to contribute new extensive cross-country evidence to the longstanding debate in research and practice concerning audit partner and audit firm rotation requirements. Rotations have the potential to overcome overfamiliarity with the client firm and its management and enforce a critical and "fresh look" at the audit (e.g., Carey & Simnett, 2006; Lennox & Wu, 2018). At the same time, rotations are associated with considerable administrative and financial costs for client and audit firms, as new auditors must first acquire client-specific knowledge. While prior academic literature reveals ambiguous findings on the merits of mandatory and voluntary rotations (e.g., Ewelt-Knauer et al., 2013a; Lennox & Wu, 2018), many regulators worldwide have introduced variations of rotational requirements—with some even withdrawing regulations shortly after their introduction (see Lennox, 2014). Against the background of the persistent uncertainty in academia and practice concerning auditor rotations' implications, this dissertation leverages KAM disclosure in a comprehensive cross-country setting to further extend the understanding of whether audit partner and audit firm rotations are associated with a shift in audit focus and, thus, a potential "fresh look" effect.

Altogether, this dissertation aims to deepen the understanding of the relationship between research and practice in accounting in an international context, while offering valuable insights into the ramifications of KAM disclosure for regulators and practitioners. This distinct area of accounting demonstrates how academia and practice can interact to provide relevant perspectives and contribute to narrowing the research-practice gap in accounting in the spirit of Francis Bacon. The dissertation is structured into the three parts outlined above (see Figure I.1). Each part applies a quantitative-empirical research design to address specific research gaps in extensive cross-country settings, which will be discussed in more detail in the following.

Figure I.1: Structure of the Dissertation



Part A[2] of this dissertation (coauthored with Rolf Uwe Fülbier and Jan Seitz) analyzes a potential research-practice gap in accounting and examines its variation in a cross-country setting. Especially senior accounting scholars have frequently noted a detachment between research and practice, considered possible reasons for such a development, and suggested various pathways for better aligning academia and practitioners' demands (e.g., Baxter, 1988; Hopwood, 2002; Rajgopal, 2021). Despite the prevalent perception of a research-practice gap, far fewer studies have empirically measured the purported detachment between research and practice. The previous literature[3] mainly encompasses survey studies with academics and practitioners, substantiating the alleged research-practice divide (e.g., Fraser & Sheehy, 2020; Quagli et al., 2016; Tucker & Parker, 2014; Tucker & Schaltegger, 2016). In contrast, the few studies that particularly or exclusively analyze journals and journal ratings find inconclusive evidence on the existence of a research-practice gap (Orchard et al., 2020; Ratnatunga, 2012; Ratzinger-Sakel & Gray, 2015; Unerman & O'Dwyer, 2010; van Helden & Northcott, 2010).

In the first step, we systematize the prior literature and distinguish between various manifestations of the research-practice gap to ensure a precise understanding of the phenomenon for the ensuing analyses. In our study, we specifically focus on how the content of scientific and practitioner publications diverges regarding the topics discussed. The institutional theory offers a

[2] Part A of this dissertation has been published as Federsel et al. (2024) in the Journal of Accounting Literature.
[3] In this dissertation, references to working papers and forthcoming articles have been updated compared to the published versions of Parts A–C.

potential explanation for a detachment between topics of research and practice in the accounting literature, according to Tuttle and Dillard (2007). Consequently, institutional isomorphisms (DiMaggio & Powell, 1983) have resulted in a concentrated worldview among researchers and a narrow research focus with topics of limited value to the diverse challenges in practice. At the same time, other parts of the literature argue that the purported research-practice detachment is only a misconception since practitioners do not entirely comprehend the jargon or methodologies used in academia (Orchard et al., 2020; Tucker & Lowe, 2014). In light of the ambiguous empirical and theoretical considerations on the existence of a research-practice gap, we analyze the extent of a topical detachment in the accounting literature as our first research question. Moreover, we examine whether the magnitude of a topic-related research-practice divide differs between the U.S. and Europe as regions with distinct institutional characteristics in our second research question. U.S. research possesses a key role in global academia and might, therefore, be subject to imitation processes, while increasing harmonization of international accounting standards might also contribute to institutional commonalities and a similar detachment of research and practice (e.g., Khalifa & Quattrone, 2008; Lukka & Kasanen, 1996; Palea, 2017). However, European research is still perceived to be more diverse than its U.S. counterpart (e.g., Cooper, 2002; Endenich & Trapp, 2018; Raffournier & Schatt, 2010) and might therefore exhibit a different magnitude of research-practice alignment.

Building on the sparse literature in other disciplines (Walker et al., 2019; Wang & Zhang, 2022), our study is the first to empirically measure the topic-related research-practice gap in accounting with an unsupervised machine learning approach and additionally test its significance. Latent Dirichlet allocation (LDA) allows us to automatically infer the topics of six research, practice, and bridging journals from the U.S. and Europe between 2009 and 2019. Our results document a statistically significant difference between the topics in research and practitioner journals and, therefore, confirm the purported research-practice gap. Furthermore, the research-practice divide is more pronounced in the U.S. than in Europe. Our study contributes pivotal evidence on the existence of a research-practice gap and emphasizes the importance of institutional distinctions for the relationship between research and practice. Our approach provides an empirical basis for a more objective debate on the research-practice divide and enables more nuanced discussions in academia and practice on the reasons for its existence and pathways to better align research and practice, especially in an international context.

Part B[4] of this dissertation (coauthored with Sven Hörner) examines the influence of country-specific differences on KAM disclosure in a comprehensive cross-border setting. Expanded auditor reporting aims to provide more transparency on the audit process and address widespread concerns about the limited informational value of prior pass-or-fail audit reports (e.g., Bédard et al., 2019; Mock et al., 2013). Expanded audit reports serve as an important communication channel between auditors and the users of financial statements since auditors are otherwise obligated to maintain confidentiality. Consequently, it is crucial for stakeholders to understand the context of the expanded audit reports.

Auditors possess considerable degrees of freedom to determine KAMs as the most significant matters out of all matters communicated with those charged with governance, which have additionally required significant auditor attention (ISA 701.8–10). Several theoretical approaches suggest that national peculiarities could substantially impact how auditors exert their professional judgment. First, KAM reporting decisions might vary since KAM reporting offers information to reduce agency conflicts (Jensen & Meckling, 1976) between stakeholders and management, while the magnitude of agency conflicts differs among countries (e.g., Morellec et al., 2018). Second, auditors' KAM disclosure behavior might converge nationally according to the institutional theory (DiMaggio & Powell, 1983), while KAMs might still differ internationally. Lastly, Hogarth's theory (1980) suggests that the environment plays a fundamental role in a judgmental decision, implying that the determination of KAMs is considerably affected by national peculiarities. While prior literature has increasingly analyzed the determinants and consequences of KAM disclosure in cross-border settings (e.g., Cameran & Campa, 2025; Küster, 2024), few studies have particularly examined how countries' institutional idiosyncrasies affect KAM reporting. The sparse findings on individual country attributes indicate that they influence KAM disclosure (Filosa et al., 2025; Honkamäki et al., 2022; Kitiwong & Srijunpetch, 2019).

Considering the theoretical explanations and initial evidence on the importance of individual country characteristics as well as diverse calls for more research in cross-border settings and on cross-country differences (e.g., Lennox et al., 2023; Velte & Issa, 2019), this study comprehensively explores how national peculiarities determine KAM reporting. Thereby, we analyze the European setting with homogeneous KAM disclosure requirements and simultaneous institutional heterogeneity. We follow Eierle et al. (2021) and employ principal component analysis (PCA) to condense a broad set of 33 individual country characteristics into three economic, three regulatory, one audit-related, and one sociological country factors. By considering the

[4] Part B of this dissertation has been published as Federsel & Hörner (2025) in the European Accounting Review.

influence of these diverse country factors on KAM reporting in 30 European countries for the fiscal years 2017 to 2022, we contribute new findings on the determinants of KAM disclosure behavior for a significantly larger set of national peculiarities and a considerably larger sample than prior studies. The results demonstrate that our country-specific characteristics significantly influence various aspects of KAM reporting, such as the number, type, and writing style of KAMs. Moreover, our country factors have diverging associations with the respective KAM disclosure variables and explain the variation in KAM reporting to a different extent. These findings are highly relevant to both academic research and professional practice, contributing to bridging the research-practice gap. In particular, the observed relevance of institutional settings for KAM disclosure provides important evidence for standard setters to better understand how unified (audit) regulation is applied internationally (e.g., Kleinman et al., 2014; Simunic et al., 2017). In this regard, we contribute novel findings on KAM determination to post-implementation reviews of regulators (IAASB, 2025; PCAOB, 2025). Lastly, our study is of interest to users of financial statements in order to interpret KAM reporting more effectively in the context of national institutional settings.

Part C[5] of this dissertation considers an international setting to comprehensively investigate whether audit firm and audit partner rotations are associated with diverging KAM disclosure, thus indicating a fresh-look effect. Rotations could overcome several issues rooted in long-lasting audit firm and audit partner tenure. Enduring mandates may lead to close and overly trusting relationships with management, impeding a critical appraisal of the audited firm (e.g., Lennox, 2014). Besides, "organizational blindness" (Velte, 2012) might result in a similar audit approach over time that potentially overlooks new weaknesses and allows the auditee to circumvent controls (Lennox & Wu, 2018). Audit *partner* rotations could provoke a fresh look since a new audit partner needs to establish a new audit approach independently and does not suffer from overfamiliarity with the auditee and its management (e.g., Gipper et al., 2021). At the same time, the influence of audit partner rotations could be limited. Complex mandates require large audit teams and specialists (e.g., Zimmerman et al., 2023). Apart from the novel audit partner, these teams remain widely identical, while firms commonly apply "shadowing" practices to familiarize incoming audit partners with the auditee before internal rotations. Further, audit firms are subject to various forms of standardization (Cooper & Robson, 2006). The institutional theory implies that such homogenization occurs particularly under uncertainty (DiMaggio & Powell, 1983). Hence, first-year audit partners might follow their precursor, especially since they can access the entire prior-year documentation.

[5] Part C of this dissertation has been published as Federsel (2025) in the International Journal of Auditing.

Moreover, audit *firm* rotations might provide another avenue to achieve a differentiated perspective on the audit as the entire audit team changes. Therefore, they could overcome the limitations of audit partner rotations, such as gradual internal rotations, shadowing practices, and standardization within audit firms. Conversely, professional standardization of the audit approach might extend (e.g., Cooper & Robson, 2006; Dannemiller et al., 2025) to other audit firms, particularly since non-Big 4 auditors may aspire to follow Big 4 auditors as they are linked with higher audit quality and audit fees (e.g., Campa, 2013; Palmrose, 1988). Lastly, incoming audit firms might receive access to prior year audit documentation, potentially hindering an unbiased novel audit approach (e.g., de Jong et al., 2020). Altogether, whether audit partner and audit firm rotations are associated with a fresh-look effect is unclear. The prior literature also reflects the uncertainty on the consequences of mandatory and voluntary internal and external auditor rotations, as it reveals ambiguous findings (e.g., Ewelt-Knauer et al., 2013a; Lennox & Wu, 2018).

In light of the inconclusive theoretical and practical considerations, this study contributes extensive new evidence on the effects of audit partner and audit firm rotations and analyzes whether a fresh-look effect can be observed. Thereby, it extends the few articles leveraging KAM disclosure to investigate the implications of internal and external auditor rotations simultaneously (Chen et al., 2023; Duboisée de Ricquebourg & Maroun, 2023; Mwintome & Alon, 2023) by analyzing a longer time horizon and a comprehensive cross-country sample. This study considers 29 European countries for the fiscal years 2018 to 2022, as they offer a rare setting with simultaneous audit partner and audit firm rotation requirements. The results on various variables of KAM novelty show that audit firm rotations are associated with significantly diverging KAM disclosure, indicating a fresh-look effect. In contrast, the influence of audit partner rotations appears to be limited. Altogether, these findings help to bridge the research-practice gap as they offer new evidence to the longstanding discussions in academia as well as among regulators about the advantages of rotational requirements (e.g., Lennox, 2014). The result of a fresh-look effect by external auditor rotations in Europe is particularly relevant for researchers and practitioners alike since mandatory audit firm rotation has been introduced only recently in the European setting, in addition to pre-existing audit partner rotation requirements. This study's conclusions suggest that the EU's regulatory action has successfully promoted auditor independence and elevated auditor skepticism (EU, 2014b). Lastly, the findings provide novel insights in favor of audit firm rotation regulations to other regulators worldwide.

In summary, this dissertation provides comprehensive new empirical insights into the cross-country research-practice gap and audit transparency. It offers a nuanced perspective on the frequently discussed yet rarely empirically investigated relationship between academic research and professional practice. **Part A** introduces a novel unsupervised machine learning approach to the accounting literature to empirically measure and statistically test a potential detachment between research and practice. The findings reveal a pronounced topic-based research-practice gap in the accounting literature and, therefore, corroborate the often-perceived disengagement between academia and professional practice. Moreover, the results suggest that regional institutional peculiarities influence the research-practice gap, as the topic-based detachment is more pronounced in the U.S. than in Europe. These results deepen the understanding of the research-practice divide, especially across borders, and underscore the need for practically relevant research.

Building on these findings, Parts B and C shed further light on KAM reporting, an area of accounting particularly relevant to academia, stakeholders, and regulators, as they had long called for greater transparency in the audit process prior to the introduction of KAM disclosure requirements. These parts of the dissertation help to bridge the research-practice gap by providing detailed insights into the implications of KAM reporting from the European setting with broad institutional diversity and homogenous KAM disclosure requirements. **Part B** demonstrates that national economic, regulatory, audit-related, and sociological peculiarities are important determinants of KAM reporting. These conclusions help all stakeholders to interpret KAM disclosure in the context of institutional idiosyncrasies and are particularly valuable for regulators seeking to assess the global implementation of harmonized standards. **Part C** further analyzes KAMs and finds that audit firm rotations are associated with a considerable change in audit focus, while the influence of audit partner rotations appears to be limited. This evidence contributes to the enduring debate in research and practice surrounding rotational requirements by offering empirical insights from Europe—a rare setting with simultaneous internal and external auditor rotation requirements.

Altogether, this dissertation advances the understanding of the international research-practice gap and audit transparency. It provides comprehensive empirical insights across borders and opens promising avenues for future research to further align the interests of users of financial statements, regulators, and academia.

Part A:

Research-Practice Gap in Accounting Journals?

A Topic Modeling Approach

STRUCTURED ABSTRACT

Purpose

A gap between research and practice is commonly perceived throughout accounting academia. However, empirical evidence on the magnitude of this detachment remains scarce. We provide new evidence to the ongoing debate by introducing a novel topic-based approach to capture the research-practice gap and quantify its extent. We also explore regional differences in the research-practice gap.

Design / Methodology / Approach

We apply the unsupervised machine learning approach Latent Dirichlet Allocation (LDA) to compare the topical composition of 2,251 articles from six premier research, practice, and bridging journals from the U.S. and Europe between 2009 and 2019. We extend the existing methods of summarizing literature and develop metrics that allow us to evaluate the research-practice gap. We conduct a plethora of additional analyses to corroborate our findings.

Findings

Our results substantiate a pronounced topic-related research-practice gap in accounting literature and document its statistical significance. Moreover, we uncover that this gap is more pronounced in the U.S. than in Europe, highlighting the importance of institutional differences between academic communities.

Practical Implications

We objectify the debate about the extent of a research-practice gap and stimulate further discussions about explanations and consequences.

Originality / Value

To the best of the authors' knowledge, this is the first paper to deploy a rigorous machine learning approach to measure a topic-based research-practice gap in the accounting literature. Additionally, we provide theoretical rationales for the extent and regional differences in the research-practice gap.

Keywords: Research-practice gap; Accounting research; Practice-relevant research; Topic modeling; Accounting journals

JEL-Classification: M41; M40; C40

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1 Introduction

Hopwood (2007, p. 1365) once expressed "a growing sense of unease about the state and direction of accounting research" in his plenary address delivered during the American Accounting Association (AAA) Annual Meeting in 2006. He explained that "accounting research has become insufficiently innovative and increasingly detached from the practice of the craft." The divergence between accounting research and practice was an issue even earlier perceived in an unpublished but publicly distributed "statement on the state of academic accounting" by other prominent research community representatives. According to their statement, research lags behind the practice and does not lead it; therefore, there is no demand for accounting researchers and their work by practitioners (Demski et al., 1991). In the aftermath of the empirical turn and the rise of positive accounting theory in the 1970s, the attempt of mainstream accounting research (Chua, 1986) to convert an applied discipline into a positive science, with a possible overemphasis on rigor over relevance, might be one explanation (Dyckman & Zeff, 2015; Mattessich, 1995, p. 9). In more recent times, Rajgopal (2021) argues that academic accounting suffers from an often irrelevant research focus and has strayed from addressing practical problems of importance. He identifies a problematic contrast between applied and "pure" or scholarly work, in which only the latter seems to qualify for the top-tier academic job market.

Various authors also lament the perception of a research-practice gap in the U.S. community (Basu, 2012; Baxter, 1988; Bricker & Previts, 1990; Dyckman, 1989; Kaplan, 2011; T. Lee, 1989; Zeff & Dyckman, 2018) and elsewhere (Hopwood, 2002, 2007; Mitchell, 2002; Parker & Guthrie, 2013; Parker et al., 2011). On European grounds, Sellhorn (2020), former president of the European Accounting Association (EAA), argued along the same lines in a newsletter to his members during COVID-19. He complains that accounting researchers, unlike, i.a., virologists, were not consulted by politicians or regulators amid the pandemic. He admonishes that accounting research should address the "big questions" and prove its relevance to society. He emphasizes that researchers consider the needs of practitioners and society at large, and in turn, they will acknowledge research as relevant. This perception aligns with the earlier research assessments in countries like Australia and the U.K. to move research closer to practice again (Parker et al., 2011).

In this regard, Tuttle and Dillard (2007) provide a theoretical explanation of why accounting academia's research topics do not meet practitioners' needs. They show that institutional isomorphism (DiMaggio & Powell, 1983) leads to the loss of topic-based diversity in accounting research and, thus, to a loss of practical relevance (Tuttle & Dillard, 2007). In addition to the

(empirical) question of to what extent a topic-related research-practice gap exists, it is of great interest whether this gap exhibits differences between the research communities, for example, due to remaining institutional and cultural differences, especially between the U.S. and Europe (e.g., Lukka & Kasanen, 1996; Panozzo, 1997; Raffournier & Schatt, 2010).

In contrast to the perceptions and theoretical analyses of a research-practice gap in accounting, there are far fewer attempts in the accounting literature to measure this gap and obtain a quantified and evidence-based picture. Most of the literature covers conceptual considerations, personal impressions, and anecdotal evidence from several senior academics, often combined with some advice on bridging the gap (e.g., Basu, 2012; Moehrle et al., 2009; Rajgopal, 2021). Scarcely provided are quantitative or qualitative empirical studies based on broader datasets. The few studies in this regard are predominantly survey-based, focusing on academics and practitioners (Fraser & Sheehy, 2020; Quagli et al., 2016; Tucker & Lowe, 2014; Tucker & Parker, 2014; Tucker & Schaltegger, 2016). Their assessments support the notion of an existing and seemingly increasing research-practice gap. Other studies complementarily or exclusively use journals and journal publications to approximate the research as well as the practice sphere (Orchard et al., 2020; Ratnatunga, 2012; Ratzinger-Sakel & Gray, 2015). From these studies, no consistent conclusion can be drawn about the existence (Ratnatunga, 2012; Ratzinger-Sakel & Gray, 2015) or non-existence (Orchard et al., 2020) of a research-practice gap in the accounting literature. More advanced methods of evaluating the research-practice gap have rarely been applied. Walker et al. (2019) use an unsupervised machine learning technique from computational social science in the domain of public administration. In their article, Latent Dirichlet Allocation (LDA) examines topic-based differences between one research and one practice-oriented journal. Wang and Zhang (2022) analyze a topic-based research-practice gap in the same manner for the field of public relations.

In our study, we quantitatively analyze the research-practice gap in accounting. We approximate research and practice via accounting journal literature and use machine learning techniques rooted in the basic approaches of Walker et al. (2019) and Wang and Zhang (2022), albeit in a more sophisticated version. Thereby, we follow the growing literature in accounting that exploits the merits of LDA (i.a., N. C. Brown et al., 2020; Fang et al., 2018; Ferri et al., 2018; Huang et al., 2018). These advantages include automated evaluation of entire documents, a low degree of subjectivity compared to other approaches, and transparent implementation of dimensionality reduction. To our knowledge, our study is the first in accounting to measure the gap's existence and magnitude with a machine-learning approach. Accordingly, our initial re-

search question calls into question to what extent a research-practice gap exists in the accounting journal literature. Therefore, we analyze 2,251 articles from six premier research, practice, and bridging journals of European and U.S. origin from 2009 to 2019. In the process, we consider the topics resulting from LDA and compare the mean weights of each topic per journal to uncover divergences. As the results show, an actual, topic-related gap between research and practice exists in the accounting literature with a Hellinger distance of 0.61574. Since the generated Hellinger distances do not test for statistical significance, we additionally conduct multivariate analysis of variances (MANOVA) to corroborate our findings.

Based on these findings, we further investigate to what extent the research-practice gap is of a different magnitude in the U.S. than in Europe as our second research question. Several circumstances, such as the different institutional settings at the universities, their implications for the publication landscape, methodological tolerance, and diversity in research, point to a disparity in the research-practice gap. Our results also reflect these differences, with a larger research-practice gap in the U.S. than in Europe. The difference in the Hellinger distances amounts to 0.08999. Moreover, bridging journal articles in the U.S. are topic-wise more distant to practice than their European counterparts, with a difference in Hellinger distances of 0.13261, even surpassing the difference in the research-practice gap.

Our study contributes to the literature in several ways. First, we provide new evidence on the existence and extent of the research-practice gap in accounting literature. Second, this evidence supports Tuttle and Dillard's (2007) theoretical notion of topic-related conformity with only little practical relevance in the accounting research literature. Third, we support the perception of heterogeneous research communities by identifying differences in the research-practice gap between the U.S. and European literature. Fourth, we are the first to introduce topic modeling in the investigation of the research-practice gap in accounting literature. Last, we extend the literature with a novel and rigorous methodological approach to analyze the outputs of a topic model that allows us to measure the magnitude and determine the statistical significance of the research-practice gap.

The remainder of the paper is structured as follows. Section 2 reviews the accounting literature on the gap between research and practice and derives our research questions. Section 3 describes our sample, research design, and introduces topic modeling as a method. In Section 4, we present our main results and validate them in Section 5 against various robustness concerns. We discuss the main findings in Section 6 before Section 7 concludes.

2 Theoretical Background of the Research-Practice Gap in Accounting

2.1 Research-Practice Gap in Prior Literature and Measurement Attempts

A perception of a research-practice gap has been part of the literature since the late 1980s (e.g., Baxter, 1988; Bricker & Previts, 1990; Demski et al., 1991; Dyckman, 1989; T. Lee, 1989). In most cases, senior academics use thought pieces and conceptual papers to describe the loosening connections between research and practice. They express their concern about the state of the academic accounting discipline, identify possible explanations for this alienation, and provide suggestions to bridge the gap better (e.g., Basu, 2012; Hopwood, 2002, 2007; Rajgopal, 2021). Tuttle and Dillard (2007) also present some theoretical underpinnings by applying institutional theory in the tradition of Meyer and Rowan (1977) and DiMaggio and Powell (1983). They identify alignment mechanisms (institutional isomorphism) that reduce the diversity of research topics within accounting literature. The eclipse of research relevance and practical applicability is one important manifestation of the identified loss in topic-related research diversity.

The measurement of the research-practice gap has been much less in focus in the literature. Most thought pieces rest upon conceptual considerations, personal impressions, and anecdotal evidence. However, quantitative or qualitative empirical studies based on broader datasets are scarce. Some of the studies analyze publication trends in general or in particular accounting journals and observe, as a by-product, the drifting apart of research and practice (e.g., Dyckman & Zeff, 1984; Oler et al., 2010; Zeff & Dyckman, 2018). For example, Zeff and Dyckman (2018) focus on the first 30 years of *Accounting Horizons*, which the AAA initially established in the U.S. to link academia and practice (bridging journal). However, according to the authors, it seems to have lost its function during the last decades.

In essence, only a few studies concentrate on a specific metric to capture the research-practice gap. Most of them are survey studies of more recent origin questioning academics and practitioners. With regard to management accounting, Tucker and Parker (2014) survey 64 senior management accounting academics from 55 universities in 14 countries about the extent to which research does and should inform practice. They identify two groups. On the one hand, the majority identifies a widening research-practice gap, which is of considerable concern for an applied discipline (similar Ratnatunga, 2012). On the other hand, the minority, closely linked to the advocates of a pure positive-descriptive research approach (e.g., Kinney Jr. 1989), sees a natural and appropriate gap between these two fields without the need to bridge it better.

Tucker and Lowe (2014) as well as Tucker and Schaltegger (2016), complement the picture of a research-practice gap through questionnaire surveys with follow-up interviews of representatives of professional accounting bodies in Australia and Germany. With comparable results, Quagli et al. (2016) analyze the questionnaires from 447 EAA members about their motivations and incentives to focus on practical issues. They prove academics' top-tier publication-based incentive structure, earlier characterized by Hopwood (2002, p. 780) as a "careerist-oriented rather than curiosity-oriented research" strategy. Similar survey approaches are used in other business disciplines, especially management science, which seems to suffer likewise from such a gap (e.g., Banks et al., 2016).

A different survey approach to capture the research-practice gap is applied by Ratnatunga (2012). In a series of surveys of accounting academics in the U.S., the U.K., and Australia, as well as accounting professionals in 16 countries, Ratnatunga (2012) identifies an ever-growing gap, especially in financial accounting and auditing. Ratnatunga asks practitioners, among other aspects, to assess accounting journals in terms of awareness and relevance. The result that the 2,988 respondents know the practice and transfer journals much better and recognize a higher relevance seems unsurprising—contrary to the findings for his control study in medicine. Notably, however, is his approximation of research and practice via journals. In this regard, he also investigates the references to specific academic journals in standard practitioner handbooks. In a similar cross-disciplinary approach, Fraser and Sheehy (2020) compare the relevance of academic research to the accounting, medicine, and engineering profession. In particular, they note that although accountants read other professional journals, the major difference is the low frequency of reading academic journals compared to the other two disciplines (Fraser & Sheehy, 2020). A comparable procedure to proxy journal awareness in practice was earlier used by Dyckman and Zeff (1984), who count journal article citations in Financial Accounting Standards Board (FASB) Discussion Memorandums and the Journal of Accountancy. Similar "awareness studies" have been conducted in other business disciplines to challenge existing journal rankings (e.g., Förster & Schönenberg, 2013; Oesterle, 2006).

More recently, a pure publication-based approach has emerged. Orchard et al. (2020) compare the content of the articles from U.S. academic journals with practice journals to evaluate their relevance. They identify keywords from 122 papers of one volume (2018) for two academic journals (The Accounting Review, Accounting Horizons) and search for these keywords in three U.S. practice journals (Journal of Accountancy, The Tax Adviser, Strategic Finance) over more than thirty years (1987–2019). They show that almost all keywords could be identified in

the practice journals, and more than 40% of the scholarly papers could be matched to a practitioner paper with the exact keywords. Orchard et al. (2020) conclude that recent research has addressed issues relevant to practitioners. In contrast, van Helden and Northcott (2010) unveil that leading journals in public sector management accounting rarely include articles of immediate relevance for practice. Concurringly, Ratzinger-Sakel and Gray (2015) document an extensive gap between 3,606 auditing-related research articles in the U.S. and its auditing practice community.

Walker et al. (2019) provide a major methodological step forward. They combine the publication-based approach in public administration with an unsupervised machine learning technique from computational social science, LDA. Using one journal as a proxy for research and practice, respectively, they collect 3,796 published articles from Public Administration Review and PA Times. To grasp the gap, they calculate a separate LDA model for each journal and subsequently manually compare the topics. They find common topics and convincing evidence of a clear divergence in other topics that speak to the gap perception. In a similar vein, Wang and Zhang (2022) compare two research journals and a practitioner journal in public relations with LDA. They also uncover substantial divergences between research and practice journals while they also note commonalities on some crucial topics.

In summary, the literature has attempted to quantify the research-practice gap in relatively few cases, but notably, no standard has been established for this purpose. The topic modeling approach has not yet been used in accounting research to address the gap phenomenon, especially not in our more sophisticated methodological variant or on this temporal scope, nor across countries and research communities.

2.2 Systematization of the Research-Practice Gap

Although the research-practice gap is a widely discussed awareness in accounting research, the term remains vague without a unified definition. Given its inherent complexity, the research-practice gap is in danger of being understood in entirely different ways. Thus, before attempting to capture the research-practice gap empirically, we provide more systematic coverage of the gap phenomenon (see Table A.1) and describe the specific focus of our study.

Table A.1: Systematization of the Research-Practice Gap

Content (van Helden & Northcott, 2010)	**Communication** (Bricker & Previts, 1990; Singleton-Green, 2010; van Helden & Northcott, 2010)		**Time** (Bartunek & Rynes, 2014)	**Person / Culture** (Bloch et al., 2017)
• Questions (Tucker, 2013) • Methodology (Singleton-Green, 2010) • Topics (Orchard et al., 2020; Ratzinger-Sakel & Gray, 2015; Walker et al., 2019) • Metric / Data • Theory (Form and Existence)	• Transmission (e.g., Education, Publication, Knowledge Transfer, Media) (Beaver, 1966; Donovan, 2005) • Language / Tone / Style (Evans et al., 2011)		• Time Horizon (Bartunek & Rynes, 2014; Ratzinger-Sakel & Gray, 2015) • Time Lag (de Man et al., 2020; Grosu et al., 2015; Inanga & Schneider, 2005)	• Career (Mitchell, 2002) • Qualification (Bloch et al., 2017) • Incentives (Bartunek & Rynes, 2014; Merchant, 2012) • Perceived Relevance (Singleton-Green, 2010) • Interests / Expectations (Inanga & Schneider, 2005; Kieser & Leiner, 2009) • Unfamiliarity (Ratnatunga, 2012) • Accessibility (Tucker, 2013; Tucker & Lowe, 2014; Tucker & Parker, 2020; Tucker & Schaltegger, 2016)
Evaluation criterion: • *Relevance* • *Rigor* • *Sense* • *Applicability*	Evaluation criterion: • *Understanding* • *Visibility*			
Gap Definition / Identification			**Gap Explanation**	

The literature on the research-practice gap can be split into two streams. One direction is committed to defining and identifying the research-practice gap, while the other part of the literature tries to identify reasons for the existence of a gap.

Even though prior literature has already discussed the research-practice gap from a more theoretical viewpoint (Bartunek & Rynes, 2014; Tucker & Lawson, 2016; Tuttle & Dillard, 2007), we are unaware of any explicit in-depth systematization in this regard. By reviewing the literature, we are able to find two main perspectives that help approach the research-practice gap more systematically. First, there is the question of how to define the research-practice gap, specifically how to identify it. Since we need to answer this particular question to operationalize our measurement, this is also the focus of our systematization. Second, material parts of the literature connect their awareness of such a gap with possible explanations for its existence. These explanations help to better understand the research-practice gap without being necessary for pure measurement purposes.

On the individual level of the persons involved, explanations for the existence of a research-practice gap concern their respective cultures, institutional backgrounds, and career-related aspects (Bloch et al., 2017; Mitchell, 2002), but also differences in terms of incentives, interests, expectations, and qualifications between researchers and practitioners (Bartunek & Rynes, 2014; Inanga & Schneider, 2005; Kieser & Leiner, 2009; Merchant, 2012; Ratnatunga, 2012). Additionally, the accessibility of research contributions to practitioners constitutes another barrier between research and practice (Tucker, 2013; Tucker & Lowe, 2014; Tucker & Parker,

2014; Tucker & Schaltegger, 2016). Last but not least, institutional (Tuttle & Dillard, 2007) as well as time-related aspects, including different time horizons (de Man et al., 2020; Grosu et al., 2015; Inanga & Schneider, 2005; Ratzinger-Sakel & Gray, 2015) or a time lag between research and practice (Bartunek & Rynes, 2014), help to explain the research-practice gap.

Regarding the first perspective of defining and identifying the research-practice gap, we distinguish two aspects: On the one hand, a research-practice gap can refer to the *content* (van Helden & Northcott, 2010), mainly when a published accounting research contribution differs from discussions in practice. On the other hand, such a gap might arise in terms of *communication* (Bricker & Previts, 1990; Inanga & Schneider, 2005; Singleton-Green, 2010; van Helden & Northcott, 2010). Here, research does not properly reach practice, et vice versa, due to non-existent or non-appropriate media channels (a question of visibility) or differences between the communities in terms of language, tone, or style (a question of understanding).

Our study focuses on the content, i.e., content differences and the related question of whether the content of the research is relevant for practice. To better capture the content concept, we distinguish five content categories in line with the literature: *(research) questions*, *methodologies*, *topics*, *metrics/data*, and *theories*. Differences in these categories contribute to the perception of a research-practice gap in terms of content. Through these categories, it is possible to evaluate a research contribution concerning the practical relevance and, thus, identify it empirically. Possible—rather qualitative—criteria for an evaluation could be, for example, the relevance of the research question, the sense, applicability, and rigor of the methodology, the identified metrics, and the data used. Another category refers to the theoretical foundation of a research contribution, whether and in what form it exists. The research topic is the central aspect regarding the content of a research contribution. Hence, it is the focus of our study, and we use it to measure the research-practice gap. The topic concept corresponds to a condensed and, therefore, necessarily simplified representation of the content of a research contribution. From this, it is apparent that the concept topic possesses various interdependencies with the other non-disjoint categories of the content we discussed before.

Some of these content categories have been examined in research articles on the research-practice gap. For instance, in his study of academics' and practitioners' perceptions of the research-practice gap in management accounting, Tucker (2013) found that a significant problem in creating knowledge through research is that practitioners face challenges on a day-to-day basis that are generally disconnected from research questions being investigated by academics. His finding mainly manifests the relevance of research questions to practice. Research methodology is another content-related category that defines—to a certain extent—a rather natural driver of the

research-practice gap because research naturally approaches problems differently than practice. More rigorous and complex methods lead to lower comprehensibility to outsiders (Singleton-Green, 2010). Therefore, it is related to the communicational aspect of the research-practice gap identification and the issue of gap explanation through the unfamiliarity and lack of practitioners' qualifications (Singleton-Green, 2010). However, the content-related gap is amplified if the general sense of the applied methods is questioned in practice or if, additionally, the metrics and data used are unsuitable from a practical point of view. Thus, the property of methodology (connected with metrics and data used) is in part inherently linked to the content of a research contribution but not in its entirety. Disentangling these two subparts, the inherent and the additional discretionary subpart of methodology, is an empirical problem we address in our additional analyses.

2.3 Research Questions

2.3.1 Research-Practice Gap in Accounting Literature

The literature dealing with the research-practice gap in accounting literature does not provide conclusive empirical evidence for (Fraser & Sheehy, 2020; Ratzinger-Sakel & Gray, 2015; Unerman & O'Dwyer, 2010) or against (Orchard et al., 2020) the existence and extent of such a gap (with mixed evidence by van Helden & Northcott, 2010).

We contribute to this debate by using an objectifiable metric to identify a research-practice gap in the accounting literature. With our focus on the content of accounting publications, especially on the topic category, we abstain from measuring a "general" research-practice gap in accounting. However, we suppose that the topic-related focus of our publication-based analysis empirically illuminates material aspects of this gap phenomenon. Another related advantage of such a topic-based analysis is that this enables us to investigate, at least to some extent, the rationale behind the research-practice gap. We presume that the mismatch between the topics in accounting research and practice is mainly due to the differences in their respective institutional characteristics. Relating to this, Tuttle and Dillard (2007) have pointed out that so-called institutional isomorphisms (DiMaggio & Powell, 1983) have led to a low degree of diversity reflected in, among other things, a low variability of research topics in academic accounting research. Moreover, they demonstrate that topically diverse academic accounting research is crucial for the accounting practice and its challenges. Accordingly, normative isomorphisms (DiMaggio & Powell, 1983), i.e., the development of a shared worldview and its accompanying homogeneity within the accounting academia, cause that accounting academia drifts away from accounting practice and impede the objective of practical relevance in accounting research.

The institutional rationale for the existence of a pronounced research-practice gap is countered by the argument that it is merely a perception issue caused by practitioners' lack of understanding of specific jargon or methodologies (Orchard et al., 2020; Tucker & Lowe, 2014). Our focus on the topics in the literature is advantageous compared to, e.g., surveys of practitioners as we can rule out the biasing influence of practitioners' lacking understanding.

In summary, the extent of a research-practice gap in the accounting literature remains an empirical question. Thus, our first research question is as follows:

> ***RQ A1:*** *To what extent is there a topic-based research-practice gap in the accounting literature?*

2.3.2 Research Community Differences in Accounting Literature

The institutional perspective of Tuttle and Dillard (2007) focuses on U.S. academia. However, parallels to the global research community will likely exist when institutional isomorphism justifies global alignment processes and increasing global homogeneity. Some of these processes have been identified in the literature: The hegemony of the U.S. capital market and U.S. Generally Accepted Accounting Principles (U.S. GAAP) led to the development and adoption of the International Financial Reporting Standards (IFRS) with global acceptance (Kavame Eroglu, 2017). With its publication outlets, reputational system, and databases, the U.S. research community takes a key role in global academia (e.g., Gendron, 2008; Locke & Lowe, 2008; Lukka & Kasanen, 1996). The attractiveness and preeminence of the U.S. "elite" accounting research on the individual and institutional level (Endenich & Trapp, 2018; T. A. Lee, 1999; T. A. Lee & Williams, 1999; Lohmann & Eulerich, 2017) resulted in the respective imitation processes of non-U.S. counterparts (e.g., Khalifa & Quattrone, 2008; Merchant, 2010; Qu et al., 2009). The dissemination of the U.S.-led accounting mainstream to the global communities (Chua, 1986; Merchant, 2010; Palea, 2017) indicates a research-practice gap of similar magnitude on the global level.

In contrast, accounting research communities' institutional, language, and cultural differences suggest certain heterogeneity. Based on their analysis of six leading U.S., European, and Australian research journals, Lukka and Kasanen (1996) indicate that accounting research is "a rather local discipline" where a global community does not seem to exist. According to this view, accounting research and research communities seem fragmented (also Lukka & Granlund, 2002; Lukka & Mouritsen, 2002). Moreover, the European research tradition is said to use a more general, anti-dogmatic, and methodologically more diverse approach which

seems to be distinct from the relatively narrow and even more mainstream-driven U.S. elite approach (Basu, 2012; Cooper, 2002; Dyckman & Zeff, 2015; Endenich & Trapp, 2018; Lohmann & Eulerich, 2017; Lukka & Kasanen, 1996; Merchant, 2010; Panozzo, 1997; Qu et al., 2009; Raffournier & Schatt, 2010). These aspects might impact the research-practice gap as well. A less pluralistic, self-referential research culture (Hopwood, 2007) with a lower degree of openness might foster research projects that are comparatively more disconnected from practice.

Opposed to the first research question, where there is inconclusive empirical evidence of a research-practice gap, we are unaware of an empirical investigation regarding our second research question concerning the two lines of arguments in favor of and against differences between the communities. However, it is of great interest to analyze the research-practice gap in different communities in more depth and contribute to the above debate by providing new empirical insights. In line with prior literature that contrasts the European research community with its U.S. counterpart in particular, we focus on these two accounting research communities with their respective literature and formulate our second research question as follows:

RQ A2: *To what extent is the magnitude of the topic-based research-practice gap in the U.S. accounting literature different from the European one?*

3 Sample, Research Method, and Research Design

3.1 Sample

Our exploration of a potential research-practice gap in the accounting literature contemplates academic journals representing the research perspective and practice journals characterizing the practice dimension. In between these two manifestations, a few journals aim to bridge the various interests of research and practice.

Since we analyze the U.S. and European research-practice gap, both geographic regions are considered through corresponding journals. To ensure the highest possible comparability, we analyze journals published by the American Accounting Association and its European counterpart, the European Accounting Association. Consequently, we utilize the renowned The Accounting Review (TAR) as the research journal for the U.S. setting. As a result, other prestigious U.S. journals, such as the Journal of Accounting and Economics and the Journal of Accounting Research, will not be subject to our analysis. Besides, the AAA also publishes Accounting Horizons (AHo). Its mission statement sets out to “bridge academic and professional audiences”. Therefore, we include it as the U.S. bridging journal between research and practice.

In Europe, the European Accounting Review (EAR) constitutes the premier outlet for research articles and, thus, represents the European research journal for our analyses. Apart from its flagship journal, the EAA also publishes Accounting in Europe (AiE), which exhibits a broader scope. Due to its more inclusive aims and scope, according to which articles should "provide new insights for research, practice, policy, and regulation", we use it as the bridging journal for Europe.

Furthermore, the Journal of Accountancy (JoA) is considered the practice journal of choice for the U.S. Published by the American Institute of Certified Public Accountants, it tackles current issues of the practice in concise articles. Finally, articles by Accountancy Europe (AcE; formerly Fédération des Experts Comptables Européens, FEE) are considered the European practice journal. Issued mainly through professional bodies of auditors, it marks the best approximation of an English-speaking journal with a practitioner focus and Europe-wide acceptance. Besides, the similar focus and constituents ensure comparability with JoA in the U.S. The common language of English in all journals is essential for methodological reasons. We cannot rule out some biases at the European level because probably not all European researchers and practitioners publish or read in English—but most likely at an increasing rate over the years.

We compile all articles published between 2009 and 2019 for the six previously described journals. Further, we apply content-wise filters to exclude technical and formal information from the journals, such as calls for papers, closing notes, and corrigenda/errata. Additionally, for comparability of research and practice journals, we eliminate articles with fewer than five pages since practice journals' articles tend to have shorter lengths. This procedure also strengthens the robustness of the results, as it can be assumed that the more research-oriented articles in practice journals tend to be longer. Lastly, the final sample consists of 2,251 articles from 2009 to 2019. TAR makes up most research papers in the final sample, with 856, followed by AHo (425), EAR (355), and JoA (318). AiE accounts for 184 articles, and 113 articles are attributed to AcE.

For further use of the articles, we perform several preprocessing steps. We exclude abstracts for comparability between the various journals since practice journals' articles do not include these. We remove the reference section at the end of articles for similar reasons. Besides, numbers, special characters, monosyllabic words, and stop words are also not considered. With the remaining terms, we construct unigrams and bigrams. Moreover, we exclude terms that occur in more than 99% of all articles to eliminate boilerplate terms. Lastly, we do not consider terms appearing in less than two articles to rule out sporadic terms.

3.2 Research Method: Topic Modeling with LDA

In order to analyze and measure a potential research-practice gap in the accounting literature, we employ LDA (Blei et al., 2003). As one instance of a probabilistic topic modeling approach, it allows to automatically examine large datasets which would otherwise be intractable for humans. For this reason, LDA has been increasingly applied in accounting research in recent years to analyze, i.a., 10-Ks (N. C. Brown et al., 2020), 8-Ks (Feuerriegel & Pröllochs, 2021), and analyst reports (Huang et al., 2018). LDA has also been utilized to uncover research topics in research journals over time (Aziz et al., 2022; Fang et al., 2018; Ferri et al., 2018). Walker et al. (2019) and Wang and Zhang (2022) choose a slightly different approach for their studies on public administration and public relations, respectively, as they identify topics and compare the topics of one respectively two research journals with the topics of a practice journal. Our approach extends that of Walker et al. (2019) and Wang and Zhang (2022) by considering the topic distributions for multiple journals of the same topic model and examining journals of different origins. Besides, we add to the insights of Dyer et al. (2017), who also consider topic weights as they analyze the driving topics of 10-K length increases over time.

LDA discovers and summarizes the main themes of extensive (unstructured) data (Blei, 2012). Thus, it can be thought of as a way of dimensionality reduction (Loughran & McDonald, 2016). The technique identifies various topics in an article, even if the topics are dispersed and entangled throughout the document (Dyer et al., 2017). Furthermore, the modus operandi of LDA is more transparent and replicable than manual or taxonomy-based categorizations because, apart from predetermining a few hyperparameters, the model automatically discovers all topics and topic distributions (Walker et al., 2019). The intuition behind LDA is a generative process that follows how humans would write a document. At first, the document's author decides which topics should be addressed and subsequently chooses adequate words to elaborate on each selected topic (Huang et al., 2018). While only the final journal articles are observable, LDA's stipulated generative process allows inferring these latent (i.e., hidden) topics.

Since no prior labeling or annotation of articles is necessary, LDA is part of the unsupervised machine learning algorithms. However, a few hyperparameters have to be predefined. Initially, the Dirichlet parameters have to be set to determine how many topics receive high weights in documents—i.e., the sparsity of the distribution—and how many words exhibit high weights in a topic. The Dirichlet parameters (α) are automatically learned from the data for the former. For the latter, the Dirichlet parameters (β) are specified at 0.01, following Steyvers and Griffiths (2014). We determine the most notable hyperparameter—the number of topics—after conducting a plethora of tests to ensure the quality of the model. These tests include visualizations with

pyLDAvis, coherence scores according to Röder et al. (2015), perplexity scores (see Blei et al., 2003; Dyer et al., 2017) as well as the word intrusion task by Chang et al. (2009). We infer that the model with 25 topics has the highest level of interpretability. Given the ambiguous nature of determining the optimal number of topics, we conduct sensitivity analyses and find that differing specifications do not lead to different results (see Appendix A.1).

The outcome of LDA comprises the topic distributions, i.e., how much each of the 25 topics makes up a journal article with all topic distributions summing to one. These topic distributions are aggregated by calculating the mean topic distributions for each journal. As the following subsection outlines, our research design focuses on the topic distributions generated by our LDA model.

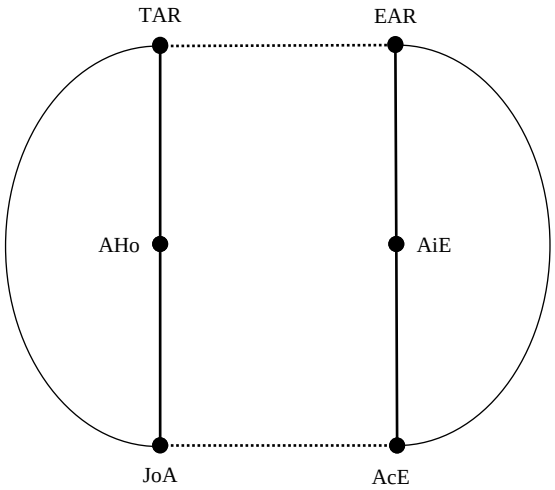
3.3 Research Design

In order to answer the research questions, we build on a theoretical framework based on the comparison of distances between the examined accounting journals. The distances correspond to the extent of divergence in topic distributions between the journals. According to the first research question, a large distance between research-oriented and practice-oriented journals would indicate a topic-based research-practice gap in accounting literature, reflecting a substantially different (topic-based) orientation. In contrast to the large distances between research and practice journals, the distances within the group of research-oriented or practice-oriented journals should be relatively small. In Figure A.1, a typifying graph, this is illustrated by the more considerable distances between research journals (TAR and EAR) and practice-oriented journals (JoA and AcE) than between research and practice journals among themselves. With reference to one of our additional analyses, we include bridging journals (AHo and AiE) in Figure A.1 to illustrate their role as journals that link research and practice.

To examine if the research-practice gap is of different magnitude in the U.S. than in Europe, we compare the distance between TAR and JoA with the distance between EAR and AcE. We use so-called Hellinger distances, a measure for the divergence of (discrete) probability distributions, to operationalize our distances. Hellinger distances are defined between zero and one. A score of zero signifies that the probability distributions are the same, and one indicates that the probability distributions are singular, i.e., entirely different. With regard to our study, the Hellinger distance measures how far apart the respective mean topic distributions—generated by our LDA topic modeling approach—are from each other per journal. The mean topic distribution is equal to the vector of the mean values of the 25 topics for all articles within a journal.

Figure A.1: Research Design

RQ A1:	**To what extent is there a topic-based research-practice gap in the accounting literature?**	**TAR & EAR ≠ JoA & AcE**
RQ A2:	**To what extent is the magnitude of the topic-based research-practice gap in the U.S. accounting literature different from the European one?**	**TAR – JoA ≠ EAR – AcE**
Additional Analysis:	**Is the topic-based gap between bridging journals and practice journals of different magnitude for the U.S. than for Europe?**	**AHo – JoA ≠ AiE – AcE**



We analyze the magnitude of the research-practice gap (RQ A1) by first calculating the mean topic distributions for all research journals' articles combined (TAR & EAR) and for all practice journals' articles combined (JoA & AcE). Subsequently, we compile the Hellinger distance between these pooled topic distributions. To compare the research-practice gap between the U.S. and Europe (RQ A2), we measure the regional Hellinger distances between research and practice (TAR & JoA and EAR & AcE) and compare these distances. In an additional analysis, we apply a similar approach for the two bridging journals (AHo and AiE). For these, we again calculate the Hellinger distance to the regionally assigned practice journals and then compare the distance between the U.S. and Europe.

In order to verify that the differences between the journals are statistically significant, i.e., that the measured differences are not due to random error, we also apply multivariate analysis of variances (MANOVA). The advantage of running a MANOVA is that we consider correlations between the dependent variables, i.e., the 25 topics. For the first research question, we set up a one-way MANOVA with the following equation:

$$Topics\ (k{=}25) = Intercept + Research\ Journal \tag{A.1}$$

Equation (A.1) contains 25 dependent variables, one for each topic. The research variable *Research Journal* is coded into two categories: research journal (TAR and EAR) and practice journal (JoA and AcE). The number of observed articles for these four journals adds up to 1,642. However, the described sample of 2,251 articles, including bridging journals, is used to calculate the topic model to comprehensively overview the accounting literature landscape and provide more means of comparison. The result of the MANOVA can be interpreted as the discriminatory power of the study variable.

To analyze RQ A2, we define Equation (A.2) similarly to Equation (A.1), but a two-way MANOVA design is used to examine the interaction effect between research journals and regions:

$$Topics = Intercept + Research\ Journal + Region + Research\ Journal \times Region \quad \text{(A.2)}$$

Thus, there are also 25 dependent variables, and the analysis contains 1,642 observations as well. The variable *Region* is defined in the following categories: the U.S. for the journals TAR and JoA and Europe for EAR and AcE. The interaction term (Research Journal × Region) is particularly interesting in this research design, measuring the difference in discriminatory power between the U.S. research journal and the U.S. practice journal compared to this relationship in Europe.

We conduct a series of additional analyses in Section 5 to address endogeneity concerns. For example, the language and format of scientific articles could drive our inferences on the different topical distributions between research and practice journals. On the one side, we already addressed this in our sample selection (e.g., by excluding short articles in practice journals or our journal selection). On the other side, we conduct an analysis eliminating technical topics which are often characteristic of the scientific writing style.

4 Results

4.1 Descriptive Statistics

Our LDA model yields a mean distribution over the 25 topics for each journal, as depicted with the respective standard deviations in Table A.2. The results show heterogeneous and distinct distributions over topics for all journals, indicating a diverging topical focus.

Notably, topic 12, concerning earnings and accruals, is predominantly used in research journals, while topic 10, on taxation, exhibits higher weights in practice journals.[6] In the process, the taxation topic has the largest proportion of any topic in any journal, with 51% for JoA. At the same time, it is also most frequently the most prominent topic in the articles (283 of all 2,251 research papers).

[6] We deliberately label only selected ones of the 25 topics as our research approach does not require a topic label and because the labeling of topics entails high degrees of subjectivity.

Table A.2: Mean Topic Distributions per Journal

Topic	The Accounting Review	European Accounting Review	Accounting Horizons	Accounting in Europe	Journal of Accountancy	Accountancy Europe
1	1% (0.04)	2% (0.06)	4% (0.11)	1% (0.04)	**15% (0.25)**	4% (0.11)
2	4% (0.11)	7% (0.13)	5% (0.12)	**15% (0.16)**	0% (0.01)	4% (0.07)
3	2% (0.06)	1% (0.03)	3% (0.09)	4% (0.10)	1% (0.02)	0% (0.01)
4	**13% (0.20)**	5% (0.12)	5% (0.11)	1% (0.05)	0% (0.01)	0% (0.01)
5	2% (0.06)	2% (0.06)	1% (0.05)	1% (0.05)	2% (0.11)	0% (0.02)
6	2% (0.07)	3% (0.08)	2% (0.07)	1% (0.05)	0% (0.01)	1% (0.02)
7	5% (0.14)	2% (0.07)	6% (0.13)	2% (0.07)	2% (0.05)	2% (0.05)
8	0% (0.01)	1% (0.04)	1% (0.04)	5% (0.08)	1% (0.03)	**24% (0.18)**
9	5% (0.13)	3% (0.10)	6% (0.12)	2% (0.09)	0% (0.01)	2% (0.05)
10	4% (0.12)	3% (0.07)	7% (0.15)	3% (0.06)	**51% (0.31)**	**11% (0.16)**
11	1% (0.06)	1% (0.03)	2% (0.07)	0% (0.01)	1% (0.03)	1% (0.06)
12	**16% (0.21)**	**12% (0.18)**	**9% (0.16)**	2% (0.06)	0% (0.02)	0% (0.01)
13	4% (0.12)	3% (0.09)	1% (0.03)	2% (0.09)	1% (0.02)	0% (0.01)
14	2% (0.06)	2% (0.07)	4% (0.10)	2% (0.06)	1% (0.04)	0% (0.01)
15	2% (0.07)	1% (0.05)	2% (0.06)	4% (0.11)	1% (0.05)	2% (0.08)
16	2% (0.07)	1% (0.04)	2% (0.08)	0% (0.02)	1% (0.03)	0% (0.00)
17	1% (0.02)	1% (0.04)	3% (0.06)	13% (0.16)	12% (0.24)	8% (0.11)
18	6% (0.13)	3% (0.08)	2% (0.06)	1% (0.03)	0% (0.02)	0% (0.01)
19	5% (0.10)	5% (0.12)	7% (0.14)	3% (0.09)	0% (0.02)	0% (0.01)
20	2% (0.06)	7% (0.16)	7% (0.13)	4% (0.09)	1% (0.03)	0% (0.01)
21	4% (0.09)	2% (0.06)	3% (0.09)	0% (0.01)	0% (0.01)	0% (0.01)
22	6% (0.15)	**14% (0.18)**	8% (0.13)	**27% (0.20)**	4% (0.05)	**12% (0.15)**
23	2% (0.09)	3% (0.14)	3% (0.10)	0% (0.03)	0% (0.02)	1% (0.04)
24	0% (0.02)	3% (0.08)	2% (0.06)	4% (0.07)	2% (0.07)	24% (0.17)
25	7% (0.15)	13% (0.22)	5% (0.12)	3% (0.06)	3% (0.05)	2% (0.05)

Mean topic distributions and standard deviations (in parentheses) are depicted for all 25 topics and the six analyzed journals. The most notable topics are highlighted.

The top five words for each topic and the total number of times each topic exhibits the highest share in an article are illustrated in Table A.3. The different weights for research and practice journals of topic 12 are also of great concern since it is the most prominent topic in 228 of all 2,251 papers and, thus, a potential driving force behind a research-practice gap. Furthermore, technology-related topic 1 is primarily subject to practice journals. Topic 4 about analysts is mainly relevant to research journals. These differentiations reinforce the importance of our first research question to what extent a gap between research and practice exists in the literature.

Table A.3: Top Five Words per Topic

Topic	1	2	3	4	5	Count of most prominent topic
1	data	process	technology	information	research	86
2	ifrs	countries	reporting	adoption	standards	108
3	income	financial	database	forecasts	revenue	28
4	information	analyst	forecast	analysts	earnings	182
5	ties	group	management	seo	percent	32
6	csr	performance	family	disclosure	ownership	31
7	audit	auditor	auditors	participants	risk	92
8	member	fee	european	article	professional	36
9	audit	auditor	auditors	clients	quality	93
10	tax	income	business	taxpayer	new	**283**
11	internal	audit	committee	audit committee	iaf	19
12	earnings	year	stock	accruals	returns	**228**
13	tax	income	cash	avoidance	tax avoidance	71
14	assets	goodwill	value	depreciation	method	40
15	loan	credit	financial	banks	value	33
16	ceo	compensation	ceos	turnover	agent	28
17	financial	auditor	statements	financial statements	audit	73
18	information	value	risk	assets	banks	63
19	audit	control	fees	year	companies	89
20	research	board	directors	tournament	number	83
21	restatement	risk	restatements	sample	auditor	45
22	information	reporting	financial	manager	value	**256**
23	sales	insider	university	target	short	37
24	audit	statutory	independence	auditor	code	61
25	performance	management	participants	managers	cost	152

The five words with the highest probabilities in each of the 25 topics are presented in descending order. The most prominent topic refers to the topic in an article that exhibits the highest proportion of all 25 topics. Accordingly, the number of most prominent topics counts how often the respective topics have the largest proportion in the total 2,249 articles of our sample.

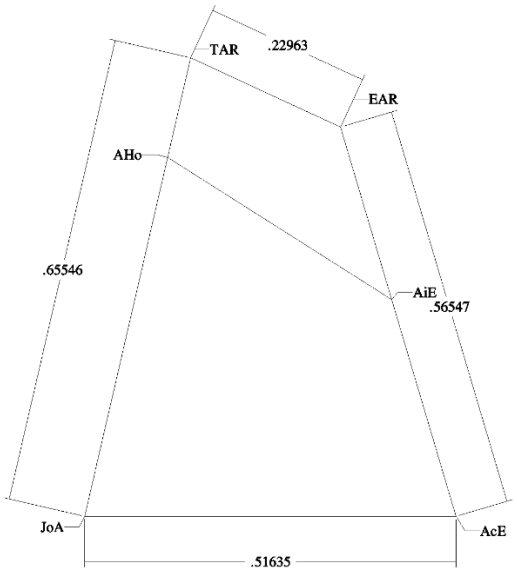
In addition, related to our second research question, the topic distributions reveal that the topics covered in U.S. journals differ from those in European journals. Most remarkably, topic 22 on financial reporting possesses double-digit percentages for all European journals, while U.S. journals only achieve a maximum of eight percentage points. Therefore, topic 22 is highly influential since it is the most prominent topic in 256 of the 2,251 articles. In addition, there is vast conspicuousness for topic 8, as only European journals surpass the one percentage point threshold. This comes as no surprise since the topic distinctively involves Europe. Lastly, topic 2, specifically concerning the IFRS standards, is also of more concern for European than U.S. journals, further underpinning research question two.

4.2 Main Findings

For the first research question, we first consider the results of the Hellinger distances. Figure A.2 illustrates that the distances between the research and practice journals are relatively large compared to the distances between the two research journals (TAR and EAR) and, to a lesser extent, between the two practice journals (JoA and AcE).

The pooled distance between the two research journals (TAR and EAR) and the practice journals (JoA and AcE) is equal to 0.61573 (see Table A.4). More precisely, the distance between TAR and JoA is the second largest (0.65546), and the distance between EAR and AcE (0.56547) is the fifth largest of all 15 possible distances.[7] The most considerable distance is the distance between TAR and AcE, not depicted, at 0.66924, which is also a distance between research and practice. In contrast, the distance between the two research journals, TAR and EAR (0.22963), is the second smallest of the 15 distances. Only the distance between AHo and EAR (0.21428) is even smaller. However, the distance between JoA and AcE (0.51635) is the eighth largest distance, thus larger than between the research journals.

Figure A.2: Hellinger Distances



The figure shows the Hellinger distances between research and practice journals for the U.S. (TAR & JoA) and Europe (EAR & AcE). Besides, the regional differences in terms of Hellinger distances between the research journals (TAR & EAR) and the practice journals (JoA & AcE) are considered. For reasons of clarity, we have not displayed the distances to the bridging journals. It should be noted, however, that this is a top-down view. The bridging journals are not on the same layer as the other four journals. Therefore, the distances to the other journals cannot be taken exactly from the figure.

[7] The binomial coefficient $\binom{6}{2}$ calculates the number of possible combinations of distances.

Table A.4: Main Findings and Robustness Check

Panel A: To what extent is there a topic-based research-practice gap in the accounting literature? (RQ A1)

$TAR \,\&\, EAR \neq JoA \,\&\, AcE$

	Full Model (1)	Restricted Model (2)
Research Journals vs. Practice Journals	0.61573	0.60116

Panel B: To what extent is the magnitude of the topic-based research-practice gap in the U.S. accounting literature different from the European one? (RQ A2)

$TAR - JoA \neq EAR - AcE$

	Full Model (1)	Restricted Model (2)
TAR vs. JoA	0.65546	0.65643
EAR vs. AcE	0.56547	0.56424
TAR vs. EAR	0.22963	0.23358
JoA vs. AcE	0.51635	0.51833
Gap U.S. vs. Gap Europe	0.08999	0.09119

Panel C: To what extent is the magnitude of the topic-based gap between bridging journals and practice journals in the U.S. accounting literature different from the European one? (Additional Analysis)

$AHo - JoA \neq AiE - AcE$

	Full Model (1)	Restricted Model (2)
AHo vs. JoA	0.54721	0.54432
AiE vs. AcE	0.41460	0.41223
AHo vs. AiE	0.37750	0.37105
JoA vs. AcE	0.51635	0.51833
Gap U.S. vs. Gap Europe	0.13261	0.13209

In the first column of Panel A, we illustrate the Hellinger distances between the combined research journals (TAR & EAR) and the combined practice journals (JoA & AcE) for RQ A1. In Panel B, we present the Hellinger distance for RQ A2. First, we show the regional Hellinger distances between research and practice that sum up to the Hellinger distance of RQ A2. Moreover, we depict the Hellinger distances between research journals (TAR & EAR) and practice journals (JoA & AcE) of different origins. Panel C presents the results for the additional analysis of bridging journals. Column two describes the Hellinger distances for a robustness check where we exclude the methodological topics 12, 19, and 21 to rule out possible distortions for all three research questions.

In summary, however, at the descriptive level of the Hellinger distances, our findings support the notion of a (topic-related) gap between research and practice in the accounting literature as well as differences in the magnitude of such a gap between the U.S. and Europe.[8]

The one-way MANOVA results in Table A.5 strengthen this finding and show that random variations in the output of our topic model cannot explain the differences between research and practice journals. This is reflected in the test statistics indicating significant differences in the group means between the research and practice journals for the 25 topics (i.e., Wilks' lambda = 0.1754, Pillai's trace = 0.8335, Hotelling-Lawley trace = 4.6499, and Roy's greatest root = 4.6390).[9] Similarly, for the sub-analyses that examine the research-practice gap in

[8] The results are virtually unchanged if we use the Hellinger distances based on median topic distributions, which we have scaled for comparability such that the sum of the median topic distribution components for each journal equals one.

[9] Since all four test statistics usually lead to the same qualitative result, we do not interpret all the different test statistics individually in the following for parsimony reasons. Values of Wilk's lambda close to zero indicate

the U.S. and Europe separately, the test statistics yield high values for discriminatory power. The differences in the test statistics between the U.S. (e.g., Pillai's trace = 0.8605) and Europe (e.g., Pillai's trace = 0.7780) suggest a more pronounced research-practice gap in the U.S. journals compared to the European journals (RQ A2). For comparability and to validate our results, we also report test statistics within research journals (TAR vs. EAR) and practice journals (JoA vs. AcE) in Table A.5.

Within these two journal groups of research and practice journals, we find lower values for discriminatory power. For example, Pillai's trace for the difference between TAR and EAR only reports a value of 0.2442. However, Pillai's trace between JoA and AcE of 0.7735 is comparable to the discriminatory power between EAR and AcE with Pillai's trace of 0.7780. This suggests a relatively low topical diversity within the research journals, while in contrast, the practice journals show greater variability in this regard.[10] In summary, it can be stated that there is a significant topic-based gap between research and practice in the accounting literature.

As set out above, the second research question addresses whether the research-practice gap varies in magnitude between U.S. and European accounting literature. Hellinger distances between TAR and JoA (0.65546) and between EAR and AcE (0.56547) provide initial evidence of regional differences in the research-practice gap between the U.S. and Europe (0.08999).

Table A.5: MANOVA for RQ A1

To what extent is there a topic-based research-practice gap in the accounting literature? (RQ A1)

TAR & EAR ≠ JoA & AcE

Research Design: $Topics\ (k{=}25) = Intercept + Research\ Journal + \varepsilon$

	Research Journals vs. Practice Journals (1)	**TAR vs. JoA (2)**	**EAR vs. AcE (3)**	**TAR vs. EAR (4)**	**JoA vs. AcE (5)**
Wilks' lambda	0.1754***	0.1436***	0.2258***	0.7558***	0.2270***
Pillai's trace	0.8335***	0.8605***	0.7780***	0.2442***	0.7735***
Hotelling-Lawley trace	4.6499***	5.9342***	3.4113***	0.3230***	3.4029***
Roy's greatest root	4.6390***	5.9294***	3.4063***	0.3230***	3.4022***

We illustrate the results of the MANOVA for RQ A1 in column 1. We display the other relevant journal combinations in columns 2 to 5.
*** $p < 0.01$.

high discriminatory power. A value close to one for Pillai's trace—defined between 0 and 1—indicates a high ability to separate the group differences and is particularly robust against assumption violations. The discrimination power increases with higher values according to the Hotelling-Lawley trace and Roy's greatest root (see Tabachnick & Fidell, 2007, p. 269).

[10] When interpreting the MANOVAs, it should be taken into account that all differences between journals or groups of journals are significant at the 1% level due to the high statistical power caused by the sample size. In untabulated analyses, we do not find significant differences for randomized within-journal comparisons.

Table A.6: MANOVA for RQ A2

To what extent is the magnitude of the topic-based research-practice gap in the U.S. accounting literature different from the European one? (RQ A2)

$$TAR - JoA \neq EAR - AcE$$

Research Design: $Topics\ (k{=}25) = Intercept + Research\ Journal + Region + Research\ Journal \times Region + \varepsilon$

	Research Journal (TAR & EAR) or (JoA & AcE)	Region U.S. or Europe	Research Journal × Region
Wilks' lambda	0.3627***	0.3613***	0.4461***
Pillai's trace	0.6373***	0.6404***	0.5566***
Hotelling-Lawley trace	1.7573***	1.7635***	1.2354***
Roy's greatest root	1.7573***	1.7609***	1.2305***

We show the results of a MANOVA for RQ A2. Research Journal, Region, and the interaction term are the independent categorical variables of our model. *** $p < 0.01$.

To exclude possible biases due to interdependencies of the journal category and the category of the Region (the U.S. or Europe), we perform a two-way MANOVA (see Table A.6). For this purpose, we include—in addition to the two categorical variables, Research Journal and Region—the interaction term of these two categorical variables. The test statistics for the interaction term (e.g., Pillai's trace = 0.5566), which are consistently significant at the 1% level, indicate that the differences in the research-practice gap between the U.S. and Europe are not due to random variations in the sample. In summary, the results for the second research question show that the topic-based research-practice gap is different and more pronounced in the U.S. than in Europe.

5 Additional Analyses

5.1 Bridging Journals

In the following, we conduct several additional analyses to validate our results regarding the extent and regional differences of a research-practice gap in the accounting literature. In line with our second research question, another aspect is of interest. Both research communities have established so-called bridging journals between "pure" research and respective research journals on the one hand and practice with corresponding practice journals on the other. Apart from the open question of whether these bridging journals actually bridge these two fields, there might also be a difference between the U.S. and its European counterpart. According to Zeff and Dyckman (2018), AHo, the bridging journal in the U.S., is increasingly approaching pure research journals (TAR, in particular) in content and methodology. For the European bridging

journal (AiE), however, we are unaware of any a priori evidence of such a development. Thus, it is an empirical question whether the gap between the U.S. bridging and practice journal is more pronounced than for the European counterparts, i.e., whether it exhibits an analogous relation like the research-practice gap discussed above. To examine the relationship, we employ a two-way MANOVA design similar to RQ A2 in Equation (A.3), only differing by analyzing bridging journals instead of research journals.

$$Topics = Intercept + Bridging\ Journal + Region + Bridging\ Journal \times Region \quad \text{(A.3)}$$

The descriptive results in Table A.4 show initial evidence that the gap between U.S. bridging and practice journals is more pronounced than in Europe. Hence, the Hellinger distance between AHo and JoA—i.e., the measure of the gap between U.S. bridging and U.S. practice journals—is 0.54721 (within Europe: 0.41460). The regional gap difference (0.13261) is even more pronounced than the regional gap between pure research journals and practice journals (0.08999). Similar to our previous analyses, the MANOVA in Table A.7 also reveals that the difference in the regional gap between bridging and practice journals is unlikely due to random variation. Thus, the results from this additional analysis align with our results for the second research question, illustrating that the gap between bridging and practice journals is of greater magnitude in the U.S. than in Europe.

Table A.7: MANOVA for Additional Analysis of Bridging Journals

To what extent is the magnitude of the topic-based gap between bridging journals and practice journals in the U.S. accounting literature different from the European one? (Additional Analysis)

$AHo - JoA \neq AiE - AcE$

Research Design: $Topics\ (k{=}25) = Intercept + Bridging\ Journal + Region + Bridging\ Journal \times Region + \varepsilon$

	Bridging Journal (AHo & AiE) or (JoA & AcE)	**Region U.S. or Europe**	**Bridging Journal × Region**
Wilks' lambda	0.5086***	0.5772***	0.5178***
Pillai's trace	0.4914***	0.4228***	0.4822***
Hotelling-Lawley trace	0.9662***	0.7324***	0.9312***
Roy's greatest root	0.9662***	0.7324***	0.9312***

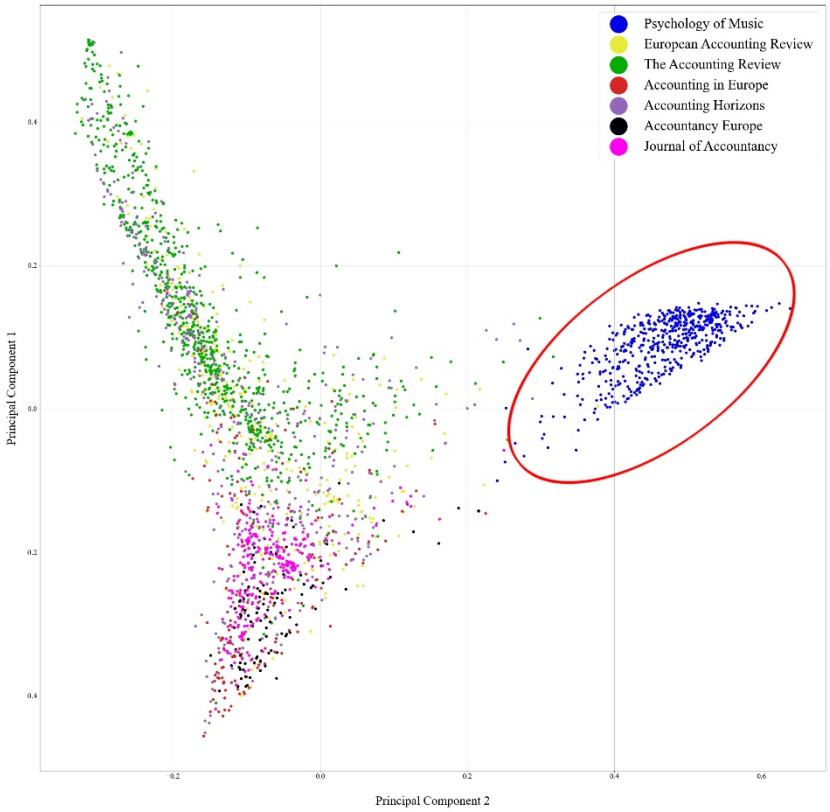
We show the results of a MANOVA for the additional analysis. Bridging Journal, Region, and the interaction term are the independent categorical variables of our model. *** $p < 0.01$.

5.2 Psychology of Music

We include Psychology of Music (PoM) as an additional journal in our topic modeling analyses to further validate whether our main measure of the research-practice gap, the Hellinger distances, can correctly recognize an obviously distant journal. A principal component analysis reveals substantial differences between the journals of our primary analyses and PoM (see Figure A.3). The distinctive character of PoM (with 603 articles over the 11 years) also resembles that the (untabulated) Hellinger distances of PoM to another journal exceed any other distance between accounting journals of our main analyses.

Building upon the newly calculated LDA model, we reevaluate our main findings. Our results based on untabulated Hellinger distances and MANOVAs (see Appendix A.2 & Appendix A.3) remain virtually unchanged. Altogether, the additional PoM analyses demonstrate the validity of our constructs regarding the existence and regional variations of the research-practice gap and their robustness to entirely different themes.

Figure A.3: Principal Component Analysis with Psychology of Music



The results of a Principal Component Analysis with the six accounting journals and Psychology of Music are depicted, whereas each dot represents an article. The outlying papers of Psychology of Music are circled.

5.3 Time Series Analyses

In order to analyze whether the research-practice gap changes over time or whether it is time-invariant, we explore time trends over the sample period of 2009–2019. Therefore, we evaluate the Hellinger distances between our three categories, research, practice, and bridging journals, on a yearly basis. Each category consists of the U.S. journal and its European counterpart. For instance, research journals, therefore, comprise TAR and EAR. The results in Figure A.4 show that the topic-based gap, measured as Hellinger distances, between all three categories, research and practice, research and bridging, and bridging and practice journals, remain stable over time.

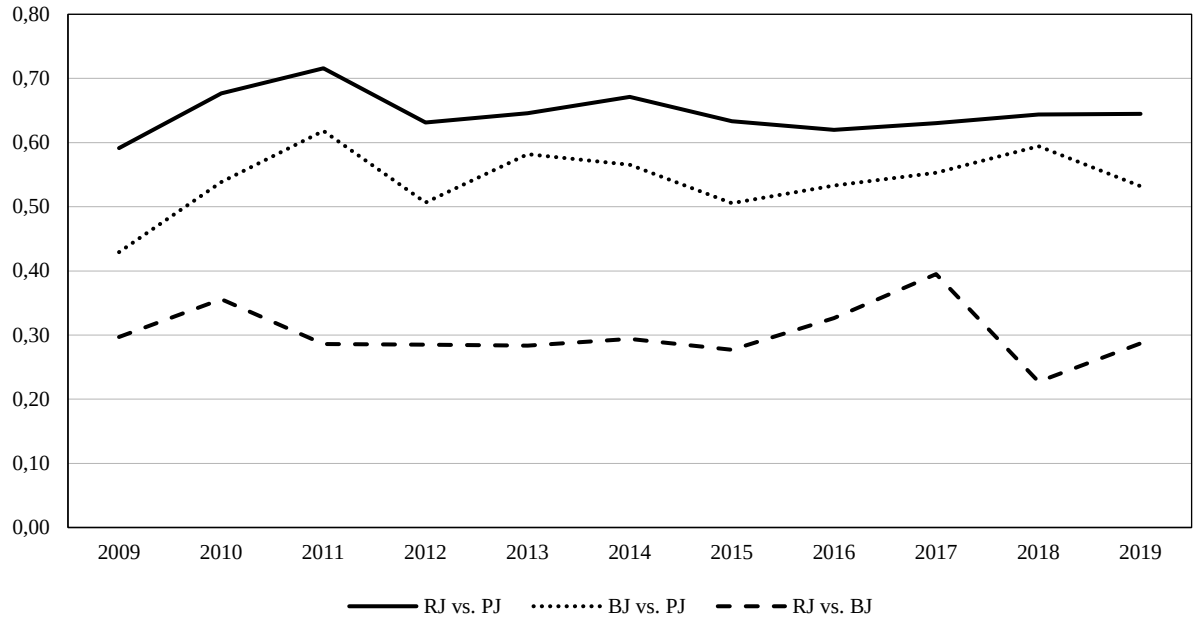
Moreover, the most pronounced gap over time is observed between research and practice journals, underpinning the findings of our primary analyses. The Hellinger distances of the research-practice gap vary between 0.59141 and 0.71582. In addition, the research-practice gap dominates the other two gaps over the entire study period. Besides, the Hellinger distances indicate that bridging journals are closer to research than practice journals. In summary, the time series analyses show that the research-practice gap and the other gaps are robust over time. Further, we cannot identify a distinct time trend for the gaps.

5.4 Elimination of Methodological Topics

For the last robustness check, we control for the concern that our measurement of the research-practice gap is not only based on differences in *research topics* but is instead driven by inherent differences in *methodologies* (and *metrics/data)*. Here, we take advantage of the fact that we can manually analyze particular topics in more depth. Therefore, we first identify three topics, which in our view, are methodological or data-driven, from the main topic model (i.e., with 25 topics and without PoM). We select topics 12 and 19, as already mentioned above, and topic 21. In selecting these three topics, we also analyzed the distributions beyond the five most weighted words.[11] As Table A.4 illustrates, the Hellinger distances of the restricted model (22 topics) are virtually unchanged compared to the entire model. Likewise, the results of the MANOVAs are essentially the same as the primary model (see Appendix A.4–Appendix A.6). Consequently, we can conclude that methodological aspects have not influenced our results substantially.

[11] We exclude topic 12 because of the words model (7), results (8), table (9), sample (10), and variables (13); topic 19 because of the words sample (6), variables (7), results (9), and model (10); and topic 21 because of sample (4), variable (6), control (7), and table (8). The rank for the word in the respective topic is in parentheses.

Figure A.4: Time Series Analyses



We show the topic-based Hellinger distances between the three categories of research, bridging, and practice journals. Thereby, each category is calculated on an aggregated basis of the U.S. journal and its European counterpart. Accordingly, research journals consist of TAR and EAR, bridging journals of AHo and AiE, and practice journals comprise JoA and AcE.

6 Discussion

Our findings support the notion of a research-practice gap in accounting literature and corroborate senior accounting scholars' frequently noted but rarely substantiated perception that accounting research is detached from accounting practice (e.g., Hopwood, 2007). With our topic-based measurement approach, we capture the extent of this gap between research, practice, and bridging journals and uncover an even wider gap in the U.S. journals compared to their European counterparts. In this respect, we support the expectations and arguments gathered before in the systematization of the research-practice gap and the research questions (especially in Sections 2.2 and 2.3). We find a topic-related gap between research and practice, e.g., topics concerning earnings and accruals appear prominently in research journals, while topics on technology and taxation are predominantly discussed in practice journals.[12] Moreover, we identify a lower topic diversity in research journals than in practice outlets. This thematic narrowing in academic accounting research corresponds to the rationale of Tuttle and Dillard (2007) that institutional isomorphism leads to homogenization in accounting research (towards the mainstream), where universities have been identified as particular drivers (DiMaggio & Powell, 1983). The formal knowledge base formed at universities and the formation of professional

[12] Non-tabulated post hoc tests revealed that relatively few and diverging topics are particularly popular among accounting academics and practitioners, explaining the bulk of the research-practice gap.

networks facilitated by universities contribute to a unified view and promote what is considered legitimate research. However, institutional isomorphism does not explain why the research-practice gap is especially prevalent in accounting, as this mechanism also applies to other disciplines. For instance, Ratnatunga (2012) finds that the medical profession presents a substantively smaller research-practice gap than accounting academia (similar to Fraser & Sheehy, 2020; Kaplan, 2011). Here, further research seems necessary to identify the accounting-specific drivers for this development.

Moreover, the difference between the U.S. and Europe illustrates that the institutional theory does not provide a sufficient explanation on its own. Despite the key global role and preeminence of U.S. accounting research (e.g., Gendron, 2008; T. A. Lee, 1999; T. A. Lee & Williams, 1999; Locke & Lowe, 2008), differences between the communities seem to remain. Further research could illuminate the reasons for this divergence and would have to re-examine the previous notion of accounting as a rather local discipline (Lukka & Kasanen, 1996). Even if the European community remains more anti-dogmatic and methodologically more diverse (e.g., Panozzo, 1997; Raffournier & Schatt, 2010), the question of why this should positively affect the research-practice gap still needs to be examined. This analysis might consider other research traditions within Europe and beyond, especially outside the English-speaking world, which could be even more heterogeneous.

On an individual level, our findings raise further questions. Against the background of rational choice theory, rational researchers and practitioners perform cost-benefit analyses and determine their actions accordingly (Scott, 2000). Consequently, different incentive structures between academic accounting and accounting practice play a decisive role in the occurrence of a pronounced research-practice gap (Bartunek & Rynes, 2014). The incentive structure of academics is determined, in particular, by promotion and tenure decisions. Essentially, these decisions are based on journal metrics and the publication process, which is supposed to ensure high-quality publications. Thus, it is apparent that those who participate in the publication process, e.g., authors, reviewers, and editors, play a central role in the formation of incentive structures and are able to shape them (Merchant, 2012; Moizer, 2009; Rajgopal, 2021; Tucker & Vesty, 2014). The institutional tendency of accounting research to converge thematically is an expression of rational behavior: To reduce uncertainty, researchers are led to focus on prevailing research topics that promise higher chances of publication compared to novel issues. Similarly, editors and reviewers, in the sense of a path dependency, might also cling to what already exists. As a result, researchers exhaust themselves in over-studying the very same topics, triggering repetitiveness and irrelevancy (see also Basu, 2012; Gendron, 2008; Kaplan, 2011, 2019;

McCarthy, 2012). Further research could help to understand why there is constrained competition among editors and journals for substantial innovations and why applied research often scores so poorly in research rankings, although attempts exist to integrate research impact into research assessment (e.g., Morton, 2015). This debate might be extended by proposals to rethink academic evaluation processes (Kaplan, 2019) and abandon commercial science publishing in order to use less distorted, cheaper alternatives such as open-access-science networks (Winter, 2012). Further research could include the incentive structures of practitioners to analyze their contribution to the gap. It seems questionable if and why those individuals seem to be less interested in accounting research, although the constraints of daily routine and time pressure should be comparable to practitioners in other disciplines, such as medicine or engineering.

Furthermore, the difficult question of how to evaluate a research-practice gap remains open. Whether a more applied discipline, such as accounting, is similarly entitled to conduct pure science might be discussed. Autonomy and independence of research choices might be valuable; however, the discrimination of more applied types of research in the research evaluation seems questionable at the same time. It also seems justified to discuss the role and societal relevance of accounting research (Fülbier & Sellhorn, 2023), especially if the research is publicly funded. Much harder to answer is the connected question of whether we can really assess the relevance and impact of research papers, even if the related topics are far from practice. It remains possible that research influences practice and society in the long run or via many intermediation steps or both. The consideration of bridging journals in our analysis touches on the last aspect, as we can show that there might be a transmission process with several outlets in between. Further research could identify and illuminate this process in more depth—regarding the chain links themselves and the time aspect, i.e., if there is a substantial time lag between research and practice (topics).

7 Conclusion and Limitations

This study introduces a novel approach to explicitly measure the often-cited but rarely analyzed research-practice gap in the accounting literature (Fraser & Sheehy, 2020; Orchard et al., 2020; Ratzinger-Sakel & Gray, 2015; Unerman & O'Dwyer, 2010; van Helden & Northcott, 2010). By applying LDA to accounting journals, we are able to quantify the topic-related gap with minimal subjectivity. The results indeed document a pronounced and significant gap between research and practice journals, indicating an influence of institutional isomorphism towards homogenization in accounting research. Furthermore, our approach to measuring the gap enables us to uncover regional variations of the research-practice gap. The disparity between research and practice is more considerable in the U.S. than in Europe. Therefore, we reinforce the prior literature highlighting differential research environments and traditions. Consequently, the research-practice gap should always be considered in the respective context.

Our findings are robust to various adaptations and alternative specifications. However, certain limitations apply. We only consider journals and articles written in English for our study due to methodological necessities and to ensure comparability across our sample of the U.S. and Europe. Consequently, we might not capture the entire European research and practice. In contrast, we might overemphasize British research since a language barrier is at least less of a concern here than in other countries. However, as British research is rooted in the Anglo-American tradition, overstating British research would lead to a smaller gap between the U.S. and Europe, indicating an even larger actual gap between the two regions. Besides, we base our analysis mainly on six (four in our main analyses) journals, while the choice of the journals and the number of journals involve levels of subjectivity. Though by exploring journals published by the AAA and its European counterpart, the EAA, as well as professional bodies in the U.S. and Europe, we ensure a high level of comparability. Moreover, our approach does not capture the importance of accounting research for regulators and standard setters as we only explore the topical differences between accounting and practice journals. However, part of the literature specifically investigates the use of research in standard setting (i.a., Becker et al., 2021; Ewert & Wagenhofer, 2012; Fülbier et al., 2009; Geoffroy & Lee, 2021; Leuz, 2018; Rutherford, 2011; Sinclair & Cordery, 2016).

Appendix A.1: Sensitivity Analysis for Different Numbers of Topics

RQ A1:	**To what extent is there a topic-based research-practice gap in the accounting literature?**
RQ A2:	**To what extent is the magnitude of the topic-based research-practice gap in the U.S. accounting literature different from the European one?**
Additional Analysis:	**To what extent is the magnitude of the topic-based gap between bridging journals and practice journals in the U.S. accounting literature different from the European one?**

No. of Topics	**5**	**10**	**15**	**20**	**25**	**30**	**35**	**40**	**45**	**50**	**60**	**70**	**80**	**90**	**100**
RQ A1	0.51	0.58	0.57	0.59	**0.62**	0.60	0.60	0.60	0.60	0.60	0.62	0.60	0.62	0.63	0.62
RQ A2	−0.03	0.02	0.01	0.04	**0.09**	0.07	0.06	0.05	0.05	0.04	0.08	0.08	0.07	0.06	0.08
Additional Analysis	0.07	0.08	0.09	0.14	**0.13**	0.18	0.15	0.14	0.13	0.12	0.15	0.12	0.12	0.12	0.13

For robustness, we calculate the Hellinger distances of RQ A1, RQ A2, and the additional analysis of bridging journals for alternative specifications of the number of topics in our LDA model.

Appendix A.2: MANOVA for RQ A1 – Robustness Check with PoM

To what extent is there a topic-based research-practice gap in the accounting literature? (RQ A1)

$TAR \ \& \ EAR \neq JoA \ \& \ AcE$

Research Design: $Topics\ (k{=}25) = Intercept + Research\ Journal + \varepsilon$

	Research Journals vs. Practice Journals (1)	**TAR vs. JoA (2)**	**EAR vs. AcE (3)**	**TAR vs. EAR (4)**	**JoA vs. AcE (5)**
Wilks' lambda	0.2187***	0.1549***	0.2940***	0.7148***	0.4162***
Pillai's trace	0.7813***	0.8451***	0.7060***	0.2853***	0.5857***
Hotelling-Lawley trace	3.5721***	5.4677***	2.4008***	0.3990***	1.3983***
Roy's greatest root	3.5721***	5.4677***	2.4008***	0.3989***	1.3951***

We recalculate the MANOVAs for RQ A1 and between relevant journal combinations for a modified sample that includes Psychology of Music. *** $p < 0.01$.

Appendix A.3: MANOVA for RQ A2 – Robustness Check with PoM

To what extent is the magnitude of the topic-based research-practice gap in the U.S. accounting literature different from the European one? (RQ A2)

$TAR - JoA \neq EAR - AcE$

Research Design: $Topics\ (k{=}25) = Intercept + Research\ Journal + Region + Research\ Journal \times Region + \varepsilon$

	Research Journal (TAR & EAR) or (JoA & AcE)	**Region U.S. or Europe**	**Research Journal × Region**
Wilks' lambda	0.5056***	0.6826***	0.7597***
Pillai's trace	0.4944***	0.3174***	0.2403***
Hotelling-Lawley trace	0.9779***	0.4650***	0.3164***
Roy's greatest root	0.9779***	0.4650***	0.3164***

We show the results of a MANOVA for RQ A2 with a modified sample that includes Psychology of Music. Research Journal, Region, and the interaction term are the independent categorical variables of our model. *** $p < 0.01$.

Appendix A.4: MANOVA for RQ A1 – Robustness Check Restricted Model

To what extent is there a topic-based research-practice gap in the accounting literature? (RQ A1)

$TAR\ \&\ EAR \neq JoA\ \&\ AcE$

Research Design: $Topics\ (k{=}22) = Intercept + Research\ Journal + \varepsilon$

	Research Journals vs. Practice Journals (1)	**TAR vs. JoA (2)**	**EAR vs. AcE (3)**	**TAR vs. EAR (4)**	**JoA vs. AcE (5)**
Wilks' lambda	0.1789***	0.1456***	0.2299***	0.7647***	0.2306***
Pillai's trace	0.8211***	0.8544***	0.7701***	0.2353***	0.7694***
Hotelling-Lawley trace	4.5901***	5.8697***	3.3499***	0.3076***	3.3372***
Roy's greatest root	4.5901***	5.8697***	3.3499***	0.3076***	3.3372***

We recalculate the MANOVAs for RQ A1 and between relevant journal combinations and thereby exclude three methodological topics. *** $p < 0.01$.

Appendix A.5: MANOVA for RQ A2 – Robustness Check Restricted Model

To what extent is the magnitude of the topic-based research-practice gap in the U.S. accounting literature different from the European one? (RQ A2)

$$TAR - JoA \neq EAR - AcE$$

Research Design: $Topics\ (k{=}22) = Intercept + Research\ Journal + Region + Research\ Journal \times Region + \varepsilon$

	Research Journal (TAR & EAR) or (JoA & AcE)	**Region U.S. or Europe**	**Research Journal × Region**
Wilks' lambda	0.3628***	0.3567***	0.4445***
Pillai's trace	0.6372***	0.6433***	0.5555***
Hotelling-Lawley trace	1.7561***	1.8037***	1.2498***
Roy's greatest root	1.7561***	1.8037***	1.2498***

We show the results of a MANOVA for RQ A2 while excluding three methodological topics. Research Journal, Region, and the interaction term are the independent categorical variables of our model. *** $p < 0.01$.

Appendix A.6: MANOVA for Additional Analysis of Bridging Journals – Robustness Check Restricted Model

To what extent is the magnitude of the topic-based gap between bridging journals and practice journals in the U.S. accounting literature different from the European one? (Additional Analysis)

$$AHo - JoA \neq AiE - AcE$$

Research Design: $Topics\ (k{=}22) = Intercept + Bridging\ Journal + Region + Bridging\ Journal \times Region + \varepsilon$

	Bridging Journal (AHo & AiE) or (JoA & AcE)	**Region U.S. or Europe**	**Bridging Journal × Region**
Wilks' lambda	0.5084***	0.5775***	0.5127***
Pillai's trace	0.4916***	0.4225***	0.4873***
Hotelling-Lawley trace	0.9668***	0.7316***	0.9504***
Roy's greatest root	0.9668***	0.7316***	0.9504***

We show the results of a MANOVA for our additional analysis of bridging journals while excluding three methodological topics. Bridging Journal, Region, and the interaction term are the independent categorical variables of our model. *** $p < 0.01$.

Part B:

Do Country Differences Matter?

Key Audit Matter Disclosure and the Role of Country Attributes

ABSTRACT

Key audit matters (KAM) are a primary communication channel between the auditor and financial statement users, so understanding the determinants of KAM disclosure is important. Our comprehensive cross-country study contributes to this goal by investigating the extent to which country-specific differences affect KAM reporting. We examine companies from 30 European countries, offering a well-suited research setting with uniform KAM regulation effective since 2017 and simultaneously broad institutional diversity. We find that a large set of economic, regulatory, audit market-related, and sociological country attributes significantly explains variation in KAM disclosure. We show that country-specific characteristics determine various aspects of KAM reporting—including the number, type, and writing style of KAMs—while we observe varying importance and associations regarding the different KAM disclosure measures. Our findings demonstrate the relevance of country attributes in the context of KAM reporting and provide a differentiated perspective on the implementation of the expanded audit report regulation across Europe.

Keywords: Key audit matters; Expanded audit report; Country attributes; Cross-country research; Principal component analysis

JEL classification: G38; M41; M42; M48

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1 Introduction

The introduction of the expanded audit report by several regulators, such as the European Parliament and Council, the International Auditing and Assurance Standards Board (IAASB), and the Public Company Accounting Oversight Board (PCAOB), aims to eliminate the lack of transparency and information in audit reports (Bédard et al., 2019). The expanded audit report, in particular, includes information on the most significant issues that required special auditor attention. These issues are referred to as key audit matters (KAM) in Europe and many other countries (ISA 701)[13] or critical audit matters (CAM) in the U.S. (PCAOB AS 3101). However, it is still doubtful whether the reforms have achieved the objective of making auditor reporting more transparent, informative, and individualized. Additionally motivated by heterogeneous findings from experimental and archival literature (described further in Section 2.2), we investigate whether and how country-specific differences explain variation in KAM disclosure.

Prior literature reveals that KAM disclosure attributes, including the number, tone, and readability, are essentially determined by individual auditor and client characteristics (e.g., Abdelfattah et al., 2021; Bepari et al., 2022; Küster, 2024; Pinto & Morais, 2019; Qiu et al., 2025; Seebeck & Kaya, 2023; Sierra-García et al., 2019; Velte, 2018; Zhang & Shailer, 2022). Despite the fast-growing research on expanded audit reports, cross-country studies have been very sparse (Gold & Heilmann, 2019; Velte & Issa, 2019). While the KAM literature has initially focused on individual countries, particularly the U.K., recent studies increasingly investigate determinants and consequences of KAM reporting in multi-country settings such as Europe (Beuselinck et al., 2024; Cameran & Campa, 2025; Federsel, 2025; Filosa et al., 2025; Hategan et al., 2022; Honkamäki et al., 2022; Küster, 2024; Küster et al., 2025; Lei & Shu, 2024; Lohwasser et al., 2024; Nylen et al., 2024; Pinto & Morais, 2019) or Asia (Al-Asmakh et al., 2024; Kitiwong & Srijunpetch, 2019).

However, few studies specifically explore country-level determinants of KAM disclosure (Filosa et al., 2025; Honkamäki et al., 2022; Kitiwong & Srijunpetch, 2019).[14] These studies provide initial evidence on the importance of country-specific differences in KAM reporting but only consider individual country attributes. The findings from relatively small samples indicate that tax enforcement (Filosa et al., 2025), a country's legal origin (Honkamäki et al.,

[13] According to the IAASB post-implementation report (2020), at least 67 jurisdictions adopted the ISA standards on the expanded audit report.

[14] In addition, Al-Asmakh et al. (2024) investigate a moderating impact of cultural dimensions on the association between auditor tenure and KAM disclosure. Furthermore, several other cross-country studies include country fixed effects.

2022), and cultural characteristics (Kitiwong & Srijunpetch, 2019) can influence KAM reporting. Given the variety and codependencies among country characteristics, a more thorough study of a broad portfolio of country attributes is needed. We leverage previous work by (Isidro et al., 2020) and (Eierle et al., 2021) and provide more comprehensive evidence using a larger sample and a broader set of country attributes of different dimensions.

Economic theories indicate the relevance of country attributes in the context of KAM reporting. The extent of agency conflicts is shown to differ between various countries (e.g., Morellec et al., 2018), which might impact the KAM disclosure behavior. Moreover, the institutional theory (DiMaggio & Powell, 1983) could imply similar KAM reporting within a country, while KAMs could still vary across different countries due to diverging settings. Lastly, Hogarth's theory (1980) states that the environment influences how judgmental decisions—such as the auditors' decisions on KAM disclosure—are made. Consequently, many studies encourage more research on KAM reporting in various institutional environments and focusing on cross-country differences (e.g., Bédard et al., 2019; Lennox et al., 2023; Velte & Issa, 2019).

This study investigates how country attributes affect KAM disclosure by examining the European setting, which provides a well-suited research environment with uniform KAM regulation effective since June 16, 2017,[15] and broad institutional diversity. Following Eierle et al. (2021), we use principal component analysis (PCA) to examine 33 different country attributes, which reduce to three economic factors, three regulatory factors, one audit market-related factor, and one sociological factor. PCA tackles the issue of codependencies among country-specific variables and allows analyzing a comprehensive set of country attributes (cf. Allee et al., 2022).

We demonstrate the relevance of country attributes in KAM reporting based on a sample of 29,103 total KAMs in 12,038 firm-year observations from 30 European countries for the fiscal years 2017 through 2022. Compared to the base model—including auditor and firm characteristics as well as industry and year fixed effects—adding the economic, regulatory, audit market-related, and sociological country factors increases the explained proportion of the variation in the number of disclosed KAMs by around eight percentage points, corresponding to a relative increase of 36%. Factors capturing general economic development and a strict regulatory environment positively affect the number of reported KAMs, while the factors related to wealth and sociological attributes are negatively associated with disclosed KAMs. As an extension of the main analysis, we examine entity- and account-level KAMs, the number of new KAMs, and

[15] Regulation (EU) No 537/2014 is effective for fiscal years starting on or after June 17, 2016, while ISA 701 applies to fiscal years ending on or after December 15, 2016. Therefore, fiscal years ending on or after June 16, 2017, present the first financial years with unified KAM disclosure requirements in Europe.

the auditor's writing style of KAMs—i.e., length, tone, and readability. We find that these aspects of KAM reporting are also considerably determined by country-level differences. Nevertheless, the country-specific factors are differently associated with the various aspects of KAM reporting, and the extent of explained variation differs for the considered KAM disclosure measures.

This study contributes to the auditing literature by conducting cross-country research on the determinants of KAM reporting, focused on a broad European sample and a comprehensive set of country attributes. Thus, we complement emerging research investigating the European KAM disclosure setting (Federsel, 2025; Filosa et al., 2025; Hategan et al., 2022; Honkamäki et al., 2022; Küster, 2024; Lohwasser et al., 2024; Pinto & Morais, 2019). In particular, we extend the sparse literature focusing on cross-country differences (Filosa et al., 2025; Honkamäki et al., 2022; Kitiwong & Srijunpetch, 2019) by examining a considerably larger sample and, importantly, investigating their overall relevance using substantially more country-specific attributes covering various dimensions.[16] We exploit the European setting with homogeneous KAM requirements and simultaneous variation regarding country-level attributes and show that country factors are fundamental determinants of KAM reporting. This conclusion applies to the number, different types, and writing style of KAMs, while we observe varying associations of the different KAM disclosure measures with our country factors. Thereby, we also extend recent European cross-country studies on textual characteristics of KAMs (e.g., Küster, 2024; Lohwasser et al., 2024). The exploratory evidence over the six years following the mandatory Europe-wide implementation in 2017 as well as additional analyses considering the pre- and post-COVID-19 periods and the disclosure of new KAMs suggest that our findings are persistent. Hence, we contribute to the overall understanding of how (unified) audit regulation is applied in different jurisdictions (e.g., Kleinman et al., 2014; Simunic et al., 2017).

This research provides insights into the underlying KAM determination process in light of the post-implementation reviews on expanded audit reports (IAASB, 2025; PCAOB, 2025). Our findings are relevant for regulators to better understand how KAMs are determined—especially for those aiming to harmonize (auditor) reporting across distinct countries. Moreover, our evidence on the influence of country-specific factors should be of interest to financial statement users when interpreting KAM disclosure and assessing its implications in different settings.

[16] While Filosa et al. (2025) analyze a European sample that is less than half as large, Honkamäki et al. (2022) and Kitiwong & Srijunpetch (2019) investigate considerably fewer observations from Europe or Asia, respectively. Moreover, these studies focus only on individual country-specific aspects.

The remainder of this study is structured as follows: Section 2 outlines the regulatory background regarding KAM reporting and develops our research question. Section 3 details the research design and the sample selection. Section 4 contains the description and outcomes of the PCA to determine the country-specific factors. We present the descriptive statistics and the empirical findings in Section 5, as well as additional subsample analyses in Section 6. Section 7 concludes and discusses the limitations of our study.

2 Background and Research Question

2.1 Regulatory Background

In recent years, regulators worldwide have mandated the disclosure of the most critical issues encountered during the audit. The change in regulation resulted from users questioning the informative value of the audit report, especially in the aftermath of the financial crisis (Gold & Heilmann, 2019; Jermakowicz et al., 2018; Mock et al., 2013). Traditional audit reports were characterized by a highly formalized pass-or-fail format with low communicative value because virtually every company received an unqualified opinion (e.g., Church et al., 2008; Gray et al., 2011). Consequently, to increase the informativeness of auditor reporting, various regulators introduced expanded audit reports by requiring the disclosure of the most significant issues during the audit (Vanstraelen et al., 2012).

France was among the first countries to mandate additional information on important audit matters through Justifications of Assessments dating back to 2003 (Bédard et al., 2019). The U.K. and Ireland modified the then-effective International Standards on Auditing (ISA) and adopted ISA 700 (U.K. and Ireland) for financial periods beginning after September 2012. Beyond further requirements, ISA 700 (U.K. and Ireland) obliged the auditor to disclose the risks of material misstatement that had the most significant effect on the audit strategy, the allocation of resources, and the effort of the engagement team.

Besides national amendments to expand audit reports, the IAASB published the new standard ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, in 2015. It marked a significant step toward increased disclosure of the auditor (Minutti-Meza, 2021). The goal of disclosing KAMs is to "enhance the communicative value of the audit report by providing greater transparency about the audit" (ISA 701.2). Moreover, KAMs are supposed to provide additional information to intended users for discussions with management and other corporate bodies. Thereby, KAMs are defined in ISA 701.8 as the matters communicated with those charged with governance of the company that, in the auditor's professional judgment,

were of most significance in the audit of the current period's financial statements. ISA 701 is effective for fiscal years ending on or after December 15, 2016. Until ISA 701 was finalized, the Netherlands introduced a closely related expanded audit report regulation, mandatory since 2014 (Sneller et al., 2017).

The EU imposed the expanded audit report for public-interest entities with the enactment of Regulation (EU) No 537/2014. The EU regulation mandates the description of the most significant assessed risks of material misstatement, the auditor's response, and key observations concerning those risks. While KAM requirements in the EU correspond with ISA 701, they became effective later, for all fiscal years starting on or after June 17, 2016. Lastly, the U.S. has followed the global trend and mandates auditors to disclose CAMs since 2019 (PCAOB, 2017). Although minor divergences exist (Jermakowicz et al., 2018), CAMs mostly overlap with the ISA 701 requirements.

KAMs should be chosen from all matters communicated with those charged with the company's governance. Auditors typically discuss these issues with the audit committee during the planning, testing, and completion phases of the engagement (Minutti-Meza, 2021). Moreover, only those issues requiring significant auditor attention and audit effort should be considered of all discussed issues. Highly assessed risks of material misstatement, considerable auditor judgments due to disclosures with high managerial discretion (e.g., accounting estimates with high uncertainty), or significant events or transactions might be examples of where special audit effort is needed. In the last step, KAMs should only be selected as the matters of most significance in the audit. Notably, auditors determine KAMs in their professional judgment. Therefore, the decision to report a matter as KAM is subject to various influencing factors. It is a natural question of what determines an auditor's KAM disclosure behavior. We examine this question by focusing on the impact of country attributes.

2.2 Context, Prior Literature, Theoretical Foundation, and Research Question

Understanding the determinants of KAM disclosure is important because it is one of the few occasions for auditors to discuss their work publicly, allowing inferences on the audit process and, potentially, audit quality. The mixed evidence from experimental and archival literature on the consequences of KAM or CAM reporting further substantiates the importance of examining the determinants of KAM disclosure, including country-specific differences.

Experimental research suggests that expanded audit reports can influence managers' reporting choices (Fuller et al., 2021; Tan & Yeo, 2022) and audit committees' scrutiny (Kang, 2019), have real effects on companies' operating decisions (Bentley et al., 2021), impact auditors' perceived culpability (Brasel et al., 2016; T. Brown et al., 2020; Gimbar et al., 2016; Kachelmeier et al., 2020; Vinson et al., 2019), and potentially possess informative value for investors (e.g., Christensen et al., 2014; Dennis et al., 2019; Köhler et al., 2020; Rapley et al., 2021). Besides, KAM disclosure draws significant attention away from other parts of financial statements (Sirois et al., 2018) as well as from other information in the audit report (Moroney et al., 2021). While the latter two experiments were conducted with accounting students from Australia (Moroney et al., 2021) and Canada (Sirois et al., 2018), the former experimental studies predominantly focus on the U.S. context with corresponding participants.[17]

In contrast to the experimental findings, most archival studies to date, mainly from the U.K. (Gutierrez et al., 2018, 2025; Lennox et al., 2023) but also the U.S. (Burke et al., 2023), reveal that expanded audit reports offer limited incremental information to investors. However, there is evidence that specific contexts matter, e.g., Goh et al. (2024) provide evidence that KAM disclosure is incrementally informative to investors in China as an emerging country with relatively weak institutions. Aside from usefulness for investors, expanded audit reports can also be relevant in other contexts such as loan contracting (Porumb et al., 2021) and seem to have predictive or indicative value, e.g., regarding accruals quality (Li et al., 2025), firms' financial distress level (Camacho-Miñano et al., 2024), uncertainty related to M&A transactions (Nylen et al., 2025), goodwill impairments (Jahan & Karim, 2023; Küster et al., 2025), or lawsuits (Buslepp et al., 2023).[18]

Studies focusing on cross-sectional differences in the textual characteristics of expanded audit reports, such as length, readability, similarity, specificity, and tone, present multifaceted results. Exemplary articles find that tone, length, and readability of KAMs seem to have limited informative value for investors (Lennox et al., 2023; Seebeck & Kaya, 2023), while they identify capital market implications for more specific and dissimilar KAMs (Deneuve et al., 2024; Seebeck & Kaya, 2023). Cumulatively, Minutti-Meza (2021) points to the infancy of the literature

[17] Brasel et al. (2016), T. Brown et al. (2020), Rapley et al. (2021), and Vinson et al. (2019) recruit participants from Amazon's Mechanical Turk, generally with U.S. citizenship. Other studies include students (Gimbar et al., 2016; Kachelmeier et al., 2020) or alumni (Christensen et al., 2014; Dennis et al., 2019) of U.S. universities. Further experiments were completed by experienced corporate managers (Bentley et al., 2021), AC members (Kang, 2019), and financial executives (Fuller et al., 2021) in the U.S. Merely Köhler et al. (2020) conduct their main experiment largely with financial analysts from Germany.

[18] Out of these studies, only Küster et al. (2025) examine a (European) multi-country setting, but without focusing on any country-specific differences regarding the consequences of KAM reporting.

stream on expanded audit reports in general and cautions that we are far from understanding all potential implications of KAM disclosure.

More directly related to our research question is the line of literature examining the determinants of KAMs because auditors' decisions on KAM disclosure involve professional judgment. Prior literature on the determinants of KAM disclosure has mainly focused on auditor and client attributes. Empirical evidence reveals that auditor characteristics such as audit fees, auditor size, and audit partner gender affect the number of KAMs disclosed in the audit report (e.g., Abdelfattah et al., 2021; Bepari et al., 2022; Duboisée de Ricquebourg & Maroun, 2023; Wuttichindanon & Issarawornrawanich, 2020). Furthermore, several client characteristics, such as size, risk, complexity, and profitability, determine the number of KAMs (e.g., Bepari, 2023; Bepari et al., 2022; Pinto & Morais, 2019; Qiu et al., 2025; Sierra-García et al., 2019; Zhang & Shailer, 2022).

While most articles analyze samples from a single country, the influence of country-specific factors on auditors' KAM disclosure decisions still needs to be explored. A growing number of KAM determinant studies examines cross-country samples, particularly from Europe (Federsel, 2025; Filosa et al., 2025; Hategan et al., 2022; Honkamäki et al., 2022; Küster, 2024; Lohwasser et al., 2024; Pinto & Morais, 2019), but largely without focusing on country-specific differences. Among the very few studies incorporating country divergences, Honkamäki et al. (2022) find that a country's legal origin influences KAM reporting decisions related to fair value accounting of investment properties by investigating real estate companies in the EU, Switzerland, and Norway. In addition, Filosa et al. (2025) discover that fewer KAMs are reported in European countries with stronger tax enforcement. Kitiwong and Srijunpetch (2019) investigate cultural characteristics in Thailand, Malaysia, and Singapore and find that uncertainty avoidance and masculinity do not affect the number of disclosed KAMs in total, but uncertainty avoidance is positively associated with the disclosure of industry-common KAMs.

Altogether, the prior literature provides an incomplete picture of the cross-country divergences in KAM disclosure. In this context, we propose that national peculiarities could result in diverging decisions on KAM disclosure for multiple reasons. One explanation relates to agency theory (Jensen & Meckling, 1976). Auditing aims to mitigate agency problems by reducing information asymmetries. The disclosure of KAMs contributes to this objective by providing additional information. As the extent and composition of agency conflicts vary between countries (e.g., Morellec et al., 2018), KAM disclosure might also differ. Institutional theory provides another explanation of how auditors exercise their discretion. It suggests that organizations may adopt similar practices over time (DiMaggio & Powell, 1983). In the context of KAM

disclosure, isomorphic pressures could lead to similar auditor assessments. On a national level, knowledge sharing between offices is especially pronounced in situations requiring high levels of judgment (e.g., Seavey et al., 2018). This might be particularly true for KAMs as the most important communication channel for auditors. At the same time, due to inherent idiosyncrasies, auditors could exert their judgment differently across countries, leading to diverging KAM disclosure behavior. Lastly, Hogarth's theory (1980) implies that the person, the task environment, and the resulting actions generally determine a judgmental process. A country's institutional setting represents one crucial aspect concerning the environment in which judgmental decisions are made. Therefore, country differences could affect auditors' professional judgment regarding KAM disclosure.

The theoretical explanations and empirical findings suggest that country-specific attributes could influence KAM reporting. However, it is also possible that country-level factors will have no significant influence on KAM disclosures because international audit firms' high standardization level might counteract the arguments above. Therefore, more comprehensive empirical research is needed to test the association between country-specific attributes and KAM reporting. Accordingly, our exploratory research question is:

RQ B1: *How do country attributes affect key audit matter disclosure?*

3 Research Design and Sample Selection

3.1 Model Specification

We estimate the following regression model, Equation (B.1), to gain empirical evidence on our research question—whether and how country attributes determine KAM disclosure:

$$KAMS_{it} = \alpha_0 + \sum_{\mathrm{j}=1}^{8} \beta_j COUNTRYFACTORS_i + \sum_{k=9}^{25} \beta_k CONTROL_{it} + \sum_{l=26}^{68} \beta_l IND_i + \sum_{m=69}^{73} \beta_m YEAR_t + \varepsilon_{it} \quad \text{(B.1)}$$

Our main dependent variable to measure KAM disclosure is the number of KAMs included in the audit report (*KAMS*). Concerning the expanded audit report, the number of KAMs is important since the auditor has discretion on how many issues are disclosed (Pinto & Morais, 2019; Sierra-García et al., 2019). As KAMs are matters "of most significance" (ISA 701.10), more KAMs might indicate higher complexity and higher risk. Apart from the number of KAMs

as our main dependent variable, we consider alternative measures of KAM disclosure—i.e., the number of new, entity-level, and account-level KAMs as well as the length, tone, and readability of KAMs—in Sections 5.3 and 5.4. Analysis of the textual characteristics is consistent with prior literature seeking to uncover the communicative value of KAMs (e.g., Abdelfattah et al., 2021; Küster, 2024; Rousseau & Zehms, 2024; Seebeck, 2024; Seebeck & Kaya, 2023; Velte, 2018, 2020). *COUNTRYFACTORS* represents the eight factors from the economic, regulatory, audit market-related, and sociological country attributes identified using PCA, as detailed in Section 4.

To isolate the effect of the country-level factors, we control for several auditor and client characteristics identified by prior literature that should capture variation in the auditor's methodology and the underlying client-level business transactions subject to consideration for KAM disclosure (e.g., Abdelfattah et al., 2021; Bepari et al., 2022; Burke et al., 2023; Duboisée de Ricquebourg & Maroun, 2023; Pinto & Morais, 2019; Qiu et al., 2025; Sierra-García et al., 2019; Velte, 2020; Zhang & Shailer, 2022). As auditor characteristics, we include the non-audit fee ratio (*NAF*) and incorporate dummy variables indicating a Big 4 auditor (*BIGFOUR*), an auditor industry specialization (*SPECIALIST*), an audit firm change (*AUDITCHANGE*), a fiscal year-end on December 31 (*BUSYSEASON*), and a going concern opinion (*GCO*). The control variables regarding the firm characteristics include firm size (*SIZE*), firm age (*AGE*), market-to-book value (*MTB*), current assets (*CURASSETS*) as well as inventory plus accounts receivable (*INVREC*), both relative to total assets, quick ratio (*QUICK*), return on assets (*ROA*), a loss dummy (*LOSS*), firm leverage (*LEVERAGE*), and an indicator for acquisition activities (*ACQ*). Finally, *IND* is a set of 43 industry dummies based on Fama and French's 48-industry classification and five year dummies (*YEAR*).

Moreover, we introduce a dummy variable indicating whether the firm's expanded audit report is available in English (*ENGLISHKAMS*) to control for underlying characteristics associated with the decision to report in an internationally accessible language. In further analyses of KAM writing style in Section 5.4, we require KAMs to be available in English. Instead of *ENGLISHKAMS*, we then control for English proficiency in a country (*ENGLISHPROF*) using yearly average scores on the writing portion of the TOEFL exam (cf. Brochet et al., 2016). This variable addresses a potential translation bias because numerous reports originate from companies in non-English-speaking countries. These audit reports are usually written in the local language, subsequently translated to English, and then published in both languages. Appendix B.1, Panel A presents detailed definitions of all variables.

We estimate the regression model with and, for comparison, without the country factors using an OLS regression with standard errors clustered by firm.[19] Furthermore, we include country fixed effects instead of our country factors to provide a complete overview. We winsorize all continuous control variables at the 1st and 99th percentiles to alleviate potential outlier problems.[20]

3.2 Sample Selection

Our sample considers expanded audit reports from European public-interest entities. We obtain data from different databases and prior literature. Audit Analytics is the source of information regarding the audit, including audit report and fee data. We use the Europe module of Audit Analytics, which covers companies listed on European stock exchanges and allows a comprehensive view of the corresponding audit market (Hategan et al., 2022). We gather firm-specific financial information from LSEG Eikon. Additionally, we collect country attributes from multiple sources such as the World Economic Forum, the World Bank, the World Values Survey, or from prior cross-country studies.

Our initial sample is based on the audit opinion file from the Europe module of Audit Analytics. It contains 37,598 unique firm-year observations from listed firms headquartered in Europe for fiscal years from 2017 through 2022.[21] The sample period starts with fiscal years ending on or after June 16, 2017, to ensure that all firm years in the sample are subject to mandatory KAM disclosure.[22] This results in a loss of 590 observations but enables comparability of KAM disclosure within the sample. To ensure that our country factors can be attributed to a specific audit report, we eliminate 1,166 firm years where the headquarter country does not match the ISIN country code, the country of the audit opinion, and the location of the auditor's office.

Furthermore, we do not consider 3,496 observations with multiple auditors, including all observations from France, due to the joint audit requirement. We exclude 8,494 observations from the financial industry (or missing SIC codes) since they possess a distinct balance sheet structure and are regularly subject to stricter regulation (see, e.g., Camacho-Miñano et al., 2024;

[19] Alternatively, we cluster standard errors at the country-industry level, allowing for correlation in the same country and industry (Daske et al., 2008). Furthermore, we estimate a Poisson regression instead of an OLS regression since our dependent variable is a count variable (Pinto & Morais, 2019). Our overall conclusions are not sensitive to the alternative model specifications.

[20] The dependent variable *KAMS* is not winsorized. The results are unaltered when also winsorizing *KAMS* (cf. Abdelfattah et al., 2021).

[21] Short financial years and further duplicates are already excluded.

[22] At this point, the EU regulation became effective, and ISA 701 was already applicable for fiscal years ending on or after December 15, 2016.

Zhang & Shailer, 2021). Nevertheless, we replicate our analysis for financial firms in a supplementary analysis.

Moreover, we eliminate firms that are not traded on a regulated market and, thus, do not meet the EU's definition of public-interest entities (cf. Directives 2006/43/EC and 2014/56/EU).[23] This step is necessary for comparability reasons, as companies in regulated markets usually have to meet higher transparency standards, and many regulations in the EU only apply to public-interest entities.[24]

We match the remaining 17,586 firm-year observations from the audit opinion file with KAM text files written in English. However, we also retain observations with information on the number of KAMs from non-English audit reports included in the audit opinion file.[25] After deleting firm years with a missing number of KAMs or other data in Audit Analytics, 13,881 observations remain.[26] Subsequently, we match the remaining observations from Audit Analytics with LSEG Eikon and lose 255 firm years. We drop 328 observations with differing country information in LSEG Eikon. Further, we delete 793 firm years without IFRS financial statements for the corresponding fiscal years and 467 observations with missing data regarding the firm-specific control variables. Thus, our full sample consists of 12,038 observations of 2,620 unique firms from 30 European countries. Table B.1 outlines the sample selection (Panel A) and the sample composition by country (Panel B) and year (Panel C).

While the U.K. (1,856) and Germany (1,633) contribute the most observations and represent almost one third of the sample, fewer than 50 observations originate from the Czech Republic, Estonia, Iceland, Latvia, and Slovakia, respectively. We retain them in the sample to ensure as much country variation as possible. The distribution over the sample period is fairly balanced. At the same time, we document fewer observations for 2017, as we only include companies with a fiscal year-end after June 15, 2017, when the expanded audit report became mandatory in all European countries.

[23] We also include firms for which no submarket information is available in Audit Analytics but which are listed as PIE clients in an auditor's transparency report during the sample period. In addition, we retain companies from countries where Audit Analytics states that it only covers companies from the regulated market and Switzerland. Thereby, we address the data issues with regard to submarket and transparency report information.

[24] In addition to mandatory auditor rotation, for example, this is especially relevant for the disclosure of expanded audit reports. However, there are countries where companies traded on a non-regulated market must also disclose KAMs, such as Poland or the U.K. Our findings remain unchanged when including these companies.

[25] Excluding the non-English KAMs from the main analysis does not qualitatively change our results.

[26] In this context, very few companies that report zero KAMs are also deleted, as these can no longer be distinguished from companies that do not have an expanded audit report in the latest version of the Audit Analytics database to date. However, database coverage issues such as non-machine-readable audit reports or audit fee information and other database deficiencies are the main cause of this sample drop.

Table B.1: Sample Selection and Composition by Country and Year

Panel A: Sample Selection	
	Firm Years
Firm-year observations from Audit Analytics Europe of listed firms headquartered in Europe for fiscal years 2017 through 2022.	37,598
Less: firm years with fiscal year-end before June 16, 2017.	(590)
	37,008
Less: firm years with ambiguous country information or a foreign auditor.	(1,166)
Less: firm years with a joint audit including all firms headquartered in France.	(3,496)
Less: firm years with SIC codes 6000–6799 or without SIC code.	(8,494)
Less: firm years from firms that are not traded on a regulated market.	(6,266)
	17,586
Less: firm years without information on the number of KAMs.	(2,296)
Less: firm years with other missing data in Audit Analytics.	(1,409)
	13,881
Less: firm years without coverage in LSEG Eikon.	(255)
Less: firm years with ambiguous country information in LSEG Eikon.	(328)
Less: firm years without corresponding IFRS financial statements.	(793)
Less: firm years with missing data regarding firm-specific control variables.	(467)
Full sample	**12,038**
Less: firm years without KAM information in English.	(2,957)
English KAM sample	**9,081**

Panel B: Full Sample Composition by Country

Country	Firm Years	Sample (%)
Austria	183	1.52
Belgium	330	2.74
Bulgaria	178	1.48
Croatia	169	1.40
Cyprus	111	0.92
Czech Republic	20	0.17
Denmark	399	3.31
Estonia	32	0.27
Finland	605	5.03
Germany	1,633	13.57
Greece	285	2.37
Hungary	76	0.63
Iceland	40	0.33
Ireland	87	0.72
Italy	806	6.70
Latvia	40	0.33
Lithuania	65	0.54
Luxembourg	52	0.43
Malta	65	0.54
Netherlands	382	3.17
Norway	656	5.45
Poland	1,351	11.22
Portugal	187	1.55
Romania	87	0.72
Slovakia	7	0.06
Slovenia	68	0.56
Spain	525	4.36
Sweden	1,310	10.88
Switzerland	433	3.60
United Kingdom	1,856	15.42

Table B.1 (continued)

Panel C: Full Sample Composition by Year		
Fiscal year	Firm Years	Sample (%)
2017	1,780	14.79
2018	1,938	16.10
2019	2,130	17.69
2020	2,086	17.33
2021	2,079	17.27
2022	2,025	16.82

This table outlines the sample selection (Panel A) and the composition of the full sample by country (Panel B) and year (Panel C).

We consider alternative measures of KAM disclosure apart from the number of KAMs to analyze the content-related and textual attributes of KAM reporting in Sections 5.3 and 5.4. Therefore, we require the title or complete text of the KAMs, which is only available in Audit Analytics for KAMs disclosed in English to date. Consequently, we exclude further 2,957 firm years, resulting in an English KAM sample of 9,081 observations.

4 Principal Component Analysis of the Country Attributes

Isidro et al. (2020) constitute that an analysis of cross-country differences based on individual country measures as determinants of accounting outcomes would yield biased results because country attributes suffer from high correlations and codependencies. PCA provides a way to solve this issue and reduces numerous variables into a smaller set of components (Allee et al., 2022). This type of data condensation has already found its way into the accounting and auditing literature (e.g., Eierle et al., 2021; Larcker et al., 2007), i.a., for summarizing country characteristics (e.g., Asthana et al., 2015; Francis et al., 2013; Mottinger, 2024). Consequently, we apply PCA to explore a multitude of country attributes as determinants of KAM disclosure. We base our selection of country attributes on the 49 variables of Eierle et al. (2021), who systematically identified the most relevant country attributes in prior auditing research and adopted PCA for an extensive cross-country analysis of audit fees. See Appendix B.1, Panel B, for the full list of 49 attributes, including a description of each attribute and the source of the data. In Table B.2, we report how we ex-ante categorize each of the 49 attributes into one of four categories of country-level attributes: economic, regulatory, audit market-related, and sociological.[27]

[27] We assign the attributes to the four categories following Eierle et al. (2021), with two exceptions. In contrast to Eierle et al. (2021), we assign the country attributes *Audit Regulatory Environment* and *Auditor Litigation Risk* to the category of the audit market-related aspects. This re-classification was necessary to receive variables suitable for PCA in our sample.

Table B.2: Categorization of Country Attributes for Principal Component Analysis

Economic	Regulatory	Audit Market-Related	Sociological
Analyst Coverage	***Anti-Director Rights***	***Audit Regulatory Environment***	*Civic Morality*
Average Total Assets	***Anti-Self-Dealing Index***	***Auditor Litigation Risk***	***Ethics***
Cost of Living	*Book-Tax Conformity*	***Big 4 Dominance***	***General Trust***
Development Level	***Control of Corruption***	***Big 4 Market Concentration***	***Secrecy***
Earnings Management	***Corporate Governance***	*Big 4 Share*	
Foreign Direct Investment	***Cost of Entry***		
GDP Growth	*Disclosure Minority Shareholders*		
GDP per Capita	***Disclosure Quality***		
Importance Equity Market	***Disclosure Requirements***		
Inflation	***Efficiency Judicial System***		
Market Capitalization	***Enforcement Environment***		
Ownership Concentration	***Government Transparency***		
Wage Level	*IFRS Adoption*		
	Investor Protection		
	IOSCO		
	Judicial Independence		
	Legal Origin		
	Legal Rights		
	Liability Standard		
	Property Rights		
	Protection Minority Shareholders		
	Regulatory Quality		
	Risk of Expropriation		
	Rule of Law		
	Size Securities Regulator		
	State Ownership		
	Strength Standards		
Cronbach's alpha: 0.808	Cronbach's alpha: 0.952	Cronbach's alpha: 0.710	Cronbach's alpha: 0.917

This table outlines the categorization of all country attributes into economic, regulatory, audit market-related, and sociological attributes. The country attributes included in the final PCA are presented in bold. All country attributes are defined in Appendix B.1, Panel B.

Around half of the country-level data is collected from prior literature and consists of static variables, e.g., the *Disclosure Requirements* index from La Porta et al. (2006).[28] The other half originates, for example, from Numbeo (*Cost of Living*), the World Bank (e.g., *GDP per Capita*),[29] or the World Economic Forum (e.g., *Judicial Independence*), which provide time-series data.[30] The self-calculated variables based on Audit Analytics data (*Average Total Assets*, *Big 4 Dominance*, *Big 4 Market Concentration*, and *Big 4 Share*) and LSEG Eikon data (*Earnings Management* and *Wage Level*) are also time-series. Thus, when available, we gather time-series data over our sample period from 2017 through 2022. Afterward, we calculate the mean per country over the sample period for each time-series variable to make static and time-series data

[28] The country data originating from previous literature often does not contain data for some smaller countries, including Eastern Europe, the Baltic States, as well as Cyprus, Iceland, Luxembourg, and Malta. The static attributes *Civic Morality* and *General Trust* from the World Values Survey are unavailable for Belgium, Ireland, Luxembourg, and Malta.

[29] While World Bank data is usually available for all sample countries, *Market Capitalization* is not available for Estonia, Iceland, Latvia, and Lithuania. In addition, the coverage of Denmark, Finland, Italy, Slovakia, and Sweden ends before the start of our sample period, and the most recent available data point is used.

[30] The respective attributes are generally available for all countries. However, especially the World Economic Forum data does not cover the entire sample period.

comparable, resulting in static country factors (cf. Eierle et al., 2021; Isidro et al., 2020). Another reason for this approach is that the time-series variables are not always available over the entire sample period and generally experience little variation. We follow the literature and standardize all variables to a mean of zero and a variance of one (see also Backhaus et al., 2023). In case of missing data on specific country attributes, we use sample means, following Isidro et al. (2020).[31]

We perform PCA for each of the four categories (economic, regulatory, audit market-related, and sociological) to distill meaningful factors from the interrelated country attributes. To achieve appropriate and reliable factors, we evaluate the choice of variables by the measure of sampling adequacy (MSA) and iteratively exclude variables with an MSA value below a threshold of 0.5 (cf. Backhaus et al., 2023; Hair et al., 2019) for each of the four dimensions.[32] In addition, we confirm the internal consistency of the finally selected country attributes with Cronbach's alpha ranging from 0.710 to 0.952 across the four dimensions.

One central aspect of PCA relates to how many factors should be retained (Iacobucci et al., 2022). General rules are to dismiss factors with an Eigenvalue smaller than one (Kaiser, 1960) or to graphically determine the number of factors with scree plots (Cattell, 1966). Moreover, parallel analysis can be adduced (Glorfeld, 1995; Horn, 1965). In our case, all tests yield the same results. Hence, we obtain three factors for the economic dimension, three for regulatory aspects, one for the audit environment, and one for sociological attributes. We perform orthogonal varimax rotation for "maximizing the significant loadings of a variable on a single factor" (Hair et al., 2019, p. 186). Lastly, the Kaiser-Meyer-Olkin criterion (KMO) reveals that our factors are well within the acceptable range as they possess KMO values considerably larger than 0.5 (Kaiser, 1974).

[31] A robustness analysis excluding countries with missing data does not change our conclusions.

[32] For this reason, we assign fewer attributes to the individual categories in our analysis, which leads to a smaller number of factors than in Eierle et al. (2021). If we use exactly the same country attributes and classification as Eierle et al. (2021), we obtain four economic, six regulatory, two audit market-related, and two sociological country factors with an Eigenvalue greater than one. However, most attributes have MSA values below 0.5, and the Kaiser-Meyer-Olkin criteria to evaluate the suitability of all variables together only equal 0.414, 0.410, 0.374, and 0.607 for the four dimensions. Thus, we refrain from performing the analysis with a one-to-one variable selection and categorization as in Eierle et al. (2021) due to, in our case, insufficient sampling adequacy. We re-perform our main analysis with these 14 factors and obtain an increase in adjusted R^2 of 9.68 percentage points compared to the base model.

Table B.3: Country Factors and Factor Loadings

Country Attribute	*EF1*	*EF2*	*EF3*	*RF1*	*RF2*	*RF3*	*AF1*	*SF1*
Economic Country Attributes								
GDP per Capita	0.9309							
Cost of Living	0.9168							
Market Capitalization	0.7381							
Foreign Direct Investment	–0.5588							
Analyst Coverage		0.8086						
Average Total Assets		0.7915						
Inflation		–0.4286	–0.7228					
GDP Growth		–0.7846						
Development Level			0.8227					
Regulatory Country Attributes								
Rule of Law				0.9741				
Regulatory Quality				0.9700				
Control of Corruption				0.9675				
Corporate Governance				0.9593				
Strength Standards				0.9572				
Protection Minority Shareholders				0.9524				
Government Transparency				0.9461				
Property Rights				0.9295				
Judicial Independence				0.9038				
Efficiency Judicial System				0.7204				
Disclosure Quality				0.4311	0.8193			
Risk of Expropriation				–0.4691				
Cost of Entry				–0.6413	–0.4734			
Disclosure Requirements					0.9155			
Anti-Director Rights					0.8701			
Anti-Self-Dealing Index					0.8341			
Enforcement Environment						0.9166		
Audit Market-Related Country Attributes								
Audit Regulatory Environment							0.8548	
Auditor Litigation Risk							0.8503	
Big 4 Dominance							0.8097	
Big 4 Market Concentration								
Sociological Country Attributes								
Ethics								0.9524
General Trust								0.9319
Secrecy								–0.8944
Eigenvalue	2.803	2.259	1.408	9.574	3.465	1.568	2.241	2.576
Variance	0.311	0.251	0.157	0.563	0.204	0.092	0.560	0.859
Cumulative Variance	0.311	0.563	0.719	0.563	0.767	0.859	0.560	0.859
KMO Criterion		0.677			0.795		0.675	0.725

This table presents the rotated factor loadings of the eight country factors using PCA with orthogonal varimax rotation. For clarity, we report only factor loadings greater than 0.4. All country attributes are defined in Appendix B.1, Panel B.

We detail the resulting factor loadings for all country attributes of our analysis in Table B.3. The economic factor *EF1* shows distinctly significant loadings on variables related to the country's economic wealth such as *GDP per Capita* and *Cost of Living*. *EF2* considers aspects related to the size of firms and the capital market as it is most pronounced for *Analyst Coverage* and *Average Total Assets*. In turn, *EF3* loads highly on *Development Level* and emphasizes

stability by the negative loading of *Inflation*.[33] Concerning the legal conditions in which companies operate, factor *RF1* exhibits high factor loadings for aspects related to the overall strength of a country's regulatory and legal system, e.g., *Rule of Law* and *Regulatory Quality*. The complementary factor *RF2* mainly focuses on shareholder rights such as *Disclosure Requirements* and *Anti-Director Rights*. The last regulatory factor *RF3* considers the strength of enforcement as it is dominated by *Enforcement Environment*. The sole audit market-related factor *AF1* shows high loadings on most attributes, while *Audit Regulatory Environment* and *Auditor Litigation Risk* have the highest factor loadings. Finally, the sociological factor *SF1* is positively driven by aspects concerning ethical behavior (*Ethics*) and trust within a country (*General Trust*) but negatively related to *Secrecy*.

5 Empirical Evidence

5.1 Descriptive Statistics

Table B.4, Panel A summarizes the average number of KAMs and the eight country factors by country. The average number of KAMs disclosed in the audit report varies considerably for our 30 European countries. While auditors in Portugal and the United Kingdom report more than three KAMs on average, auditors in eleven countries disclose less than two KAMs on average. The eight factors also vary substantially between the examined countries. The time trend depicted in Table B.4, Panel B reveals a slightly decreasing number of KAMs over the sample period. In the first three years, firms disclosed an average of more than 2.5 KAMs, while they reported less than 2.3 KAMs in the last three years.

Table B.5 shows the descriptive statistics regarding the KAM disclosure proxies as well as the auditor and client variables used during the main and extended analyses. The average number of KAMs totals 2.418, with a minimum of one and a maximum of eleven disclosed KAMs. Thus, there is substantial variation in the number of KAMs disclosed by the auditor, reflected in a standard deviation of 1.251. Around 25% of reported KAMs (0.638) are new compared to the prior year (*NEWKAMS*). On average, around one-third are entity-level, and two-thirds are account-level KAMs. These figures are comparable to the findings from previous research (e.g., Bepari et al., 2022; Sierra-García et al., 2019). This is also the case for the mean value of *TONE* totaling −0.014 (e.g., Lennox et al., 2023) and the mean *READABILITY*, which is by definition around 0.5 (Küster, 2024; Seebeck & Kaya, 2023). An average KAM, including description,

[33] Note that *Inflation* also plays a minor role in *EF2* and that overlaps in the factors can generally occur (see, e.g., *RF1* and *RF2*). When assessing the underlying concept of these country factors, we focus on the individual factors' unique or strongly weighted attributes.

response, and conclusion, has a length of around 347 words (untransformed *WORDSPERKAM*).[34] English-language KAMs (*ENGLISHKAMS*) are available for more than three-quarters of our observations (75.44%). The median and mean TOEFL writing score (*ENGLISHPROF*) is 23 out of 30. Finally, the descriptive statistics on the control variables are comparable with other studies on KAM disclosure analyzing European data (e.g., Federsel, 2025; Honkamäki et al., 2022; Küster, 2024).

Table B.4: Summary Statistics on the Number of KAMs and Country Factors by Country and Year

Panel A: Average Number of KAMs and Country Factors by Country

Country	*KAMS*	*EF1*	*EF2*	*EF3*	*RF1*	*RF2*	*RF3*	*AF1*	*SF1*
Austria	1.951	0.095	–0.062	0.506	0.826	–1.734	–1.124	–0.983	0.349
Belgium	2.455	0.299	0.417	0.118	0.343	–1.096	1.103	–0.622	–0.224
Bulgaria	1.612	–1.600	0.654	–6.262	–1.653	0.727	0.208	–0.081	–1.750
Croatia	1.710	–1.063	–0.781	0.115	–1.692	0.102	–1.353	–1.031	–1.825
Cyprus	2.153	–1.189	–1.137	0.659	–1.006	0.260	0.312	–0.029	–1.175
Czech Republic	2.250	–1.045	–0.175	0.173	–0.334	0.129	–1.118	–1.708	–1.010
Denmark	1.802	0.642	–0.437	0.286	0.691	–0.298	0.616	–1.092	1.508
Estonia	1.719	–0.582	–1.345	–0.636	0.074	–0.039	0.044	–0.366	–0.315
Finland	2.731	–0.245	0.149	0.290	1.400	0.032	–0.984	–1.156	1.013
Germany	2.308	–0.331	1.375	–0.149	0.476	–1.354	0.886	–0.457	0.092
Greece	2.354	–0.986	–0.076	0.966	–1.815	–1.335	–1.764	–1.664	–1.851
Hungary	1.934	–1.451	–1.425	–0.238	–1.478	–0.384	–1.378	–2.433	–1.236
Iceland	1.825	1.611	–0.933	–0.751	0.388	–0.313	–0.135	–0.346	0.614
Ireland	2.908	0.796	–2.654	0.972	0.122	0.956	–0.194	0.377	0.519
Italy	2.058	–0.572	0.957	0.497	–1.778	–0.325	1.388	0.967	–1.031
Latvia	2.850	–0.611	–1.469	–0.843	–1.084	–0.089	–0.261	–0.570	–0.936
Lithuania	2.323	–0.540	–1.319	–0.754	–0.614	0.162	–0.051	–0.150	–0.646
Luxembourg	2.058	3.481	0.211	–1.128	0.886	–0.415	–0.160	–0.035	0.177
Malta	1.815	–1.259	–2.044	0.737	–0.422	0.166	–0.012	–0.821	–0.720
Netherlands	2.890	0.823	1.148	–0.124	1.041	–0.875	0.099	0.271	0.800
Norway	1.744	2.052	–0.801	–1.839	0.932	0.075	0.434	–0.089	1.055
Poland	2.286	–0.985	–1.647	0.049	–1.124	0.155	–1.174	–0.334	–1.288
Portugal	3.299	–0.960	–0.453	0.646	–1.153	–0.983	0.539	–1.441	–1.533
Romania	1.931	–1.375	–0.078	–3.399	–1.382	0.465	–0.645	–1.667	–2.080
Slovakia	1.429	–1.232	–0.098	–0.042	–0.994	0.174	–0.278	–0.105	–1.542
Slovenia	2.250	–0.900	–0.554	0.091	–0.977	0.262	–0.906	–1.559	–1.469
Spain	2.579	–0.945	1.571	0.251	–0.947	–0.088	0.300	–0.196	–1.004
Sweden	2.004	0.374	–0.567	0.181	0.914	0.203	–1.542	–0.136	1.088
Switzerland	2.120	2.918	0.298	0.782	0.978	–0.257	0.488	0.289	0.767
United Kingdom	3.452	0.223	0.014	0.481	0.230	1.891	0.748	1.905	0.548

Panel B: Average Number of KAMs by Year

Variable	2017	2018	2019	2020	2021	2022	2017–19	2020–22	2017–22
KAMS	2.616	2.509	2.528	2.466	2.251	2.161	2.548	2.294	2.418

This table presents the summary statistics on the average number of KAMs and the eight country factors by country (Panel A) and the average number of disclosed KAMs by year (Panel B). All variables are defined in Appendix B.1, Panel A.

[34] For comparison, Seebeck & Kaya (2023) observe slightly less than 300 words per KAM, while Küster (2024) finds an average of 316 words per KAM.

Table B.5: Descriptive Statistics on the KAM Disclosure, Auditor, and Firm Characteristics

Variable	*n*	Mean	Std. Dev.	25%	50%	75%	Min.	Max.
KAMS	12,038	2.418	1.251	2.000	2.000	3.000	1.000	11.000
ELKAMS	9,081	0.756	0.925	0.000	1.000	1.000	0.000	7.000
ALKAMS	9,081	1.770	0.925	1.000	2.000	2.000	0.000	7.000
NEWKAMS	8,086	0.638	0.893	0.000	0.000	1.000	0.000	9.000
WORDSPERKAM	9,081	5.776	0.384	5.519	5.782	6.037	3.839	7.351
TONE	9,081	–0.014	0.010	–0.020	–0.013	–0.007	–0.091	0.037
READABILITY	9,081	0.505	0.278	0.267	0.513	0.740	0.010	0.990
ENGLISHKAMS	12,038	0.754	0.430	1.000	1.000	1.000	0.000	1.000
ENGLISHPROF	12,038	23.054	0.848	22.000	23.000	24.000	22.000	25.000
NAF	12,038	0.163	0.167	0.019	0.115	0.250	0.000	0.719
BIGFOUR	12,038	0.762	0.426	1.000	1.000	1.000	0.000	1.000
SPECIALIST	12,038	0.419	0.493	0.000	0.000	1.000	0.000	1.000
AUDITCHANGE	12,038	0.089	0.285	0.000	0.000	0.000	0.000	1.000
BUSYSEASON	12,038	0.863	0.344	1.000	1.000	1.000	0.000	1.000
GCO	12,038	0.071	0.257	0.000	0.000	0.000	0.000	1.000
SIZE	12,038	12.990	2.146	11.445	12.866	14.494	8.415	18.254
AGE	12,038	21.091	10.222	13.000	20.000	28.000	4.000	43.000
MTB	12,038	2.903	3.995	0.947	1.771	3.396	–6.003	24.968
CURASSETS	12,038	0.456	0.220	0.287	0.443	0.610	0.046	0.970
INVREC	12,038	0.286	0.185	0.136	0.268	0.405	0.006	0.789
QUICK	12,038	1.401	1.667	0.650	0.957	1.449	0.109	12.048
ROA	12,038	0.034	0.146	0.007	0.051	0.093	–0.764	0.412
LOSS	12,038	0.248	0.432	0.000	0.000	0.000	0.000	1.000
LEVERAGE	12,038	0.257	0.196	0.107	0.233	0.365	0.000	0.962
ACQ	12,038	0.356	0.479	0.000	0.000	1.000	0.000	1.000

This table presents the descriptive statistics regarding the KAM disclosure proxies and the control variables. All continuous variables apart from the KAM disclosure proxies are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix B.1, Panel A.

5.2 Relevance of Country Attributes

This section provides empirical evidence regarding our research question on whether and how country attributes affect KAM disclosure. Table B.6, column (1) presents our base regression model with auditor and firm characteristics as well as industry and year fixed effects but without the country factors.[35] Overall, the signs of the variable coefficients are in line with expectations based on the findings of previous studies.

In Table B.6, column (2), we add country fixed effects to the regression model. We find that country-specific differences explain a considerable extent of the variation in the number of KAMs as the adjusted R^2 increases by 11.36 percentage points from 22.75% to 34.12%. Notably, fewer of the coefficients regarding the auditor and firm characteristics remain significant.

[35] The base regression model is used in Table B.6 to determine the increase of explanatory power induced by the country fixed effects in column (2) and the country factors in column (3). In all further tables, we refrain from reporting the baseline, in which we regress the considered dependent variable solely on the auditor and firm characteristics as well as industry and year fixed effects. For brevity, we only report the increases in adjusted R^2 compared to the specific base models.

Table B.6: Country Factors as Determinants of KAM Disclosure

	Dependent Variable = KAMS								
	(1) Auditor and Firm Characteristics			(2) Country Fixed Effects			(3) Country Factors		
Variable	Coeff.	Robust Std. Err.	p-value	Coeff.	Robust Std. Err.	p-value	Coeff.	Robust Std. Err.	p-value
Auditor and Firm Characteristics									
ENGLISHKAMS	0.0299	0.0440	0.496	–0.0967	0.0439	0.028	–0.0262	0.0438	0.550
NAF	–0.3078	0.0871	0.000	0.0488	0.0798	0.541	–0.0483	0.0838	0.564
BIGFOUR	–0.1973	0.0445	0.000	–0.1346	0.0457	0.003	–0.1957	0.0439	0.000
SPECIALIST	–0.0303	0.0354	0.391	0.0132	0.0316	0.676	0.0413	0.0332	0.215
AUDITCHANGE	0.0213	0.0338	0.529	0.0290	0.0318	0.363	0.0127	0.0326	0.697
BUSYSEASON	–0.5053	0.0631	0.000	–0.1353	0.0600	0.024	–0.1566	0.0594	0.008
GCO	0.5399	0.0674	0.000	0.4859	0.0620	0.000	0.4734	0.0645	0.000
SIZE	0.2036	0.0140	0.000	0.2087	0.0134	0.000	0.2026	0.0135	0.000
AGE	0.0108	0.0020	0.000	0.0075	0.0019	0.000	0.0104	0.0019	0.000
MTB	–0.0066	0.0037	0.075	–0.0034	0.0032	0.293	–0.0046	0.0034	0.174
CURASSETS	0.0149	0.1307	0.909	0.0305	0.1156	0.792	0.0106	0.1212	0.930
INVREC	0.0226	0.1576	0.886	0.1312	0.1402	0.350	0.1216	0.1448	0.401
QUICK	–0.0384	0.0110	0.001	–0.0359	0.0101	0.000	–0.0307	0.0103	0.003
ROA	–0.2222	0.1281	0.083	–0.4095	0.1185	0.001	–0.3365	0.1205	0.005
LOSS	0.2596	0.0403	0.000	0.2331	0.0352	0.000	0.2475	0.0363	0.000
LEVERAGE	0.3576	0.1008	0.000	0.3523	0.0901	0.000	0.4318	0.0935	0.000
ACQ	0.1189	0.0367	0.001	0.1454	0.0324	0.000	0.1272	0.0337	0.000
Country Factors									
EF1							–0.1992	0.0268	0.000
EF2							–0.0304	0.0298	0.306
EF3							0.1623	0.0160	0.000
RF1							0.6084	0.0567	0.000
RF2							0.3404	0.0411	0.000
RF3							0.0818	0.0288	0.005
AF1							0.0651	0.0406	0.109
SF1							–0.5287	0.0593	0.000
Intercept:		Yes			Yes			Yes	
Industry Fixed Effects:		Yes			Yes			Yes	
Year Fixed Effects:		Yes			Yes			Yes	
Country Fixed Effects:		No			Yes			No	
n		12,038			12,038			12,038	
Adj. R²		0.228			0.341			0.309	
Increase Adj. R²					0.114			0.082	

This table presents the results of the cross-sectional OLS regressions focusing on the number of disclosed KAMs. The following regression models are tested: column (1) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{17} \beta_j \, CONTROL_{it} + \sum_{k=18}^{60} \beta_k \, IND_i + \sum_{l=61}^{65} \beta_l \, YEAR_t + \varepsilon_{it}$, column (2) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{17} \beta_j \, CONTROL_{it} + \sum_{k=18}^{60} \beta_k \, IND_i + \sum_{l=61}^{65} \beta_l \, YEAR_t + \sum_{m=66}^{94} \beta_m \, COUNTRY_i + \varepsilon_{it}$, and column (3) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{25} \beta_k \, CONTROL_{it} + \sum_{l=26}^{68} \beta_l \, IND_i + \sum_{m=69}^{73} \beta_m \, YEAR_t + \varepsilon_{it}$. The increase in adjusted R^2 represents the absolute change compared to the base model in column (1). Standard errors are clustered at the firm-level, and the reported p-values are two-tailed. All continuous control variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix B.1, Panel A.

This finding emphasizes the importance of including country attributes when investigating the determinants of KAM disclosure. However, the country fixed effects analysis fails to convey which country-level factors matter.

In Table B.6, column (3), we add our eight country factors to the regression model. We document an increase in the adjusted R^2 by around eight percentage points to 30.94%, corresponding

to a relative increase of more than one third.[36] Thus, our eight country factors enable us to explain approximately three-quarters of the time-invariant country variation.

In our main analysis, six of the eight factors are statistically significant at the 10% level. The economic country factor *EF1* is significantly negatively associated with the number of KAMs. *EF1* encompasses the economic wealth of a country, and attributes such as *GDP per Capita* exhibit high loadings. *EF2*, which covers size aspects of firms and the capital market—the most pronounced variables are *Analyst Coverage* and *Average Total Assets*—is not significantly associated with *KAMS*. At the same time, *EF3* with high loadings for *Development Level* and (inverse) *Inflation* is significantly positively associated with *KAMS*. The coefficient of the regulatory factor *RF1*, capturing the overall strength of a country's regulatory and legal system, is positive and significant. Similarly, *RF2*, describing shareholder rights such as *Disclosure Requirements* and *Anti-Director Rights*, and *RF3*, comprising countries' strength of enforcement (*Enforcement Environment*), are significantly positively associated with *KAMS*. The audit market-related factor *AF1* marginally misses significance (two-tailed p-value of 0.109). Lastly, we observe a negative and significant association of our sociological factor *SF1*—having its most pronounced loadings on *Ethics* and *General Trust*—with *KAMS*.

5.3 Entity-Level, Account-Level, and New KAMs

Our main analysis in Section 5.2 has revealed that country-specific factors are important determinants of the total number of reported KAMs. In the following, we examine whether this is also the case for the number of new KAMs (Lennox et al., 2023) and different categories of KAMs: entity-level and account-level KAMs (Camacho-Miñano et al., 2024; Lennox et al., 2023; Sierra-García et al., 2019).[37]

Account-level KAMs (*ALKAMS*) are defined as the number of KAMs that relate to specific accounts in the financial statement. Entity-level KAMs (*ELKAMS*) concern KAMs that impact the entity as a whole, e.g., governance and internal controls.[38] *NEWKAMS* is defined as the number of disclosed KAMs in the current year that were not disclosed in the audit report of the prior year (Lennox et al., 2023). New KAMs are of particular importance, as they could be more informative than KAMs that were already reported in prior years.

[36] A likelihood ratio test reveals statistical significance of this difference at the 1‰ level (cf. Vuong, 1989).

[37] The number of observations analyzing new KAMs decreases to 8,086 firm years, as the previous year's KAMs are required for the calculation in addition to the English-language topics.

[38] The categorization of our related variables *ELKAMS* and *ALKAMS* is based on prior literature (Camacho-Miñano et al., 2024).

Table B.7: Country Factors as Determinants of Entity-Level, Account-Level, and New KAMs

	Dependent Variable								
	(1) *ELKAMS*			(2) *ALKAMS*			(3) *NEWKAMS*		
Variable	Coeff.	Robust Std. Err.	p-value	Coeff.	Robust Std. Err.	p-value	Coeff.	Robust Std. Err.	p-value
Auditor and Firm Characteristics									
NAF	–0.0286	0.0696	0.681	–0.1841	0.0816	0.024	–0.0118	0.0684	0.863
BIGFOUR	–0.0384	0.0394	0.330	–0.0909	0.0472	0.054	0.0133	0.0341	0.696
SPECIALIST	0.0469	0.0274	0.087	0.0031	0.0311	0.921	0.0174	0.0230	0.448
AUDITCHANGE	0.0335	0.0315	0.289	–0.0052	0.0317	0.869	0.4448	0.0409	0.000
BUSYSEASON	–0.0836	0.0491	0.089	–0.1092	0.0537	0.042	–0.1277	0.0373	0.001
GCO	0.5190	0.0598	0.000	–0.0007	0.0593	0.990	0.3319	0.0596	0.000
SIZE	0.0930	0.0105	0.000	0.1199	0.0121	0.000	0.0645	0.0079	0.000
AGE	0.0051	0.0016	0.001	0.0053	0.0017	0.002	0.0017	0.0012	0.140
MTB	0.0007	0.0030	0.809	–0.0061	0.0035	0.082	–0.0030	0.0027	0.265
CURASSETS	0.0931	0.1085	0.391	–0.0074	0.1201	0.951	0.2151	0.0851	0.012
INVREC	–0.3004	0.1340	0.025	0.3724	0.1448	0.010	–0.0941	0.1055	0.373
QUICK	0.0064	0.0104	0.541	–0.0493	0.0114	0.000	–0.0080	0.0086	0.356
ROA	–0.2136	0.1072	0.046	–0.1341	0.1122	0.232	–0.1837	0.1013	0.070
LOSS	0.1701	0.0346	0.000	0.1271	0.0332	0.000	0.2231	0.0310	0.000
LEVERAGE	0.4824	0.0775	0.000	–0.0378	0.0987	0.701	0.2023	0.0663	0.002
ACQ	0.1699	0.0264	0.000	–0.0336	0.0297	0.258	0.1429	0.0228	0.000
Country Factors									
EF1	–0.0890	0.0212	0.000	–0.1120	0.0256	0.000	–0.0818	0.0159	0.000
EF2	–0.0500	0.0285	0.079	0.0401	0.0344	0.243	–0.0473	0.0208	0.023
EF3	0.0756	0.0181	0.000	0.0835	0.0217	0.000	0.0297	0.0132	0.024
RF1	0.3500	0.0491	0.000	0.3145	0.0565	0.000	0.2803	0.0365	0.000
RF2	0.1783	0.0324	0.000	0.2037	0.0414	0.000	0.0833	0.0241	0.001
RF3	0.0997	0.0224	0.000	–0.0166	0.0277	0.548	0.0430	0.0166	0.010
AF1	0.0915	0.0332	0.006	–0.0622	0.0417	0.136	0.1518	0.0254	0.000
SF1	–0.3383	0.0501	0.000	–0.2471	0.0607	0.000	–0.2484	0.0371	0.000
Intercept:		Yes			Yes			Yes	
Industry Fixed Effects:		Yes			Yes			Yes	
Year Fixed Effects:		Yes			Yes			Yes	
n		9,081			9,081			8,086	
Adj. R^2		0.239			0.178			0.174	
Increase Adj. R^2		0.065			0.040			0.044	

This table presents the results of the cross-sectional OLS regressions focusing on the number of entity-level, account-level, and new KAMs. The following regression model is tested: $KAM\text{-}Variable_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{24} \beta_k \, CONTROL_{it} + \sum_{l=25}^{67} \beta_l \, IND_i + \sum_{m=68}^{72} \beta_m \, YEAR_t + \varepsilon_{it}$. *KAM-Variable* represents three alternative KAM disclosure proxies: *ELKAMS* in column (1), *ALKAMS* in column (2), and *NEWKAMS* in column (3). The auditor and firm characteristics remain the same as in Table B.6, whereby *ENGLISHKAMS* is no longer included as a control variable. The increase in adjusted R^2 represents the absolute change compared to a regression model with auditor and firm characteristics as well as industry and year fixed effects but without the country factors. Standard errors are clustered at the firm-level, and the reported p-values are two-tailed. All continuous control variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix B.1, Panel A.

Columns (1) and (2) of Table B.7 show largely comparable results for the two categories of KAMs. For *ELKAMS* (*ALKAMS*), all eight (five) of the country factors are significantly associated with the dependent variable. Moreover, including the country factors considerably increases the respective adjusted R^2.[39]

[39] For *ELKAMS* (*ALKAMS*), the adjusted R^2 increases by around seven (four) percentage points from 17.36% (13.88%) to 23.88% (17.84%).

Column (3) of Table B.7 reveals that our country factors also affect the number of new KAMs (*NEWKAMS*). Apart from *EF2* and *AF1*, which become statistically significant, the significance and directions of the country factor coefficients regarding *NEWKAMS* remain consistent with those in the main model. The relative increase in adjusted R^2 is also comparable.[40] Thus, country attributes seem to similarly affect the number of KAMs and the disclosure of new KAMs. Consequently, the country factors appear to be persistent determinants of KAM disclosure.

5.4 KAM Writing Style

As a further extension of the main analysis, we consider alternative dependent variables concerning the writing style of KAMs to gain closer insights into the relationship between country factors and KAM reporting. Textual analysis has been an underused method in auditing research (see Bochkay et al., 2023), presumably due to the prior standardized format of audit reports. Against this background, it is especially interesting to investigate whether the writing style of KAM disclosure varies across countries (cf. Abdelfattah et al., 2021) and whether such differences are rooted in institutional divergences.

We explore three further KAM disclosure variables based on textual analysis of the KAM section. First, *WORDSPERKAM* represents the natural logarithm of the total words per disclosed KAM, including description, response, and conclusion (Küster, 2024). Second, *TONE* is the number of positive words minus the number of negative words divided by the total words in the KAM section. Positive and negative words are classified according to the 2023 update to the Loughran and McDonald (2011) word lists (cf. Lennox et al., 2023). Third, *READABILITY* is an aggregated readability measure. According to Seebeck and Kaya (2023), we compute *READABILITY* as the average of the ranked percentiles (1 to 100) of the Gunning Fog Index, the Flesch Reading Ease Score, and the Flesch-Kincaid Grade Level Index. The Gunning Fog Index and the Flesch-Kincaid Grade Level Index are multiplied by minus one to achieve that all components indicate increasing readability (Seebeck & Kaya, 2023).[41]

Table B.8 presents the corresponding results. Column (1) displays the model for KAM length, in which the country factors account for approximately 42% of the explained variance in the dependent variable.[42] Similar to the number of KAMs, *WORDSPERKAM* is associated with our

[40] The adjusted R^2 increases by around four percentage points from 12.98% to 17.41%.

[41] Consistent with our other KAM variables, *WORDSPERKAM*, *TONE*, and *READABILITY* are non-winsorized in the tabulated regressions. However, our results remain virtually unchanged if we winsorize the KAM writing style variables.

[42] The adjusted R^2 increases by almost 15 percentage points from 19.76% to 34.23%.

economic, regulatory, and sociological factors.[43] In addition, the positive coefficient of the audit market-related factor (*AF1*) is significantly different from zero (two-tailed p-value of 0.000).

Table B.8: Country Factors as Determinants of KAM Writing Style

	Dependent Variable								
	(1) *WORDSPERKAM*			(2) *TONE*			(3) *READABILITY*		
Variable	Coeff.	Robust Std. Err.	p-value	Coeff.	Robust Std. Err.	p-value	Coeff.	Robust Std. Err.	p-value
Auditor and Firm Characteristics									
ENGLISHPROF	0.0773	0.0107	0.000	0.0001	0.0003	0.641	0.0248	0.0073	0.001
NAF	0.0198	0.0331	0.550	–0.0010	0.0010	0.315	0.0108	0.0233	0.644
BIGFOUR	0.1828	0.0213	0.000	0.0017	0.0006	0.008	–0.0293	0.0142	0.040
SPECIALIST	–0.0052	0.0121	0.666	–0.0007	0.0004	0.088	0.0091	0.0086	0.291
AUDITCHANGE	0.0193	0.0124	0.120	0.0001	0.0004	0.831	–0.0174	0.0098	0.076
BUSYSEASON	0.0340	0.0184	0.065	0.0008	0.0006	0.188	0.0013	0.0133	0.921
GCO	–0.0538	0.0245	0.028	–0.0021	0.0007	0.004	0.0058	0.0157	0.711
SIZE	0.0389	0.0043	0.000	–0.0001	0.0001	0.572	–0.0226	0.0031	0.000
AGE	–0.0004	0.0006	0.532	–0.0000	0.0000	0.488	–0.0001	0.0005	0.875
MTB	–0.0038	0.0014	0.008	0.0002	0.0000	0.000	–0.0015	0.0009	0.106
CURASSETS	0.0691	0.0540	0.201	0.0030	0.0017	0.070	–0.0401	0.0326	0.218
INVREC	–0.1497	0.0617	0.015	–0.0021	0.0020	0.275	0.0900	0.0419	0.032
QUICK	–0.0124	0.0046	0.007	0.0003	0.0001	0.047	0.0021	0.0030	0.494
ROA	0.0838	0.0516	0.104	0.0014	0.0015	0.370	–0.0205	0.0335	0.541
LOSS	0.0343	0.0120	0.004	–0.0014	0.0004	0.000	–0.0279	0.0091	0.002
LEVERAGE	–0.0376	0.0351	0.284	–0.0029	0.0011	0.013	–0.0007	0.0249	0.977
ACQ	–0.0057	0.0104	0.585	0.0002	0.0003	0.521	0.0177	0.0078	0.023
Country Factors									
EF1	–0.0765	0.0104	0.000	–0.0001	0.0003	0.754	0.0140	0.0076	0.067
EF2	–0.0371	0.0127	0.003	0.0013	0.0004	0.000	0.0194	0.0085	0.023
EF3	–0.0419	0.0100	0.000	0.0008	0.0004	0.024	–0.0203	0.0062	0.001
RF1	0.0496	0.0263	0.060	–0.0001	0.0009	0.949	0.0245	0.0193	0.204
RF2	–0.1384	0.0137	0.000	0.0012	0.0004	0.005	–0.0303	0.0101	0.003
RF3	0.0269	0.0114	0.018	0.0011	0.0004	0.002	–0.0811	0.0082	0.000
AF1	0.1869	0.0146	0.000	–0.0017	0.0005	0.001	0.0224	0.0116	0.054
SF1	–0.1146	0.0248	0.000	–0.0003	0.0009	0.746	0.0882	0.0188	0.000
Intercept:		Yes			Yes			Yes	
Industry Fixed Effects:		Yes			Yes			Yes	
Year Fixed Effects:		Yes			Yes			Yes	
n		9,081			9,081			9,081	
Adj. R^2		0.342			0.078			0.270	
Increase Adj. R^2		0.145			0.020			0.185	

This table presents the results of the cross-sectional OLS regressions focusing on the length, tone, and readability of KAMs. The following regression model is tested: $KAM\text{-}Variable_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{25} \beta_k \, CONTROL_{it} + \sum_{l=26}^{68} \beta_l \, IND_i + \sum_{m=69}^{73} \beta_m \, YEAR_t + \varepsilon_{it}$. *KAM-Variable* represents three alternative KAM disclosure proxies: *WORDSPERKAM* in column (1), *TONE* in column (2), and *READABILITY* in column (3). The auditor and firm characteristics remain the same as in Table B.6, whereby *ENGLISHKAMS* is replaced by *ENGLISHPROF*. The increase in adjusted R^2 represents the absolute change compared to a regression model with auditor and firm characteristics as well as industry and year fixed effects but without the country factors. Standard errors are clustered at the firm-level, and the reported p-values are two-tailed. All continuous control variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix B.1, Panel A.

[43] In contrast to *KAMS*, *WORDSPERKAM* is negatively affected by *EF3* and *RF2*, while *EF2* becomes significant.

For *TONE* (*READABILITY*), five (seven) out of the eight country factors are significantly associated with the dependent variable at the 10% level considering two-tailed p-values (see Table B.8, columns (2) and (3)). By adding the country factors, especially the regression model explaining the *READABILITY* of KAMs experiences a large increase in the adjusted R^2.[44]

5.5 Summary Discussion of Results

Altogether, an auditor's decision on KAM disclosure appears to be associated with this comprehensive set of country attributes. The consistent finding of significant associations for (most of) our eight country factors applies to the number of KAMs and the variety of alternative dependent KAM disclosure variables. In particular, the significance levels and directions of the country factor coefficients regarding the number of total, entity-level, account-level, and new KAMs are widely comparable. Extended analyses demonstrate that the importance of country attributes also translates to the writing style of KAMs. At the same time, examining KAM text provides a more nuanced and diverse perspective. Although many of the country factors significantly influence KAM length, tone, and readability, their impact does not necessarily point in the same direction. For instance, *RF3* emphasizing the strength of enforcement is associated with more, longer, and less readable but more positive KAMs. The audit market-related factor (*AF1*) is significantly associated with only certain KAM types but all aspects of KAM writing, while a higher factor value is accompanied by more detailed and readable, yet more negative KAMs. Consequently, we interpret our findings to indicate a significant but diverging influence of country characteristics on various aspects of KAM disclosure.

Moreover, the considerable explanatory power of country-specific differences regarding the variation of all considered aspects emphasizes the importance of country attributes in the context of KAM reporting. Nevertheless, divergences exist between the various KAM disclosure measures. The relative increase in the adjusted R^2 by including the eight country factors amounts to around one third for *KAMS*, *ELKAMS*, *ALKAMS*, and *TONE*, but is significantly higher for *WORDSPERKAM* and *READABILITY* with approximately 75% and more than 200%, respectively.[45]

[44] For *TONE* (*READABILITY*), the adjusted R^2 increases by around two (18) percentage points from 5.83% (8.51%) to 7.82% (27.00%).

[45] It should be noted that the different percentages are partly due to the different levels of adjusted R^2 in the base regressions. This is also reflected in the comparison with Eierle et al. (2021), who document a 15% increase in adjusted R^2 given the generally high explanatory power of audit fee models. Since Eierle et al. (2021) analyze a fundamentally different sample and, therefore, obtain a deviating number of factors with distinct loadings, the inferences regarding the specific factors are not directly comparable.

In summary, the country-specific characteristics not only influence the various aspects of KAM disclosure in different ways but also are of divergent importance, albeit at a high level, in explaining the variation in KAM reporting.

6 Additional Subsample Analyses

6.1 COVID-19 Pandemic

The sample of this study considers firm years between 2017 and 2022. Therefore, the observations span across years before and after the outbreak of the COVID-19 pandemic. In the years during the pandemic, high levels of uncertainty and restrictions such as stay-at-home orders requiring remote work influenced the audit in general (e.g., Ettredge et al., 2025; Gong et al., 2022; J. Kim et al., 2024) and potentially KAM reporting (e.g., Rainsbury et al., 2023). The diverse country-specific responses to the pandemic could also affect how the country attributes determine the number of KAMs. For this reason, we partition our sample into two groups—before and after March 11, 2020, when the World Health Organization declared the COVID-19 outbreak a pandemic—to examine the persistence of our findings on the relevance of our country factors.

Table B.9, column (1) illustrates that the results of the subsample before the pandemic virtually align with those of the entire sample. Apart from *EF2* and *AF1* turning significant, all other six country factors remain significant and point in the same direction.

Table B.9, column (2) presents the regression results concerning observations on or after March 11, 2020. Again, these findings largely correspond to those of the overall sample. Analogous to the main results, the same six of the eight country factors exhibit significant coefficients in the identical direction. Overall, the sample split demonstrates that the country factors are important determinants of *KAMS* before and throughout the COVID-19 pandemic.[46]

[46] For the Pre-COVID (Post-COVID) period, the adjusted R^2 increases by around seven (nine) percentage points from 21.58% (22.78%) to 28.94% (32.20%) compared to the respective base regression.

Table B.9: Subsample Analyses of Country Factors as Determinants of KAM Disclosure

	Dependent Variable = KAMS									
	(1) Pre-COVID		(2) Post-COVID		(3) Financial Firms		(4) Big 4		(5) Big 4	
Variable	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
Auditor and Firm Characteristics										
ENGLISHKAMS	0.0043	0.935	–0.0478	0.336	–0.1018	0.136	–0.0148	0.782	–0.0185	0.730
NAF	–0.2105	0.038	0.1297	0.218	–0.0294	0.838	–0.0767	0.423	–0.0708	0.460
BIGFOUR	–0.3022	0.000	–0.0999	0.045	–0.0589	0.408				
SPECIALIST	0.0763	0.068	0.0059	0.882	0.0892	0.151	0.0349	0.324	0.0232	0.509
AUDITCHANGE	0.0974	0.055	–0.0594	0.159	0.0263	0.605	0.0074	0.855	0.0173	0.665
BUSYSEASON	–0.0694	0.318	–0.2206	0.001	0.0975	0.268	–0.1463	0.034	–0.1461	0.034
GCO	0.4368	0.000	0.5203	0.000	0.7216	0.000	0.5481	0.000	0.5518	0.000
SIZE	0.2285	0.000	0.1778	0.000	0.1917	0.000	0.2130	0.000	0.2151	0.000
AGE	0.0127	0.000	0.0087	0.000	0.0110	0.001	0.0102	0.000	0.0105	0.000
MTB	–0.0043	0.359	–0.0047	0.195	0.0215	0.120	–0.0108	0.008	–0.0112	0.006
CURASSETS	0.0471	0.764	–0.0112	0.937			0.1497	0.287	0.1763	0.204
INVREC	0.0506	0.782	0.1905	0.260			0.0479	0.777	–0.0077	0.963
QUICK	–0.0289	0.036	–0.0353	0.002			–0.0373	0.002	–0.0399	0.001
ROA	–0.3813	0.011	–0.2873	0.055	0.1297	0.595	–0.4587	0.002	–0.4509	0.002
LOSS	0.2260	0.000	0.2655	0.000	0.3399	0.000	0.2555	0.000	0.2580	0.000
LEVERAGE	0.3705	0.001	0.4710	0.000	0.2724	0.082	0.4382	0.000	0.4414	0.000
ACQ	0.1342	0.002	0.1152	0.004	0.3941	0.000	0.1078	0.004	0.1119	0.003
Country Factors										
EF1	–0.2195	0.000	–0.1801	0.000	–0.0329	0.427	–0.2237	0.000	–0.2314	0.000
EF2	–0.0576	0.097	–0.0068	0.835	0.0096	0.869	–0.0158	0.671	–0.0225	0.545
EF3	0.1526	0.000	0.1716	0.000	0.1362	0.000	0.1645	0.000	0.1704	0.000
RF1	0.6424	0.000	0.5765	0.000	0.3029	0.002	0.6982	0.000	0.6953	0.000
RF2	0.2720	0.000	0.4095	0.000	0.2488	0.000	0.3973	0.000	0.3947	0.000
RF3	0.0703	0.038	0.0948	0.002	0.0449	0.402	0.1248	0.000	0.1268	0.000
AF1	0.1240	0.009	0.0068	0.874	0.0771	0.294	0.0513	0.258	0.0611	0.173
SF1	–0.5156	0.000	–0.5379	0.000	–0.4274	0.000	–0.5679	0.000	–0.5666	0.000
Intercept:	Yes		Yes		Yes		Yes		Yes	
Industry Fixed Effects:	Yes		Yes		Yes		Yes		Yes	
Year Fixed Effects:	Yes		Yes		Yes		Yes		Yes	
Audit Firm Fixed Effects:	No		No		No		No		Yes	
n	5,873		6,165		4,175		9,173		9,173	
Adj. R^2	0.289		0.322		0.322		0.349		0.354	
Increase Adj. R^2	0.074		0.094		0.052		0.095		0.098	

This table presents the results of the cross-sectional OLS regressions focusing on the number of disclosed KAMs for different subsamples. The following regression models are tested: Column (1) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{25} \beta_k \, CONTROL_{it} + \sum_{l=26}^{68} \beta_l \, IND_i + \sum_{m=69}^{71} \beta_m \, YEAR_t + \varepsilon_{it}$ and column (2) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{25} \beta_k \, CONTROL_{it} + \sum_{l=26}^{68} \beta_l \, IND_i + \sum_{m=69}^{70} \beta_m \, YEAR_t + \varepsilon_{it}$ for the subsamples of fiscal years ended before and on or after March 11, 2020, respectively. Column (3) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{22} \beta_k \, CONTROL_{it} + \sum_{l=23}^{25} \beta_l \, IND_i + \sum_{m=26}^{30} \beta_m \, YEAR_t + \varepsilon_{it}$ for the subsample of financial firms. The control variables are the same as in the main analysis, without *CURASSETS*, *INVREC*, and *QUICK*. Column (4) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{24} \beta_k \, CONTROL_{it} + \sum_{l=25}^{67} \beta_l \, IND_i + \sum_{m=68}^{72} \beta_m \, YEAR_t + \varepsilon_{it}$ and column (5) $KAMS_{it} = \alpha_0 + \sum_{j=1}^{8} \beta_j \, COUNTRYFACTORS_i + \sum_{k=9}^{24} \beta_k \, CONTROL_{it} + \sum_{l=25}^{67} \beta_l \, IND_i + \sum_{m=68}^{72} \beta_m \, YEAR_t + \sum_{n=73}^{75} \beta_n \, AUDITOR_{it} + \varepsilon_{it}$ for the subsamples of Big 4 auditors' clients excluding and including auditor fixed effects, respectively. The control variables are the same as in the main analysis, without the Big 4 indicator. The increase in adjusted R^2 represents the absolute change compared to a regression model with auditor and firm characteristics as well as industry and year fixed effects (and audit firm fixed effects in column (5)) but without the country factors. Standard errors are clustered at the firm-level, and the reported p-values are two-tailed. All continuous control variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix B.1, Panel A.

6.2 Financial Firms

As part of the sample selection, we excluded financial firms. In Table B.9, column (3), we examine whether our findings are also valid for these companies.[47] In line with the main analyses, we find a significant increase in the adjusted R^2 by adding our eight country factors to the model. However, the increase of approximately five percentage points to 32.25% is lower than in our main regression. Apart from the already higher adjusted R^2 of 27.04% without considering our eight country factors, generally stricter regulation of European financial firms could be a decisive reason for this attenuated finding.[48] Besides, the associations of our eight country factors with the number of KAMs are similar to the main results, although only four of the eight factors remain significant at the 10% level. Nevertheless, the general tenets of our paper appear to also apply to the financial industry.[49]

6.3 Big 4 Auditor Sample

To further ensure the robustness of our findings, we restrict our sample to clients of Big 4 auditors for two reasons. First, Big 4 auditors exhibit a high degree of standardization and operate internationally. Thus, they might overcome country-specific differences when deciding on KAM reporting. This is less likely to be the case for smaller auditors, who may only operate in a single country. Therefore, the significant influence of the country factors on KAM disclosure could be driven by unobserved characteristics of small auditors. Second, the sample limitation enables the inclusion of auditor fixed effects to address this concern because Audit Analytics provides consistent Europe-wide auditor keys for Big 4 auditors.[50]

The regression results of the Big 4 auditor sample without auditor fixed effects in Table B.9, column (4) are comparable to the main analysis. The absolute increase in the adjusted R^2 of almost ten percentage points from 25.43% to 34.93% is even higher than in the main regression but corresponds to a similar relative increase of around 37%. More importantly, adding auditor fixed effects to the Big 4 sample in column (5) of Table B.9 does not substantially change these

[47] We use the same regression model as displayed in Equation (B.1) but with modified industry dummies and the exception of the control variables *CURASSETS*, *INVREC*, and *QUICK*. These are generally not available for financial firms, which is another reason for the exclusion of financial firms from the main analysis.

[48] In addition, the country factors are optimized for the sample of non-financial firms. A separate PCA tailored to the sample of financial firms would result in seven country factors, resulting in a slightly higher adjusted R^2 of 32.60%.

[49] Moreover, our main inferences are largely unaffected by examining financial and non-financial firms together.

[50] We refrain from including auditor fixed effects in our main regressions because auditor keys regarding non-Big 4 auditors are generally country-specific in Audit Analytics to date.

findings.[51] In sum, the results corroborate the notion that country attributes are relevant determinants of KAM disclosure with considerable incremental explanatory power.

7 Conclusion

The introduction of the expanded audit report represents the most significant change regarding auditor communication in recent decades. Regulation (EU) No 537/2014 and ISA 701 require many auditors in Europe and worldwide to disclose KAMs in the audit report. Numerous studies take advantage of the opportunity to examine this auditor communication channel and investigate the determinants and consequences of KAM disclosure. In this context, country-specific attributes have played a minor role so far. However, there are many calls for research on institutional peculiarities and cross-country studies concerning the expanded audit report (e.g., Bédard et al., 2019; Lennox et al., 2023; Velte & Issa, 2019). We respond to these calls by examining the influence of a comprehensive set of country attributes on KAM disclosure in Europe.

Our findings reveal that the economic, regulatory, audit market-related, and sociological country factors identified by PCA are important determinants of KAM disclosure. Factors capturing general economic development and a strict regulatory environment are positively associated with the number of reported KAMs, while we observe a negative relationship for factors related to wealth and sociological attributes. Furthermore, various aspects of KAM reporting, including the number, types, and writing style of disclosed KAMs, are differently associated with our country factors. Despite notable differences in magnitude, the variation of all examined KAM disclosure measures can be explained to a significant extent by the country factors. Thus, country attributes are key determinants of KAM reporting and should be accounted for in KAM studies considering a multi-country setting. While the focus of our study is to better understand specific cross-country attributes that impact KAM reporting, future studies may choose to use country fixed effects to control for cross-country differences in general.

Our findings are relevant for shareholders, users of financial statements and audit reports, regulators, and related research. Users of financial statements need to be aware of the underlying circumstances of KAM disclosure to make informed decisions. Moreover, we support regulators in understanding country-specific differences in the implementation of expanded audit report regulations. Lastly, our study provides intriguing avenues for future research to widen our knowledge on KAMs, which we discuss further below.

[51] The signs and significance levels of the eight country factors remain unchanged. The adjusted R^2 increases by around ten percentage points from 25.68% to 35.44%.

This study is subject to some limitations. First, it faces data availability issues. Some countries are underrepresented in our sample, which is attributable to the size of the respective equity markets. The above drawback also affects our country attributes. The underlying sources and values are often static or not maintained over the entire sample period. However, country attributes might also remain relatively stable over time. In addition, there are missing values for several smaller countries, so we replace concerning observations with the sample mean instead of excluding related variables or countries (cf. Isidro et al., 2020). This approach is likely to weaken the results, and the nevertheless powerful impact of the country factors demonstrates the relevance of country attributes as determinants of KAM reporting. Additionally, Audit Analytics to date only covers KAM text written in English, which reduces the sample size of our content-related analysis of KAM reporting. Furthermore, the English translations of KAMs in non-English-speaking countries could influence our results on the length, tone, and readability despite controlling for English proficiency.

We focus on the determinants of auditors' KAM reporting behavior. Subsequent studies could investigate the impact of country attributes on the consequences of KAM disclosure on, for instance, audit fees, audit quality, shareholder market reactions, cost of capital, or analyst forecasts. Finally, our study exploits the European setting with similar regulations on KAM reporting and concurrent institutional diversity. Research on an even larger number of countries, including emerging economies, could provide further exciting insights.

Appendix B.1: Variable Definitions

Panel A: Regression Model Variables	
Variable	Definition
KAM Disclosure Variables	
KAMS	The number of key audit matters disclosed in the audit report.
ELKAMS	The number of entity-level key audit matters disclosed in the audit report.
ALKAMS	The number of account-level key audit matters disclosed in the audit report.
NEWKAMS	The number of key audit matters disclosed in the audit report that were not disclosed in the audit report of the prior year.
WORDSPERKAM	Natural logarithm of the total number of words per disclosed KAM, including description, response, and conclusion.
TONE	The number of positive words minus the number of negative words divided by total words in the KAM section of the audit report. Positive and negative words are classified according to the 2023 update to the Loughran and McDonald (2011) word lists.
READABILITY	Aggregated readability measure according to Seebeck and Kaya (2023), computed as the average of the ranked percentiles (1 to 100) of the Gunning Fog Index, the Flesch Reading Ease Score, and the Flesch-Kincaid Grade Level Index. The Gunning Fog Index and the Flesch-Kincaid Grade Level Index are multiplied by minus 1 to achieve that all components indicate increasing readability.
Country Factors	
EF1	First country factor of the economic country attributes identified by PCA.
EF2	Second country factor of the economic country attributes identified by PCA.
EF3	Third country factor of the economic country attributes identified by PCA.
RF1	First country factor of the regulatory country attributes identified by PCA.
RF2	Second country factor of the regulatory country attributes identified by PCA.
RF3	Third country factor of the regulatory country attributes identified by PCA.
AF1	Country factor of the audit market-related country attributes identified by PCA.
SF1	Country factor of the sociological country attributes identified by PCA.
Control Variables	
ENGLISHKAMS	Indicator variable equal to 1 if the firm's audit report is disclosed in English, 0 otherwise.
ENGLISHPROF	Level of English proficiency measured by the mean country-level score on the writing portion of the TOEFL exam.
NAF	Ratio of non-audit fees to total fees.
BIGFOUR	Indicator variable equal to 1 if the firm's auditor is a Big 4 auditor, 0 otherwise.
SPECIALIST	Indicator variable equal to 1 if the auditor is the annual country-level audit fee market share leader in the firm's industry, 0 otherwise.
AUDITCHANGE	Indicator variable equal to 1 if the firm changed its auditor, 0 otherwise.
BUSYSEASON	Indicator variable equal to 1 if the fiscal year ends on December 31, 0 otherwise.
GCO	Indicator variable equal to 1 if the firm received a going concern opinion, 0 otherwise.
SIZE	Natural logarithm of total assets (in thousands of EUR).
AGE	Firm age calculated as years between the first year for which Datastream provides year-end account figures and the current fiscal year.
MTB	Market-to-book value calculated as market capitalization divided by book value of common equity.
CURASSETS	Current assets scaled by total assets.
INVREC	Inventory plus accounts receivable scaled by total assets.
QUICK	Quick ratio calculated as the ratio of cash and equivalents plus accounts receivable to current liabilities.
ROA	Operating income scaled by total assets.
LOSS	Indicator variable equal to 1 if the firm has a negative net income, 0 otherwise.
LEVERAGE	Ratio of total debt to total assets.
ACQ	Indicator variable equal to 1 if the firm is involved in acquisition activities, 0 otherwise.
Fixed Effects Variables	
IND	Set of 43 industry dummies according to the Fama and French 48-industry classification.
YEAR	Set of five fiscal year dummies.
COUNTRY	Set of 29 country dummies.
AUDITOR	Set of three Big 4 auditor dummies.

Appendix B.1 (continued)

Panel B: Country Attributes		
Attribute	Definition	#
Economic Country Attributes		
Analyst Coverage	Average number of analysts following a firm (Kini et al., 2003).	18
Average Total Assets	Natural log of average total assets (in millions of USD) calculated based on Audit Analytics data.	30
Cost of Living	Cost of living index retrieved from Numbeo.	30
Development Level	Economic development level retrieved from World Bank.	30
Earnings Management	Country-level average of absolute abnormal working capital accruals (cf. DeFond & Park, 2001) calculated based on LSEG Eikon data.	30
Foreign Direct Investment	Foreign direct investment scaled by GDP retrieved from World Bank.	30
GDP Growth	Annual GDP growth retrieved from World Bank.	30
GDP per Capita	GDP per capita (in current USD) retrieved from World Bank.	30
Importance Equity Market	Importance of the equity market (La Porta et al., 1997; Leuz et al., 2003).	15
Inflation	Inflation rate retrieved from World Bank.	30
Market Capitalization	Stock market capitalization scaled by GDP retrieved from World Bank.	26
Ownership Concentration	Average percentage of ownership by the three largest shareholders in the ten largest firms in a country (La Porta et al., 1998).	15
Wage Level	Country-level average of labor costs to sales calculated based on LSEG Eikon data.	30
Regulatory Country Attributes		
Anti-Director Rights	Index aggregating shareholder rights (La Porta et al., 1998).	15
Anti-Self-Dealing Index	Index on ex-ante and ex-post private control of self-dealing (Djankov et al., 2008).	26
Book-Tax Conformity	Country-level average of book-tax conformity (Atwood et al., 2010).	13
Control of Corruption	Control of corruption estimate retrieved from World Bank.	30
Corporate Governance	Efficacy of corporate boards index retrieved from World Economic Forum.	30
Cost of Entry	Cost of obtaining legal status to operate a firm as a share of GDP per capita (Djankov et al., 2002).	25
Disclosure Minority Shareholders	Index capturing the extent of disclosure to protect minority shareholders retrieved from World Bank.	30
Disclosure Quality	Total average disclosure index for industrial companies (CIFAR, 1995).	15
Disclosure Requirements	Disclosure requirements index (La Porta et al., 2006).	15
Efficiency Judicial System	Index capturing efficiency and integrity of the legal environment (La Porta et al., 2006).	15
Enforcement Environment	Index capturing enforcement bodies' working environment (P. Brown et al., 2014).	21
Government Transparency	Transparency of government policymaking index retrieved from World Economic Forum.	30
IFRS Adoption	Indicator variable equal to 1 (0.5) if the use of IFRS is required (permitted), 0 otherwise.	30
Investor Protection	Index on the strength of investor protection retrieved from World Economic Forum.	30
IOSCO	Number of years the country's securities regulator has been an IOSCO member.	30
Judicial Independence	Judicial independence index retrieved from World Economic Forum.	30
Legal Origin	Indicator variable equal to 1 if a country's legal origin is common law, 0 otherwise (La Porta et al., 1997).	15
Legal Rights	Legal rights index retrieved from World Economic Forum.	30
Liability Standard	Liability standard index (La Porta et al., 2006).	15
Property Rights	Property rights index retrieved from World Economic Forum.	30
Protection Minority Shareholders	Index on protection of minority shareholders' interests retrieved from World Economic Forum.	30
Regulatory Quality	Regulatory quality estimate retrieved from World Bank.	30
Risk of Expropriation	Assessment of the risk of outright confiscation or forced nationalization (La Porta et al., 1998).	15
Rule of Law	Rule of law estimate retrieved from World Bank.	30
Size Securities Regulator	Securities regulator's staff divided by a country's population (Jackson & Roe, 2009).	21
State Ownership	State ownership retrieved from the Economic Freedom of the World 2023 annual report.	30
Strength Standards	Index on the strength of auditing and reporting standards retrieved from World Economic Forum.	30

Appendix B.1 (continued)

Panel B: Country Attributes (continued)		
Attribute	Definition	#
Audit Market-Related Country Attributes		
Audit Regulatory Environment	Quality of the public company auditors' working environment (P. Brown et al., 2014).	21
Auditor Litigation Risk	Natural log of the level of litigiousness (Wingate, 1997).	15
Big 4 Dominance	Difference between the market share of the smallest Big 4 auditor and the largest non-Big 4 auditor calculated based on Audit Analytics data.	30
Big 4 Market Concentration	Herfindahl index based on total client sales audited by each Big 4 auditor calculated based on Audit Analytics data.	30
Big 4 Share	Share of clients audited by a Big 4 auditor calculated based on Audit Analytics data.	30
Sociological Country Attributes		
Civic Morality	Level of societal civic cooperation or "trustworthiness" calculated based on World Values Survey data (cf. Knechel et al., 2019).	26
Ethics	Corporate ethics index retrieved from World Economic Forum.	30
General Trust	Proportion of respondents agreeing "most people can be trusted" retrieved from World Values Survey.	26
Secrecy	Cultural measure for secretive behavior, i.e., the sum of uncertainty avoidance and power distance less individualism (Hofstede, 1980).	

The appendix presents the definitions of the variables used in the regression models (Panel A) and the country attributes considered for the PCA as well as the number of countries (#) with available data (Panel B).

Part C:

Fresh-Look Effect of Audit Firm and Audit Partner Rotations? Evidence from European Key Audit Matters

ABSTRACT

Many countries worldwide mandate the rotation of audit partners or audit firms to reinforce independence and professional skepticism. The European Union is a rare instance requiring audit firm and audit partner rotation simultaneously. By analyzing 6,103 firm-year observations of non-financial firms from 29 European countries between 2018 and 2022, this study finds that audit firm rotations are associated with considerable changes in key audit matters, suggesting the existence of a fresh-look effect. In contrast, audit partner rotations appear to induce only limited variations in the key audit areas. Additional analyses reveal that the results are consistent across mandatory and voluntary rotations. Collectively, the findings suggest that audit firm rotations enable auditors to overcome institutional pressures toward standardization within audit firms, while practical considerations such as the requirement of gradual rotation mechanisms within audit firms might limit individual audit partners' influence. This study adds to the inconclusive literature on the effects of (mandatory) audit partner and audit firm rotations. Further, the results contribute new insights into the consequences of the EU audit reform that has introduced mandatory audit firm rotation and provide evidence in favor of audit firm rotation requirements for other regulators.

Keywords: Key audit matters; Fresh look; Audit firm rotation; Audit partner rotation; Auditor change; Auditor switch

JEL-Classification: M41; M42; M48

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1 Introduction

The purpose of auditing is to ensure that financial statements do not contain any material misstatements. Auditors constitute an important intermediary, as many stakeholders rely on the audited information (Watts & Zimmerman, 1986). However, despite the benefits of acquiring client-specific knowledge, long audit firm and audit partner[52] tenure may lead to overfamiliarity with the auditee and result in less critical appraisal. Similar audit strategies, over time, pose the risk of missing novel irregularities and could enable management to predict the auditor's actions and obscure misstatements (Lennox & Wu, 2018). Moreover, relationships with the audited company might emerge over time and impair auditor independence (Carey & Simnett, 2006).

Audit firm and audit partner rotations could represent a mechanism to overcome these issues and lead to a fresh look[53] at the audit, which might, in turn, be associated with advantages such as improved audit quality (e.g., Corbella et al., 2015; Horton et al., 2021). A new audit partner is neither familiar with the management nor tied to the previous audit and, therefore, needs to independently set up the audit strategy and audit procedures from anew. The potential fresh-look effect of diverging judgments and focus areas compared to the previous audit partner (e.g., Favere-Marchesi & Emby, 2005) could allow for the detection of novel issues and prevent the prediction of the audit partner's actions. At the same time, i.a., gradual rotation mechanisms, shadowing practices of the new audit partner, or isomorphic pressure towards standardization within audit firms could prevent a fresh-look effect of audit partner rotations (e.g., DiMaggio & Powell, 1983; Gipper et al., 2021).

Audit firm rotations provide another avenue to reinforce a fresh look at the audit. As a completely new audit team takes over the audit, the impact might even surpass that of audit partner rotations. Moreover, audit firm rotations could overcome standardization within the same audit firm and lead to new assessments. Conversely, standardization could span across different audit firms and mitigate a new perspective on the audit. Furthermore, new audit firms might be inclined to maintain the focal areas from their predecessor, especially because new mandates are particularly challenging (e.g., Cameran et al., 2015). Thus, it is ex-ante unclear whether audit firm and audit partner rotations are associated with a fresh look. This study analyzes changes in key audit matter (KAM) disclosure to determine whether a fresh look at the audit is realized.

[52] In the following, I refer to the responsible engagement partner as the audit partner for brevity.

[53] The term "fresh look" is frequently used in the auditing literature (e.g., Kuang et al., 2020; Laurion et al., 2017) and dates back at least to the Senate testimony of Pitt (2002), according to Gipper et al. (2021).

Many regulators worldwide adopted audit partner or—less frequently—audit firm rotation requirements after corporate scandals to ensure an independent and fresh look (Ewelt-Knauer et al., 2013b; Lennox, 2014). However, prior literature is scarce and finds mixed evidence on the impact of (mandatory and voluntary) audit partner and audit firm rotations (e.g., Ewelt-Knauer et al., 2013a; Lennox & Wu, 2018). For instance, Horton et al. (2021) represent one rare exception by analyzing Italy's mandatory internal and external rotation regime[54] and find that only audit partner rotations lead to improved audit quality. In contrast, Duboisée de Ricquebourg and Maroun (2023) note that changes in KAM disclosure in South Africa are only attributable to audit firm rotations, while audit partner rotations have no effect. Therefore, further corroboration is necessary, particularly in a cross-country setting (Velte & Loy, 2018).

In the European Union (EU),[55] key audit partners are permitted to audit the same company for a maximum of seven years, while some member states impose even shorter internal rotation regulations through derogation (EU, 2014b; European Commission, 2022). In contrast to many other countries—such as the U.S., where cost-benefit concerns prevail (U.S. House of Representatives, 2013)—the EU also mandates the rotation of audit firms in addition to the audit partner rotation regime. Audit firms are obligated to terminate an engagement after a maximum tenure of ten years, while extensions by public tendering or joint audits are possible. Member states are entitled to prescribe shorter tenure durations while transitional rules are in place.

Mandatory audit firm rotation for public-interest entities was introduced in the EU as part of the extensive EU audit reform approved in 2014. In the aftermath of the financial crisis, several regulatory steps were undertaken, i.a., to strengthen auditor independence and elevate professional skepticism, promote competition between auditors, and increase auditors' transparency (Willekens et al., 2019). Among these amendments, the requirement to disclose the most significant matters of an audit marked a significant change from the previous standardized pass-or-fail format in an effort to increase the informative value of the audit report (e.g., Mock et al., 2013). Auditors must determine KAMs from the matters discussed with those charged with governance that required significant auditor attention and—in their professional judgment—were of most significance. Therefore, KAMs offer valuable insights into the audit process and could reveal different focal points of an audit and, consequently, whether a fresh-look effect of internal and external rotations exists.

[54] In the following, I use the terms audit partner and audit firm rotation and internal and external rotation interchangeably.

[55] Iceland, Liechtenstein, and Norway follow EU regulations closely as they form the European Economic Area (EEA) with the EU member states (EFTA, 2023). Therefore, I include Iceland, Liechtenstein, and Norway in the following when referring to EU regulations, when applicable.

For this reason, I investigate KAM reporting to answer the following two research questions: *(1) Are audit partner rotations associated with a fresh look at the audit? (2) Are audit firm rotations associated with a fresh look at the audit?* I analyze a sample of non-financial firms from 26 EU countries, the (former) EU member United Kingdom, Iceland, and Norway between 2018 and 2022, that provides a rare setting with simultaneous mandatory internal and external rotation requirements. Based on these 6,103 firm-year observations, I consider the number of KAMs as well as five variables—the number of new, retained, and omitted KAMs, the overall change, and the percentage of new KAMs—that capture the differences in KAM disclosure (e.g., Bédard et al., 2019; Duboisée de Ricquebourg & Maroun, 2023).

The results show that audit firm rotations are associated with a fresh-look effect as the various KAM variables document a consistent and pronounced increase in diverging KAM topics in periods of audit firm changes. In contrast, the fresh-look effects of audit partner rotations are limited as only marginal changes to KAM disclosure exist, suggesting a necessity of audit firm rotations to overcome standardization and the similarity of engagement teams and to reinforce a new perspective. Further analyses demonstrate that the results are not susceptible to alternative sample restrictions. Moreover, the overall inferences remain unchanged when differentiating between mandatory and voluntary audit firm and partner rotations. Additionally, I find indications that longer tenure leads to fewer novel KAM disclosures as fresh-look effects are restricted to the year of a rotation. Lastly, a fresh look materializes irrespective of the direction or timing of audit firm rotations.

This study contributes novel insights to the inconclusive literature on the effects of audit partner and audit firm rotations. As one of few articles, it analyzes KAM disclosures that allow for directly observing the focal points of an audit and, thus, whether a fresh-look effect at the audit is associated with internal and external rotations. The findings suggest that audit firm rotations are associated with significantly different KAM topics, while the implications of audit partner rotations are limited. Therefore, the fresh-look effects of an independent and new perspective may mainly arise with audit firm rotations. This result contributes to the longstanding debate among regulators on whether mandatory audit firm rotations should be introduced (cf. Lennox, 2014).

This article extends prior studies that consider KAM disclosure in the context of audit firm and audit partner rotations over a shorter period and in a single country. In particular, I add to the few studies that simultaneously focus on internal and external rotations to determine their effects on KAM reporting. Duboisée de Ricquebourg and Maroun (2023) analyze audit reports in South Africa between 2018 and 2020, Chen et al. (2023) examine audits in China for the

period 2016 to 2020, and Mwintome and Alon (2023) consider Norwegian audits from 2016 until 2019. In contrast to these studies, I investigate the effects of audit firm and audit partner rotations over an extensive period (2018–2022)—beginning with the implicit reference year for most of the KAM metrics at the start of the mandatory KAM reporting requirement in 2017—and for a larger sample with observations from 29 European countries. The large-scale evidence from multiple countries with institutional and cultural diversity (cf. Federsel & Hörner, 2025) delivers a comprehensive overview of the effects of internal and external rotations.

Lastly, this study provides timely information for the review of the effects of the EU audit reform that introduced mandatory audit firm rotation and KAM disclosure (European Commission, 2022). The findings of a fresh-look effect of audit firm rotations and the limited impact of audit partner rotations speak to the EU's decision to introduce external rotation requirements in addition to the preexisting internal rotation rules to strengthen auditor independence and elevate professional skepticism (Willekens et al., 2019).

The remainder of the paper is structured as follows: Section 2 describes the theoretical background and the regulatory setting. Section 3 discusses the prior literature and develops the research questions. Section 4 introduces the research design and sample. Section 5 presents the main results. Section 6 comprises additional analyses, while Section 7 concludes.

2 Theoretical Background and Regulatory Setting

2.1 Theoretical Background on Internal and External Rotations

Mandatory rotation of audit partners or audit firms (cf. Keyser, 2021) is associated with a multitude of potential advantages and drawbacks. One key argument in favor of (mandatory) rotation is that a new audit firm or audit partner considers a client with a new perspective. Fresh-look effects arise as the incoming audit firm or audit partner (Gipper et al., 2021) is not entangled with audit procedures or the risk assessments of the prior year. Similar audit strategies, over time, pose the risk of missing novel irregularities and could enable management to predict the auditor's actions and obscure misstatements (Lennox & Wu, 2018). Consequently, a new audit firm or partner critically determines the audit strategy without suffering from potential overfamiliarity with the audited company or "organizational blindness" (Velte, 2012).

Furthermore, rotations constitute a mechanism to reinforce independence and overcome close personal relationships between the audit firm or partner and the client firm. Longer tenure durations might result in the establishment of close personal relations that may lead to more trust in management and lower auditor skepticism (Patterson et al., 2019).

Besides, an upcoming audit firm or partner rotation could incentivize the incumbent auditor to increase the audit effort. Since the incoming auditor will apply a fresh perspective, the fear that past shortcomings could become apparent might result in a more thorough review by the outgoing auditor (Lennox, 2014). However, the departing auditor might also exert less effort on a terminating mandate and focus on other clients (Winn, 2021).

Moreover, limited tenure of audit firms caused by rotation could limit the auditor's dependence on the fees of that client and increase economic independence. Consequently, the auditor might acquiesce less to client pressure as the earned fees related to the mandate will terminate anyhow (Friedrich et al., 2023).[56] Lastly, mandatory audit firm rotation could lead to greater competition (and higher audit quality), for instance, as purported by the EU (Willekens et al., 2019). At the same time, greater competition could exacerbate lowballing in the audit market, potentially resulting in less audit effort and lower audit quality (Lennox, 2014).[57]

Opponents of mandatory rotations argue that rotations produce significant costs for companies. These include, for instance, holding a "beauty contest" (e.g., Dodgson et al., 2020) with potential new audit firms and familiarizing the new audit partner or firm with the peculiarities of the company. Interrelatedly, a long-tenured auditor accumulates firm-specific knowledge. In contrast, a new audit firm or audit partner lacks such information, which could result in lower audit quality in the initial years (e.g., Gipper et al., 2021). Lastly, the ex-ante limited tenure due to rotations might prevent audit firms or audit partners from gaining firm-specific information since the time to profit from the knowledge is constrained (Lennox, 2014).

2.2 External Rotation

The extensive EU audit reform adopted in 2014[58] introduced mandatory audit firm rotation to "reinforce the independence of statutory auditors and […] professional skepticism" (EU, 2014b). The requirement of external rotation marks a substantial modification of auditing regulation in the EU, diverging from most countries worldwide that do not specify mandatory audit firm rotation (Garcia-Blandon et al., 2020). Italy presents one of the few exceptions, as external rotation rules have been in place for listed companies since 1975 (Cameran et al., 2015). Moreover, i.a., Austria, the Czech Republic, and Spain (cf. Carrera et al., 2007) required audit firm rotation in the past but soon abandoned it (Ewelt-Knauer et al., 2013b; Lennox, 2014). Besides,

[56] Note, however, that a (short) maximum tenure could also lower independence and amplify client-pleasing behavior (Dordzhieva, 2022).
[57] Though, Cho et al. (2021) find that (future) audit quality is not impaired by lowballing of auditors.
[58] The EU audit reform consists of the directly binding Regulation (EU) No 537/2014 and the Directive 2014/56/EU that needs to be integrated into the national law of the member states.

few other European countries mandated audit firm rotation for financial institutions and insurance companies only.

According to Article 17 of Regulation (EU) No 537/2014, public-interest entities should be audited by the same audit firm for no longer than ten years. The same audit firm is eligible again after a cooling-off period of four years. Additionally, member states may impose even shorter audit engagement durations. At the same time, member states can extend the maximum audit firm tenure to up to 20 years in case of a public tendering process or to at most 24 years for joint audits. These options have been exercised differently in most countries, leading to a wide range of maximum audit firm tenure (Accountancy Europe, 2022).

Moreover, Article 41 of Regulation (EU) No 537/2014 specifies staggered transitional provisions based on auditor tenure at the date of entry into force of the regulation (June 16, 2014). In case of 20 or more consecutive years, the audit firm may not be engaged for financial years starting on or after June 17, 2020. For the audit firm tenure ranging between 11 and 19 years, the auditor is not permitted to extend the engagement for financial years starting on or after June 17, 2023. For all audit firms with 10 or fewer consecutive years of tenure, the regular external rotation regulations apply, except that ongoing audit engagements may be renewed for financial years starting before June 16, 2016, even if it leads to surpassing the 10-year maximum tenure. Overall, public-interest entities in the EU must rotate their auditors at the latest for financial years ending in June 2024 if no tender or joint audit extension applies.

2.3 Internal Rotation

In addition to the external rotation regime, the EU requires the internal rotation of key audit partners responsible for carrying out a statutory audit to ensure independence. Article 17 of Regulation (EU) No 537/2014 mandates that key audit partners should oversee the same firm for a maximum of seven years. Member states may also impose shorter engagement durations, resulting in heterogeneity across countries (European Commission, 2022). Although key audit partner rotation has already been demanded with Directive 2006/43/EC, the EU audit reform increased the cooling-off period from two to three years. Key audit partner(s) comprise the auditor(s) primarily responsible for carrying out the audit—in case of a group audit both at the group level and material subsidies—as well as auditors signing the audit report (EU, 2006). Audit firms should designate at least one key audit partner to the mandate who should also be actively involved in carrying out the audit (EU, 2014a). Internal rotation should be undertaken in a gradual rotation mechanism involving the most senior personnel involved in the audit in

addition to the key audit partners (EU, 2014b). According to the Committee of European Auditing Oversight Bodies (2019), this encompasses audit team members participating in the mandate's direction, review, and supervision. Moreover, all registered statutory auditors involved in the audit are considered, irrespective of their role in the audit.[59]

Besides, audit firms are obliged to install an engagement quality control reviewer (EQCR) for public-interest entities, which is also subject to the internal rotation requirements in most member states (EU, 2014b). The EQCR should not be involved in the performance of the audit to ensure an independent appraisal. The review specifically includes the assessment of the KAM disclosure and its appropriateness.

2.4 Key Audit Matters

Over many decades, the independent auditors' report was stated in a pass-or-fail format, offering little information on the audit process. After the financial crisis, many regulators worldwide mandated expanded auditor reporting to increase the informational value of the audit report, enlarge the scrutiny of auditors and management, and intensify communication between auditors and financial statement users (Minutti-Meza, 2021).

In the EU, expanded auditor reporting was introduced for public-interest entities as part of the comprehensive EU audit reform in 2014 for all financial years starting on or after June 17, 2016 (EU, 2014b). While the EU regulation virtually aligns with the international ISA 701 on KAM reporting, it became effective later as ISA 701 corresponds to financial years beginning on or after December 16, 2015 (IAASB, 2015). Before international expanded auditor reporting was finally legislated, some countries in the EU adopted their own regulations. For instance, France established the Justifications of Assessment as early as 2003 (Bédard et al., 2019). The U.K. and Ireland required the disclosure of the most significant risks of material misstatement starting in 2013 (FRC, 2013). In the Netherlands, the comparable regulation Standaard 702N became effective in 2014 (Sneller et al., 2017).

Article 10 of Regulation (EU) No 537/2014 states that the statutory auditors of public-interest entities should describe the most significant assessed risks of material misstatement, the auditors' response, and, if relevant, key observations relating to those risks in the audit report. The EU standards closely follow the international ISA 701 specifications. According to ISA 701.9–10, the auditors should determine KAMs in a three-step process.

[59] The rotation requirements concerning statutory auditors without a leading role in the audit engagement might, however, be interpreted less strictly (e.g., IDW, 2022).

First, all issues discussed with those charged with governance should be considered. Second, only those matters requiring significant auditor attention should be further taken into account. Indications of significant attention include higher risks of material misstatement, high levels of judgment and uncertainty, and significant events or transactions. In the final step, KAMs are selected as the matters of most significance according to the auditor's professional judgment (ISA 701.8). As KAMs reflect the focal points of an audit, they could also offer insights into whether a fresh-look effect is associated with (internal and external) rotations.

3 Prior Literature and Research Questions

3.1 Prior Literature on External and Internal Rotation

An extant literature analyzes the effects of audit firm and audit partner rotation. In their literature reviews, Ewelt-Knauer et al. (2013a) and Velte and Loy (2018) identify mixed results on the consequences of audit *firm* rotations and note that many articles examine tenure effects instead of rotation effects directly.[60] The few studies specifically examining the effects of audit firm changes—and the tenure studies implicitly considering audit firm changes—comprise mandatory and voluntary audit firm rotation settings. However, voluntary audit firm changes could occur due to the client firm's inherent incentives, for instance, disagreements between the auditor and the company or opinion shopping (Bleibtreu & Stefani, 2021). Therefore, the implications of voluntary audit firm changes may not easily translate to mandatory audit firm rotations.

For this reason, I will focus on prior studies in mandatory audit firm rotation settings. As mandatory audit firm rotation is not or has not been required in many countries, the prior literature mainly analyzes a few countries (Italy, Spain, and South Korea), whereas other countries are increasingly considered (e.g., Harber & Maroun, 2020; Indyk, 2019; Kamarudin et al., 2022; Polychronidou et al., 2020).

Ruiz-Barbadillo et al. (2009) examine a Spanish sample, where mandatory audit firm rotation was initially announced but repealed before becoming effective. They find that auditors do not possess a higher likelihood of issuing a going concern opinion in a setting where they anticipate mandatory audit firm rotation requirements. In Italy, where a rotation requirement has existed for many years, Corbella et al. (2015) similarly find that audit quality is not affected by audit firm rotations between the Big 4, while rotations between non-Big 4 auditors lead to increasing

[60] For instance, longer audit firm tenure is associated with lower audit quality in some studies (e.g., Singer & Zhang, 2018), whereas other analyses find positive effects attributable to firm-specific knowledge of the audited company (e.g., Garcia-Blandon et al., 2020) or no evidence (e.g., Knechel & Vanstraelen, 2007).

audit quality. In contrast, Cameran et al. (2015) document a lower audit quality in the first years after rotation while the engagement hours of the audit firms significantly increase. Cameran et al. (2016) discover that mandatory audit firm rotation might lead the departing audit firm to increase audit quality. Conflicting results are also observed in South Korea as Kwon et al. (2014) document no impact of mandatory auditor rotation on audit quality, whereas H. Kim et al. (2015) notice a fresh-look effect in terms of going concern opinions and higher audit quality compared to voluntary switches. Friedrich et al. (2023) provide an interesting research setting as they shed light on the anticipatory effect of mandatory audit firm rotation in Germany. They find lower levels of various accruals measures for first-year audits of smaller public companies, arguing that auditors are incentivized to provide high-quality audits to increase reputation and attract future clients.

Moreover, multiple surveys and experiments are conducted to better understand the implications of mandatory audit firm rotations on practice. For instance, Aschauer and Quick (2018) identify that mandatory audit firm rotations are generally perceived as beneficial, whereas Quick and Schmidt (2018) find no effect of audit firm rotations overall but identify that a shorter tenure of ten years leads to higher perceived independence than a tenure of 24 years. De Jong et al. (2020) also record that the initial critical view on mandatory audit firm rotations has reversed over time, while first-year audits might be more error-prone.

Similar to the literature on the effects of audit firm rotations, prior research on audit *partner* rotations is scarce, delivers ambiguous results on its consequences, and occasionally considers audit partner tenure instead of directly investigating audit partner rotations (Velte & Loy, 2018). In their literature review, Lennox and Wu (2018) explain that missing requirements to disclose audit partner names have led to a focus on samples from, i.a., China, Australia, and Taiwan, where such information is available. Besides, an increasing number of articles examine the U.S. setting where such disclosures have recently become mandatory.

The evidence concerning mandatory audit partner rotation regimes is also mixed. Litt et al. (2014) discover lower financial reporting quality in the first two years after mandatory audit partner rotation for the U.S. setting. Kuang et al. (2020) find no positive effect on audit quality but a higher likelihood of misstatements after mandatory partner rotations. In contrast, Laurion et al. (2017) detect fresh-look effects after mandatory partner rotation as the frequency of misstatements remains unchanged while the frequency of restatement discoveries and announcements increases. Gipper et al. (2021) document that audit quality does not decline over the tenure cycle and provide little support for the fresh-look advantages of mandatory audit partner

rotation. Krishnan and Zhang (2019) conclude that equity investors perceive higher audit quality after mandatory audit partner rotation. Finally, Winn (2021) experimentally determines that outgoing audit partners exert less effort before audit partner rotations, though this effect is mitigated by stronger enforcement scrutiny.

For China, Lennox et al. (2014) find higher audit quality in the last year of the departing and the first year of the incoming auditor. Firth et al. (2012) also identify a higher propensity to issue a modified audit opinion after audit partner switches in less developed regions, underpinning a fresh look. In the Taiwanese environment, however, Chi et al. (2009) do not discover an influence of mandatory audit partner rotation on audit quality. Lin and Yen (2022) find no effect overall but less discretionary accruals after mandatory audit partner rotation if KAM disclosure changes as well. Lastly, Hamilton et al. (2005) also detect higher levels of conservatism following mandatory audit partner rotations for an Australian sample.

Horton et al. (2021) constitute one rare exception in the literature that specifically considers direct evidence on a regime with mandatory audit firm *and* mandatory audit partner rotations. Under the Italian "dual mandatory auditor rotation" rule, they find no incremental effect of mandatory audit firm rotations. Instead, the higher audit quality in the dual rotation system is attributable to mandatory partner rotation. At the same time, a recent study commissioned by the EU also documents some perceived benefits by audit committee members associated with simultaneous mandatory audit firm and partner rotation requirements (European Commission, 2022, p. 138 f.).

Altogether, a "material research gap" exists on the effects of audit firm and audit partner rotations, whereas the regulatory amendments in the EU offer a particularly interesting research setting, especially in a comprehensive cross-country analysis (Velte & Loy, 2018). Thereby, KAM disclosure offers a new angle on the effects of mandatory audit firm and audit partner rotations.

As KAM disclosure in the audit report presents the primary or, in some cases, the only occasion for the auditor to discuss its work publicly, there is a growing number of articles examining the determinants (e.g., Bepari et al., 2022; Federsel & Hörner, 2025), consequences (e.g., Burke et al., 2023; Lennox et al., 2023), and textual properties of KAMs (e.g., Küster, 2024; Seebeck & Kaya, 2023). However, the evidence on the topical content of KAMs in relation to audit partner and audit firm changes is scarce. For instance, Brilakis and Demirakos (2022) document an increase in the number of KAMs after audit firm rotations in the U.K. Lin and Yen (2022) detect

a higher likelihood of different KAM disclosures after audit partner rotations in Taiwan. Regarding studies incorporating audit partner and audit firm rotations simultaneously, Rousseau and Zehms (2024) find that auditors' KAM reporting on new mandates in the U.K. follows that of ongoing clients and that the convergence effect is more pronounced for the same audit partners than for the identical audit firm. Mwintome and Alon (2023) suggest that audit firm rotation does not affect the number of KAMs, while audit partner changes lead to fewer KAMs for listed Norwegian companies. Chen et al. (2023) identify that only audit firm rotation is linked to more novel KAMs. Finally, Duboisée de Ricquebourg and Maroun (2023) determine that audit firm rotation in South Africa is associated with significantly more new and fewer KAM topics from the prior year, while they do not find an effect for audit partner changes.

3.2 Research Questions

An audit partner rotation results in a new audit partner from the same audit firm taking over a current mandate. Within the professional standards of auditing, new audit partners possess large degrees of freedom on how the audit is conducted. Therefore, they are crucial to various audit outcomes (e.g., Cameran et al., 2022). Notably, Horton et al. (2021) discover that the advantages of the dual rotation regime in Italy with mandatory audit partner and audit firm rotations are exclusively attributable to audit partner rotations. As the newly engaged audit partner is "not wedded to prior audit procedures" (Gipper et al., 2021), the incoming audit partner can take an independent view of the client firm and realize fresh-look effects by rebuilding audit strategy and audit procedures. Thereby, new audit partners may overcome similar audit strategies over time, which pose the risk of missing novel irregularities and enabling management to obscure misstatements (Lennox & Wu, 2018). Moreover, a new audit partner has not established a personal relationship with management, which might otherwise compromise skepticism and a fresh and independent look. In addition to how the audit is organized, the fresh look can lead the new audit partner to divergent judgments (e.g., Favere-Marchesi & Emby, 2005; Tan, 1995).

At the same time, the fresh-look effects associated with an audit partner rotation could be limited. Public-interest entities, in particular, demand significant auditor attention and working hours, requiring an elaborate audit engagement team, for instance, consisting of in-house specialists (Zimmerman et al., 2023). In this context, the middle management within audit teams constitutes an important driver of audit outcomes (Aobdia et al., 2024). Moreover, audit firms might assign multiple auditors to the same client. In Germany, for example, two auditors commonly sign the audit report (Downar et al., 2021). Additionally, EQCRs mandatorily have to

review the audit of public-interest entities in Europe (Art. 8, EU, 2014b). Therefore, despite its important role, a change of the audit partner could be of minor influence.

Besides, Article 17.7 of Regulation (EU) No 537/2014 prescribes that the internal rotation requirements should be executed on a gradual basis. Consequently, most of the audit team members will likely remain the same when the audit partner rotates. In this regard, some audit firms might facilitate the transition with a "shadowing" strategy where the incoming audit partner receives time to prepare for the mandate and learn from the outgoing audit partner (Dodgson et al., 2020; Gipper et al., 2021).

Furthermore, audit firms are important sites of standardization (Cooper & Robson, 2006). As such, they develop internal guidelines and best practices and train their employees accordingly to promote internal consistency. The institutional theory suggests that the pressure toward homogenization is especially pronounced under uncertainty (DiMaggio & Powell, 1983). Therefore, new audit partners might be inclined to follow their predecessor auditor closely. This is of particular relevance since internal rotations allow the new audit partner to access the entire documentation of the company's past audits by the audit firm (Bamber & Bamber, 2009). The opposing arguments on the effects of audit partner rotations lead to the following research question:

RQ C1: *Are audit partner rotations associated with a fresh look at the audit?*

Audit firm rotations provide another avenue to reinforce auditor skepticism and a fresh look. Its impact could potentially surpass that of audit partner rotations. Audit partner rotations usually only lead to a minor turnover of the persons involved in a mandate, whereas audit firm rotations result in an entirely new audit team. Therefore, audit firm rotations are able to overcome, i.a., independence issues rooted in the audit firm culture and not only at the audit partner level (Bamber & Bamber, 2009). Similarly, the deliberate "shadowing" process within some audit firms to ease the transition from one audit partner to another does not apply and allows for an entirely unbiased appraisal. For instance, Gipper et al. (2021) note in their U.S.-based study that fresh-look effects, in terms of audit quality, only manifest in the case of a new audit team.

Moreover, audit firm rotations pose a mechanism to overcome the standardization within audit firms. Audit firms face high levels of uncertainty and judgment, while litigation and reputation risks are high. Therefore, they are keen to establish standardization and homogenization, e.g., through a common audit approach and audit procedures (DiMaggio & Powell, 1983). Audit

firm rotations enable the break-up of these internal guidelines and give rise to another perspective, audit methodologies, and audit procedures (Bamber & Bamber, 2009). For example, Duboisée de Ricquebourg and Maroun (2023) show that KAMs significantly change after audit firm rotations, while audit partner rotations do not register an effect. In addition, a fresh-look effect could be particularly noticeable in the case of a rotation between non-Big 4 and Big 4 auditors, as prior literature finds higher audit quality for Big 4 auditors (e.g., Palmrose, 1988).

However, the fresh-look advantages of audit firm rotations could be limited as the pressure towards standardization might not only apply to the practices within audit firms but also across audit firms, especially in Big 4 audit firms (e.g., Cooper & Robson, 2006; Dannemiller et al., 2025). In addition, non-Big 4 auditors might aspire to mirror Big 4 auditors, i.a., as they receive higher audit fees (Campa, 2013). These homogenization tendencies would also diminish the advantages of audit firm rotation. Consequently, an audit firm rotation does not necessarily lead to a pronounced change in how the audit is conducted or the focus of an audit.

Furthermore, practical reasons could indicate a restricted influence of audit firm rotations. According to Article 18 of Regulation (EU) No 537/2014, the former audit firm is required to provide the incoming audit firm access to "all relevant information concerning the audited entity". While the information is important to ensure that knowledge is maintained, it also bears the risk of obstructing the new auditor's unbiased and fresh perspective (de Jong et al., 2020). As the first years of a new mandate are especially challenging (e.g., Cameran et al., 2015), the incoming audit firm might be particularly inclined to follow the previous audit firms' approaches. As there are conflicting arguments in favor of and against the effect of audit firm rotations, I state the following research question:

RQ C2: *Are audit firm rotations associated with a fresh look at the audit?*

4 Research Design and Sample

4.1 Research Design

In order to ascertain whether a change of the audit firm or the responsible engagement auditor is associated with a fresh look at the audit, I analyze the auditors' KAM disclosures. KAM reporting is one of the rare occasions that allow auditors to publicly discuss details of an audit. As KAMs mark the most significant issues of an audit, they offer an avenue to directly observe how audit firm and audit partner rotations change the focal points of an audit—particularly since many other metrics on the effects of rotations possess measurement difficulties

(DeFond & Zhang, 2014).[61] I estimate the subsequent regression model, Equation (C.1), to investigate whether fresh-look effects are associated with internal and external rotations:

$$KAM = \beta_0 + \beta_1 AUDITORCHANGE + \beta_2 PARTNERCHANGE + Controls + Year\ FE + Ind\ FE + Country\ FE + \varepsilon \quad \text{(C.1)}$$

KAM represents a set of multiple dependent KAM disclosure variables as a new perspective of the incoming audit partner or audit firm might manifest in various forms in the expanded audit report (e.g., Bédard et al., 2019; Duboisée de Ricquebourg & Maroun, 2023; Lennox et al., 2023). *KAM* comprises the number of KAMs (*KAMS*) as they display the number of significant risks identified by the auditor. A new audit partner or audit firm might find more significant issues and assess the level of risks differently than its predecessor. Moreover, the number of newly added KAMs compared to the previous year (*NEW*), the number of KAMs retained from the previous audit report (*OLD*), and the percentage of newly added KAMs in relation to all KAMs (*P_NEW*) are analyzed to capture fresh-look effects.[62] *NEW* and *OLD* add up to the total number of KAMs. In addition, I examine the number of KAMs omitted compared to the previous year (*DROPPED*). *DROPPED* and *OLD* correspond to the number of KAMs in the prior year. Lastly, I consider the changes in KAM disclosure concerning the prior year (*CHANGED*), calculated as the sum of *NEW* and *DROPPED* scaled by the total number of KAMs in the previous year.

Drawing on the previous literature (e.g., Duboisée de Ricquebourg & Maroun, 2023), the indicator variable *AUDITORCHANGE* equals one for changes of the audit firm year-over-year, whereas financial years without changes of the audit firm take on the value of zero. The indicator variable *PARTNERCHANGE* equals one when the responsible engagement partner[63] has changed compared to the prior year, while the audit firm remained the same and zero otherwise.[64]

[61] Note that the determination of KAM disclosures involves auditors' judgment and incoming auditors could be inclined to overstate differences from their predecessors. However, enforcement agencies scrutinize KAM disclosures (e.g., APAS, 2020), and prior literature suggests that expanded audit reports generally mirror the audit process (e.g., Camacho-Miñano et al., 2024; Elshafie, 2023; Sierra-García et al., 2019).

[62] The measurement of year-over-year differences in KAM disclosure is based on the KAM topic classification by the Audit Analytics database. 57 out of all 69 KAM topics distinguished by Audit Analytics occur in the sample. The results are only slightly attenuated in an alternative model specification based on the 15 broader KAM categories in an earlier version of Rousseau & Zehms (2024) instead of the 57 topics.

[63] The results are unaltered when I exclude instances where two auditors sign the audit report.

[64] The inferences remain unchanged when using the alternative specification of audit partner rotations of Horton et al. (2021)—equaling one for internal rotations and also taking on the value of one in case of audit firm rotations that (inevitably) comprise a change of the audit partner.

I include various audit control variables used in prior studies on the determinants of KAM disclosure (e.g., Duboisée de Ricquebourg & Maroun, 2023; Federsel & Hörner, 2025; Küster, 2024; Sierra-García et al., 2019) to account for other influencing factors of the KAM variables than audit firm and audit partner rotations. The variable audit fees paid (*AUDITFEES*) considers the extent of work performed by the auditor and may be higher for more KAMs overall and more changes of KAMs compared to the prior year. The ratio of non-audit fees to total fees (*NAF*) controls for auditor independence and potential advice of the auditor to the client on how to mitigate risks, ultimately resulting in fewer (changes of) KAMs. An indicator variable, whether the auditor is a Big 4 company (*BIGFOUR*), addresses general differences, e.g., in standardization between Big 4 and non-Big 4 firms, that might influence the audit approach and KAM disclosure. Moreover, an indicator variable, whether the auditor is the market leader in the country and industry (*SPECIALIST*), is included to account for a potential information and knowledge spillover during the audit, reflected in diverging KAMs compared to non-specialists. An indicator variable, whether the financial year ends on December 31 (*BUSYSEASON*), controls for the influence of the busy season, e.g., in terms of auditors' heightened workload, on KAM disclosure. Whether a going concern opinion was issued (*GCO*) considers the risk level of a firm and the auditor's assessment thereof that might impact the number of KAMs and the emergence of new KAMs.

Furthermore, I include firm-specific aspects to control for complexity and financial risks that might also affect KAM disclosure. The firm control variables consist of the firms' size (*SIZE*), age (*AGE*), market-to-book ratio (*MTB*), current assets scaled by total assets (*CURASSETS*), inventories and receivables scaled by total assets (*INVREC*), quick ratio (*QUICK*), return on assets (*ROA*), an indicator variable whether a firm realized a loss in the financial year (*LOSS*), and leverage ratio (*LEVERAGE*). Moreover, I include industry-fixed effects, based on the SIC code divisions, and year-fixed effects to control for temporary and industry-specific factors. Country-fixed effects are also incorporated since countries' cultural and social attributes are important determinants of KAM reporting (Federsel & Hörner, 2025). All continuous variables except for the dependent KAM variables are winsorized at the 1st and 99th levels. Standard errors are clustered at the firm level. All variables are defined in Appendix C.1.

4.2 Sample Selection and Composition

The initial sample consists of all available 29,108 firm-year observations of listed companies headquartered in the EU, Iceland, Liechtenstein, and Norway, with a fiscal year ending between June 16, 2018, and 2022 in Audit Analytics (Table C.1). Iceland, Liechtenstein, and Norway closely follow the EU regulations and form the European Economic Area (EEA) together with the EU member states (EFTA, 2023). I include the respective countries as the EU auditor rotation regulations are equally in effect.[65]

I consider observations from the United Kingdom during the entire sample period because its audit framework still aligns with EU requirements after withdrawing from the EU on February 1, 2020 (Accountancy Europe, 2022). I exclude observations from Switzerland as EU regulations do not fully apply, and audit firm rotations are not mandatory (Eberle, 2022). I require that the fiscal year ends on or after June 16, 2018, so that all firm-year observations result after the introduction of mandatory KAM reporting in the EU, Iceland, Liechtenstein, and Norway.[66]

I eliminate 877 firm-year observations with ambiguous country information concerning ISINs, headquarters, and foreign auditors to rule out cross-country influences. Moreover, 2,381 firm-year observations with more than one audit firm are excluded. I remove a further 6,689 observations with missing SIC codes or from the financial industry due to its idiosyncrasies compared to the other industries, i.a., concerning a unique regulatory and supervisory environment, distinct governance structures, complex transactions, and diverging financial reporting requirements (e.g., Bratten et al., 2019).[67] Additionally, 8,247 observations without available KAM disclosures in Audit Analytics[68] and 777 firm years without prior-year KAM information are eliminated. As auditor rotation and KAM disclosure requirements only apply to public-interest entities, I exclude 2,378 observations of companies listed outside a regulated market according to EU regulations and firms not disclosed as public-interest entities in the transparency reports of audit firms to ensure comparability.[69]

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[65] The results are unaltered when I exclude observations from these countries in untabulated analyses.

[66] Article 9 of Regulation (EU) No 537/2014 and Article 26 of Directive 2014/56/EU mandate the application of international auditing standards if adopted by the European Commission. As the European Commission did not formally adopt such standards, many member states (directly) applied the ISA on a voluntary basis, resulting in divergent (KAM) practices across the EU (FEE, 2015).

[67] An untabulated analysis reveals that the inferences are robust to the inclusion of financial firms.

[68] Audit Analytics only covers detailed KAM disclosures from annual reports available in English. Besides, not all *listed* entities are required to disclose KAMs.

[69] Directive 2014/56/EU defines public-interest entities as entities listed in a regulated market, credit institutions, insurance undertakings, and other designated entities. Virtually all omitted observations stem from the U.K. as national requirements mandate KAM reporting for listed entities (cf. Gutierrez et al., 2025), even if the market does not qualify as a regulated market according to EU regulations.

Furthermore, I do not consider 449 observations of firms with missing or ambiguous information regarding audit firm or audit partner changes. Internal and external rotations are identified by comparing auditors year-over-year, and all rotations are manually validated. Subsequently, I drop 882 more observations since audit-related control variables from Audit Analytics, e.g., concerning audit fees or audit firm and audit partner tenure, are not present.[70] Lastly, I remove 325 firm-year observations that apply reporting standards other than IFRS for comparability or when firm-specific control variables are absent from Refinitiv. Therefore, the final sample comprises 6,103 firm-year observations of 1,542 unique companies from 29 countries[71] with a total of 15,171 KAMs[72].

Table C.1: Sample Selection

	Firm Years
Firm-year observations from Audit Analytics Europe of listed entities headquartered in the EU, Iceland, Liechtenstein, and Norway, with fiscal year ends on or after June 16, 2018, through 2022.	29,108
Less: observations with ambiguous country information or a foreign auditor.	(877)
Less: observations with more than one audit firm.	(2,381)
Less: observations with SIC codes 6000–6799 or without SIC code.	(6,689)
	19,161
Less: observations without KAM information in Audit Analytics.	(8,247)
Less: observations without prior-year KAM information.	(777)
Less: observations of non-public interest entities.	(2,378)
	7,759
Less: observations of firms with missing or ambiguous audit firm or partner rotation information.	(449)
Less: observations with missing data for tenure or audit-related control variables in Audit Analytics.	(882)
Less: observations with missing or non-IFRS data in Refinitiv for firm-specific control variables.	(325)
Final sample	**6,103**

This table presents the sample selection process.

Panel A of Table C.2 details the sample composition by country and year. The number of observations is relatively stable over time, while most observations in the sample result from the United Kingdom (18.53%), Germany (16.29%), and Sweden (13.17%). Panel B distinguishes the 6,103 firm-year observations by year and industry based on the two-digit SIC code classification. Similar to Keller et al. (2024), who also investigate a European sample, most firms operate in the manufacturing (42.62%), services (20.60%), and transportation and public utilities (13.70%) industries.

[70] Audit Analytics provides tenure information on the current audit firm. Where applicable, past tenure was obtained by considering information on the departed audit firm, while audit partner tenure was established with audit partner information. The inferences are unaffected by the removal of control variables with missing data and tenure information.

[71] The sample comprises all countries of the European Economic Area, except for France, due to its joint audit requirement, and Liechtenstein, as its banking and insurance companies are excluded.

[72] I exclude a total of 12 KAMs related to first-year audits as they only occur in the first year of engagement and could overstate a fresh-look effect. The results are robust to their inclusion.

Table C.2: Sample Composition by Country, Industry, and Year

Panel A: Sample Composition by Country							
Country	2018	2019	2020	2021	2022	Total	%
Austria	17	23	24	24	24	112	1.84%
Belgium	38	42	41	41	41	203	3.33%
Bulgaria	4	4	6	5	3	22	0.36%
Croatia	12	13	10	12	10	57	0.93%
Cyprus	6	6	7	7	5	31	0.51%
Czech Republic	3	3	3	3	3	15	0.25%
Denmark	48	51	52	51	52	254	4.16%
Estonia	4	5	6	7	5	27	0.44%
Finland	83	86	86	86	85	426	6.98%
Germany	193	203	212	200	186	994	16.29%
Greece	21	23	25	29	26	124	2.03%
Hungary	5	9	10	10	8	42	0.69%
Iceland	2	4	5	4	3	18	0.29%
Ireland	15	16	15	14	13	73	1.20%
Italy	59	67	72	75	72	345	5.65%
Latvia	9	10	7	4	4	34	0.56%
Lithuania	9	8	8	9	11	45	0.74%
Luxembourg	7	8	7	8	11	41	0.67%
Malta	9	10	11	10	7	47	0.77%
Netherlands	56	58	55	54	52	275	4.51%
Norway	72	78	86	94	90	420	6.88%
Poland	41	46	45	40	30	202	3.31%
Portugal	18	18	19	19	17	91	1.49%
Romania	8	11	11	13	14	57	0.93%
Slovakia	1	0	0	1	1	3	0.05%
Slovenia	4	3	5	6	4	22	0.36%
Spain	30	37	44	40	37	188	3.08%
Sweden	141	161	164	168	170	804	13.17%
United Kingdom	191	250	245	232	213	1,131	18.53%
Total	1,106	1,253	1,281	1,266	1,197	6,103	100.00%
Panel B: Sample Composition by Industry							
Industry	2018	2019	2020	2021	2022	Total	%
Agriculture, forestry, and fishing	18	18	17	16	17	86	1.41%
Construction	63	69	72	72	70	346	5.67%
Manufacturing	479	536	545	531	510	2,601	42.62%
Mining	66	65	72	69	58	330	5.41%
Public administration	1	1	2	2	1	7	0.11%
Retail trade	45	64	64	65	66	304	4.98%
Services	230	258	264	261	244	1,257	20.60%
Transportation and public utilities	145	172	176	179	164	836	13.70%
Wholesale trade	59	70	69	71	67	336	5.51%
Total	1,106	1,253	1,281	1,266	1,197	6,103	100.00%

This table outlines the composition of the firm-year observations by country and year (Panel A) and industry and year (Panel B).

Table C.3 provides more information on the distribution of audit firm and audit partner rotations. Panel A shows that audit partner rotations occur more frequently (17.84%) than audit firm rotations (9.09%), while most firm-year observations are without any internal or external rotation (73.06%). These numbers align with the EU regulations that allow for longer audit firm tenure than audit partner tenure. Moreover, the rotation frequencies are in accordance with the prior literature (e.g., Horton et al., 2021).

Table C.3: Distribution of Auditor Rotations

Panel A: Total Rotations							
Rotation	2018	2019	2020	2021	2022	Total	%
Audit firm rotations	97	122	121	125	90	555	9.09%
Audit partner rotations	171	211	253	222	232	1,089	17.84%
No audit firm or partner rotation	838	920	907	919	875	4,459	73.06%
Total observations	1,106	1,253	1,281	1,266	1,197	6,103	100.00%
Panel B: Audit Firm Rotations by Country							
Country	2018	2019	2020	2021	2022	Total	%
Germany	9	24	25	21	24	103	18.56%
United Kingdom	16	24	29	19	13	101	18.20%
Sweden	13	10	9	19	7	58	10.45%
Finland	9	9	10	8	4	40	7.21%
Poland	16	7	6	3	5	37	6.67%
Other countries	34	48	42	55	37	216	38.92%
Total audit firm rotations	97	122	121	125	90	555	100.00%
Panel C: Audit Partner Rotations by Country							
Country	2018	2019	2020	2021	2022	Total	%
Germany	40	45	59	39	63	246	22.59%
United Kingdom	41	49	48	48	30	216	19.83%
Sweden	14	20	27	27	24	112	10.28%
Finland	12	12	14	8	14	60	5.51%
Italy	9	12	8	17	14	60	5.51%
Other countries	55	73	97	83	87	395	36.27%
Total audit partner rotations	171	211	253	222	232	1,089	100.00%
Panel D: Direction of Audit Firm Rotations							
Direction	2018	2019	2020	2021	2022	Total	%
Upward	8	12	4	8	5	37	6.67%
Lateral Big 4	71	90	89	83	65	398	71.71%
Lateral non-Big 4	7	6	6	16	8	43	7.75%
Downward	11	14	22	18	12	77	13.87%
Total audit firm rotations	97	122	121	125	90	555	100.00%
Panel E: Timing of Audit Firm Rotations							
Quarter	2018	2019	2020	2021	2022	Total	%
Q1	15	17	18	22	14	86	15.50%
Q2	69	87	70	86	68	380	68.47%
Q3	7	14	17	11	4	53	9.55%
Q4	4	4	13	4	3	28	5.05%
After Q4	2	0	3	2	1	8	1.44%
Total audit firm rotations	97	122	121	125	90	555	100.00%

This table describes whether a rotation of the audit firm or the audit partner occurred (Panel A), the five countries with the most audit firm rotations (Panel B) and audit partner rotations (Panel C), the direction of audit firm rotations (Panel D), and the timing of audit firm rotations (Panel E).

Panel B illustrates in more detail in which five countries the most audit firm rotations occur in the sample. Largely corresponding to the total number of firm-year observations per country, most audit firm rotations take place in Germany (18.56%), the United Kingdom (18.20%), and Sweden (10.45%). Panel C reveals similar tendencies, with most audit partner rotations attributed to Germany (22.59%), the United Kingdom (19.83%), and Sweden (10.28%).

Moreover, Panel D depicts the direction of the 555 audit firm rotations and finds that most companies change from a Big 4 audit firm to another (71.71%). At the same time, more firms have changed from a Big 4 audit firm to a non-Big 4 audit firm (13.87%) than in the opposite direction (6.67%), potentially suggesting that the EU audit reform accomplished to reduce Big 4 domination for public-interest entities (Willekens et al., 2019). Panel E describes the timing of auditor rotations and documents that most audit firm rotations take place during the second quarter of the audited financial year (68.47%).

5 Results

5.1 Descriptive Statistics and Univariate Analyses

Table C.4 provides descriptive statistics on the dependent and control variables in the regression models. Columns 1 to 3 consider all 6,103 firm-year observations, while columns 4 to 6 only comprise the 4,459 firm-year observations without any audit firm or audit partner rotation. Columns 7 to 9 encompass 555 firm years with an audit firm rotation, whereas columns 10 to 12 relate to the 1,089 firm years with audit partner rotations. Columns 13 to 15 detail the differences in mean between the various subsamples and their significance measured by a two-tailed t-test.

Columns 1 to 3 show that the average number of KAMs (*KAMS*) amounts to 2.49, consisting of 0.59 newly detected KAMs (*NEW*) and 1.89 KAM topics that have already been disclosed in the prior year (*OLD*). The average percentage of newly added KAMs (*P_NEW*) totals 0.21. Moreover, 0.68 KAMs from the prior period are not disclosed in the respective current year (*DROPPED*). Overall, KAMs have changed by 49% on average year-over-year (*CHANGED*). These numbers align with prior studies in European countries that also document a percentage of new KAMs of 19% in France (Bédard et al., 2019) and 27% in the U.K. (Lennox et al., 2023).[73]

[73] Duboisée de Ricquebourg & Maroun (2023) document even more pronounced changes in KAM disclosure in South Africa.

Table C.4: Descriptive Statistics

Variable	All Firm-Year Observations			No Rotation of Firm or Partner (A)			Audit Firm Rotation (B)			Audit Partner Rotation (C)			Difference in Mean		
	n	Mean	Median	n	Mean	Median	n	Mean	Median	n	Mean	Median	B vs. A	B vs. C	C vs. A
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Dependent Variables															
KAMS	6,103	2.49	2.00	4,459	2.47	2.00	555	2.59	2.00	1,089	2.50	2.00	0.12**	0.10	0.03
NEW	6,103	0.59	0.00	4,459	0.53	0.00	555	1.03	1.00	1,089	0.62	0.00	0.50***	0.41***	0.10***
OLD	6,103	1.89	2.00	4,459	1.94	2.00	555	1.56	1.00	1,089	1.87	2.00	–0.38***	–0.31***	–0.07*
P_NEW	6,103	0.21	0.00	4,459	0.19	0.00	555	0.37	0.33	1,089	0.22	0.00	0.18***	0.15***	0.03***
DROPPED	6,103	0.68	0.00	4,459	0.61	0.00	555	1.12	1.00	1,089	0.71	0.00	0.50***	0.41***	0.09***
CHANGED	6,103	0.49	0.33	4,459	0.44	0.33	555	0.85	0.67	1,089	0.51	0.33	0.41***	0.34***	0.07***
Control Variables															
AUDITFEES	6,103	13.06	13.01	4,459	13.07	13.02	555	12.89	12.85	1,089	13.12	13.08	–0.18***	–0.23***	0.05
NAF	6,103	0.16	0.12	4,459	0.16	0.12	555	0.14	0.10	1,089	0.16	0.11	–0.03***	–0.02**	–0.01
BIGFOUR	6,103	0.87	1.00	4,459	0.88	1.00	555	0.78	1.00	1,089	0.86	1.00	–0.10***	–0.08***	–0.02**
SPECIALIST	6,103	0.34	0.00	4,459	0.35	0.00	555	0.27	0.00	1,089	0.34	0.00	–0.07***	–0.07***	–0.01
BUSYSEASON	6,103	0.86	1.00	4,459	0.87	1.00	555	0.86	1.00	1,089	0.86	1.00	–0.01	–0.00	–0.01
GCO	6,103	0.05	0.00	4,459	0.04	0.00	555	0.07	0.00	1,089	0.04	0.00	0.03***	0.03***	0.00
SIZE	6,103	13.60	13.56	4,459	13.59	13.57	555	13.56	13.52	1,089	13.65	13.61	–0.03	–0.09	0.06
AGE	6,103	22.88	23.00	4,459	22.66	22.00	555	24.50	24.00	1,089	22.97	23.00	1.84***	1.53***	0.31
MTB	6,103	3.12	1.94	4,459	3.17	1.96	555	2.93	1.83	1,089	3.03	1.90	–0.24	–0.10	–0.14
CURASSETS	6,103	0.45	0.43	4,459	0.45	0.43	555	0.44	0.43	1,089	0.45	0.44	–0.01	–0.01	0.01
INVREC	6,103	0.27	0.26	4,459	0.27	0.25	555	0.28	0.27	1,089	0.27	0.26	0.00	0.00	0.00
QUICK	6,103	1.33	0.96	4,459	1.32	0.95	555	1.21	0.94	1,089	1.40	0.99	–0.12*	–0.19***	0.08*
ROA	6,103	0.04	0.06	4,459	0.04	0.06	555	0.04	0.06	1,089	0.04	0.06	0.00	0.00	0.00
LOSS	6,103	0.23	0.00	4,459	0.23	0.00	555	0.24	0.00	1,089	0.23	0.00	0.01	0.00	0.00
LEVERAGE	6,103	0.26	0.24	4,459	0.26	0.24	555	0.27	0.24	1,089	0.26	0.24	0.00	0.01	–0.01

This table presents the number of observations and the mean and median of all dependent and control variables for the entire sample (columns 1–3), firm years without a rotation of the audit firm or audit partner (4–6), firm years with a change of the audit firm (7–9), and firm years with a change of the audit partner (10–12). All variables are defined in Appendix C.1. Columns 13 to 15 show the difference in mean between the various rotation variations. The difference in mean is tested using two-tailed t-tests. *, **, and *** denote significance at the 1%, 5%, and 10% level, respectively.

The descriptive statistics on the different KAM variables provide initial evidence of the effects of internal and external rotations as pronounced and significant divergencies exist between the subgroups. Firm years with neither audit firm nor audit partner rotations (columns 4 to 6) consistently register the lowest numbers of KAM variations year-over-year. In contrast, observations with audit firm rotations (columns 7 to 9) possess the highest values for changes in the KAM disclosure variables. These differences are also highly significant, as the univariate analyses display in column 13. Firm-year observations with audit partner rotations (columns 10 to 12) also indicate a fresh-look effect, although the significant differences compared to years without any rotation are of marginal magnitude (column 15).

The descriptive statistics for all observations reveal that the non-logarithmized absolute audit fees total 1.44 million EUR, while non-audit fees amount to 16% of all fees. Most companies are audited by a Big 4 auditor (87%), while 34% of the auditors are industry specialists.[74] 86% of the firm years end on December 31, and 5% of the annual reports receive a going concern opinion. Regarding the firm-specific control variables, the statistics show that the mean non-logarithmized and unscaled company size amounts to 5.26 billion EUR, and firms are about 23 years of age. The market-to-book ratio is 3.12, the current assets make up 45% of the total assets, and inventory and accounts receivable account for 27% of the total assets. The mean quick ratio is 1.33, and the return on assets is equal to 4%. Lastly, 23% of all firm years realize a loss, and the average leverage ratio amounts to 0.26.

Table C.5 displays the pairwise Pearson correlations of all variables used in the following regression models. Notably, audit firm rotations (*AUDITORCHANGE*) are significantly correlated with the KAM disclosure variables. In contrast, audit partner rotations (*PARTNERCHANGE*) possess minimal associations with the various KAM variables. Many of the control variables, such as *BUSYSEASON* or *LEVERAGE*, are significantly related to the KAM variables, underpinning their inclusion as important determinants. *AUDITORCHANGE* and *PARTNERCHANGE* are negatively related per definition. Lastly, the correlation matrix also unveils that multicollinearity issues do not exist since most control variables are not significantly correlated with the two rotation variables of interest.[75]

[74] In an untabulated analysis, I find that only considering observations of companies audited by Big 4 auditors does not alter the findings.

[75] VIF tests also indicate no multicollinearity concerns, as the VIF values in the regression models are well below 10 (Kennedy, 2008).

Table C.5: Pearson Correlations

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) KAMS	1.00										
(2) NEW	0.55*	1.00									
(3) OLD	0.75*	–0.14*	1.00								
(4) P_NEW	0.19*	0.82*	–0.42*	1.00							
(5) DROPPED	0.22*	0.52*	–0.15*	0.51*	1.00						
(6) CHANGED	0.15*	0.79*	–0.45*	0.92*	0.56*	1.00					
(7) AUDITORCHANGE	0.03	0.16*	–0.10*	0.17*	0.16*	0.19*	1.00				
(8) PARTNERCHANGE	0.00	0.02	–0.01	0.02	0.02	0.01	–0.15*	1.00			
(9) AUDITFEES	0.37*	0.18*	0.29*	0.06*	0.23*	0.06*	–0.04*	0.02	1.00		
(10) NAF	–0.03	0.00	–0.04*	0.03	–0.02	0.02	–0.05*	–0.01	–0.01	1.00	
(11) BIGFOUR	0.05*	0.01	0.05*	–0.01	0.01	–0.01	–0.08*	–0.01	0.35*	0.13*	1.00
(12) SPECIALIST	0.01	0.00	0.01	0.00	0.01	0.00	–0.04*	0.00	0.12*	0.06*	0.22*
(13) BUSYSEASON	–0.17*	–0.13*	–0.10*	–0.06*	–0.12*	–0.06*	–0.00	–0.01	–0.06*	0.04*	0.04*
(14) GCO	0.10*	0.12*	0.02	0.10*	0.04*	0.10*	0.04*	–0.01	–0.10*	–0.02	–0.12*
(15) SIZE	0.32*	0.14*	0.27*	0.03*	0.17*	0.03	–0.01	0.01	0.83*	0.07*	0.33*
(16) AGE	0.19*	0.06*	0.18*	0.01	0.09*	0.00	0.05*	0.00	0.41*	–0.03	0.12*
(17) MTB	–0.09*	–0.05*	–0.06*	–0.02	–0.04*	–0.02	–0.02	–0.01	–0.06*	0.05*	0.03
(18) CURASSETS	–0.14*	–0.07*	–0.11*	–0.02	–0.06*	–0.02	–0.01	0.01	–0.15*	–0.04*	–0.03
(19) INVREC	–0.05*	–0.07*	–0.01	–0.06*	–0.07*	–0.07*	0.00	0.00	–0.02	–0.12*	0.01
(20) QUICK	–0.18*	–0.06*	–0.16*	0.00	–0.05*	0.01	–0.03	0.03	–0.25*	0.06*	–0.09*
(21) ROA	–0.02	–0.07*	0.04*	–0.09*	–0.04*	–0.10*	0.00	–0.01	0.18*	–0.05*	0.15*
(22) LOSS	0.07*	0.12*	–0.01	0.11*	0.08*	0.12*	0.00	0.00	–0.14*	0.05*	–0.11*
(23) LEVERAGE	0.14*	0.10*	0.09*	0.05*	0.09*	0.05*	0.01	–0.02	0.14*	0.07*	0.07*

	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
(12) SPECIALIST	1.00										
(13) BUSYSEASON	0.06*	1.00									
(14) GCO	–0.04*	–0.01	1.00								
(15) SIZE	0.15*	–0.01	–0.18*	1.00							
(16) AGE	–0.01	–0.06*	–0.09*	0.37*	1.00						
(17) MTB	0.02	–0.05*	–0.03	–0.13*	–0.12*	1.00					
(18) CURASSETS	–0.06*	0.00	0.00	–0.28*	0.03	0.15*	1.00				
(19) INVREC	–0.03	–0.02	–0.06*	–0.10*	0.14*	–0.02	0.69*	1.00			
(20) QUICK	–0.05*	0.05*	–0.02	–0.24*	–0.13*	0.10*	0.26*	–0.20*	1.00		
(21) ROA	0.08*	–0.02	–0.32*	0.28*	0.17*	0.09*	–0.06*	0.17*	–0.14*	1.00	
(22) LOSS	–0.05*	0.01	0.29*	–0.23*	–0.15*	–0.02	0.02	–0.13*	0.07*	–0.54*	1.00
(23) LEVERAGE	0.02	0.03	0.14*	0.16*	–0.08*	–0.06*	–0.39*	–0.24*	–0.33*	–0.10*	0.16*

	(23)
(23) LEVERAGE	1.00

This table shows pairwise Pearson correlation coefficients. All variables are defined in Appendix C.1. * denotes significance at the 1% level.

5.2 Main Findings

Table C.6 reports the regression results of Equation (C.1) for all six dependent KAM disclosure variables.[76] I find that *AUDITORCHANGE* is significant for all six different KAM specifications. In line with the creation of a fresh look, *AUDITORCHANGE* is associated with more new

[76] To ensure that the results are not driven by single countries, I perform the regressions by each country separately in additional analyses. Appendix C.2 displays the corresponding results. Note, however, that the results should be interpreted with caution due to the low observation numbers in some countries.

KAM topics (*NEW*) and fewer old KAMs retained from the year before (*OLD*), a larger percentage of new KAMs (*P_NEW*), more dropped KAMs compared to the prior year (*DROPPED*), and more changes in KAMs year-over-year (*CHANGED*). These effects are also highly economically significant. For instance, *P_NEW* increases by 0.182 in the case of an audit firm rotation, corresponding to an almost doubling of *P_NEW*. Moreover, the number of KAMs (*KAMS*) significantly rises, although the absolute magnitude is of minor extent (0.088).[77]

In contrast, *PARTNERCHANGE* appears to induce only limited changes in KAM disclosure. Although *PARTNERCHANGE* results in statistically significant coefficients for five of the six dependent KAM variables—*KAMS* is unaffected—the magnitude of the coefficients suggests that they are not economically significant. For instance, an audit partner rotation is only associated with an increase in the percentage of new KAMs by 0.029 compared to 0.182 for an audit firm rotation. Consequently, internal rotations seem to be considerably less influential for a fresh look and changes in KAM disclosure than external rotations.[78]

The regression results regarding control variables show many significant coefficients, underpinning the importance of their inclusion. Among them, *AUDITFEES* and *LOSS* (*ROA*) stand out as they possess a significant and positive (negative) effect throughout all six regression models. Additionally, the explanatory power of the models is high as the adjusted R^2 exceeds that of prior studies, e.g., Duboisée de Ricquebourg and Maroun (2023).

5.3 Subsample Analyses

The main regression models are based on rotation- and all non-rotation years, whereas the non-rotation years constitute the reference group. In this specification, the results could be influenced by unobserved aspects other than the audit firm and audit partner rotations (Horton et al., 2021). To address this concern, I recalculate the regression models with firm-year observations one year prior to internal or external rotations and the respective rotation year. The results in Panel A of Table C.7 are consistent with the main findings that audit firm rotations lead to more changes in KAMs and fewer KAMs retained from the prior year, while the fresh-look effects of audit partner rotations are of minor magnitude. The significance levels and the magnitude of the findings on *AUDITORCHANGE* and *PARTNERCHANGE* are marginally reduced for some KAM variables, while others receive even higher coefficients. *AUDITORCHANGE* does not

[77] I find that the number of words per KAM is unaffected by audit firm or partner rotations in an untabulated analysis.

[78] Regressions with the aforementioned specification of Horton et al. (2021)—measuring the incremental effect of audit firm rotations over audit partner rotations—reveal similar results.

significantly impact the number of KAMs, although the magnitude of the effect in the main model was low, anyhow.

Table C.6: Influence of Audit Firm and Audit Partner Rotations on KAM Disclosure

Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
AUDITORCHANGE	0.088**	0.501***	–0.412***	0.182***	0.511***	0.420***
	(1.978)	(11.945)	(–9.854)	(12.448)	(11.291)	(12.561)
PARTNERCHANGE	0.007	0.081***	–0.074**	0.029***	0.076***	0.060***
	(0.204)	(3.090)	(–2.509)	(3.163)	(2.741)	(3.146)
AUDITFEES	0.265***	0.089***	0.176***	0.016**	0.160***	0.041***
	(7.414)	(4.895)	(5.265)	(2.312)	(8.473)	(2.712)
NAF	0.167	0.199**	–0.032	0.082***	0.155*	0.175***
	(1.340)	(2.555)	(–0.278)	(2.752)	(1.914)	(2.776)
BIGFOUR	–0.055	0.026	–0.081	0.005	–0.035	0.015
	(–0.806)	(0.694)	(–1.343)	(0.316)	(–0.833)	(0.483)
SPECIALIST	–0.044	0.018	–0.062	0.012	0.036	0.019
	(–1.051)	(0.758)	(–1.628)	(1.347)	(1.406)	(1.048)
BUSYSEASON	–0.228***	–0.096**	–0.131*	–0.011	–0.099**	–0.033
	(–2.816)	(–2.287)	(–1.891)	(–0.830)	(–2.390)	(–1.140)
GCO	0.429***	0.278***	0.151*	0.059***	–0.016	0.105**
	(4.483)	(4.138)	(1.861)	(3.000)	(–0.244)	(2.297)
SIZE	0.053**	0.014	0.039	–0.003	–0.017	–0.010
	(2.080)	(1.102)	(1.641)	(–0.548)	(–1.305)	(–0.898)
AGE	0.006**	–0.001	0.006***	0.000	0.000	–0.001
	(2.419)	(–0.531)	(2.934)	(–0.529)	(–0.041)	(–1.358)
MTB	–0.001	–0.003	0.002	0.000	–0.003	–0.002
	(–0.193)	(–1.036)	(0.485)	(–0.335)	(–1.052)	(–0.774)
CURASSETS	–0.154	0.088	–0.242*	0.070*	0.208**	0.161**
	(–1.025)	(0.965)	(–1.827)	(1.858)	(2.120)	(2.081)
INVREC	0.201	–0.060	0.261	–0.075	–0.240**	–0.222**
	(1.040)	(–0.513)	(1.517)	(–1.635)	(–2.030)	(–2.312)
QUICK	–0.034**	–0.003	–0.031**	–0.001	0.002	0.000
	(–2.037)	(–0.245)	(–2.230)	(–0.113)	(0.172)	(–0.040)
ROA	–0.508***	–0.270**	–0.238*	–0.110**	–0.283**	–0.246**
	(–3.214)	(–2.352)	(–1.686)	(–2.469)	(–2.308)	(–2.399)
LOSS	0.259***	0.178***	0.080*	0.036***	0.115***	0.081***
	(5.287)	(5.373)	(1.830)	(3.226)	(3.441)	(3.294)
LEVERAGE	0.317**	0.255***	0.061	0.054*	0.360***	0.116*
	(2.379)	(3.378)	(0.502)	(1.913)	(4.633)	(1.938)
Intercept	–2.056***	–0.870***	–1.186***	0.055	–1.193***	0.137
	(–5.672)	(–4.535)	(–3.739)	(0.826)	(–6.452)	(0.993)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.354	0.185	0.220	0.102	0.177	0.109

This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. Standard errors are clustered at the firm level. *, **, and *** denote significance at the 1%, 5%, and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix C.1.

Table C.7: Subsample Analyses of Audit Firm and Audit Partner Rotation and KAM Disclosure

Panel A: Rotation Year and Prior Period						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
AUDITORCHANGE	0.038	0.488***	–0.450***	0.176***	0.531***	0.417***
	(0.736)	(10.091)	(–9.498)	(10.693)	(10.380)	(11.261)
PARTNERCHANGE	–0.048	0.069**	–0.116***	0.025**	0.089**	0.058**
	(–1.207)	(2.007)	(–3.287)	(2.174)	(2.406)	(2.398)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	2,722	2,722	2,722	2,722	2,722	2,722
Adj. R^2	0.356	0.219	0.198	0.119	0.190	0.121
Panel B: Entropy-Balanced Sample						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
AUDITORCHANGE	0.069	0.489***	–0.421***	0.179***	0.507***	0.416***
	(1.527)	(11.852)	(–9.838)	(12.284)	(11.281)	(12.749)
PARTNERCHANGE	–0.022	0.071**	–0.093**	0.037***	0.119***	0.080***
	(0.494)	(2.273)	(–2.250)	(2.927)	(3.162)	(3.202)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.355	0.253	0.213	0.160	0.239	0.167
Panel C: Maximum One Audit Firm Rotation Since 2014						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
AUDITORCHANGE	0.061	0.480***	–0.419***	0.180***	0.508***	0.405***
	(1.243)	(10.216)	(–8.704)	(10.612)	(9.756)	(10.761)
PARTNERCHANGE	0.021	0.088***	–0.067**	0.029***	0.072**	0.063***
	(0.642)	(3.216)	(–2.217)	(3.096)	(2.554)	(3.172)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	5,529	5,529	5,529	5,529	5,529	5,529
Adj. R^2	0.367	0.183	0.225	0.093	0.177	0.099

This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. Panel A only considers the periods of an audit firm or audit partner change and the year before. Panel B reports the results for an entropy-balanced sample. Panel C includes observations of companies with a maximum of one audit firm rotation since 2014. Standard errors are clustered at the firm level. Country-, industry-, and year-fixed effects are included. *, **, and *** denote significance at the 1%, 5%, and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix C.1.

Furthermore, non-rotation years appear to differ from firm years with audit firm or audit partner rotations in several aspects, as Table C.4 has presented. I conduct entropy balancing to ensure that the findings do not result from a potential self-selection bias. Entropy balancing is a re-weighting method that balances the control group observations to match the covariates of the treatment group (Hainmueller, 2012). The advantages of entropy balancing compared to propensity score matching are that it assures that all covariates are balanced—while propensity score matching only assures that the calculated propensity scores align—and that researchers avoid influential design choices when specifying a propensity score model (McMullin & Schonberger, 2020). I conduct entropy balancing with *AUDITORCHANGE*,[79] distinguishing between treatment and control observations, based on all three moments (mean, variance, and skewness) of the covariates and country-, industry-, and year-fixed effects. In this study, entropy balancing does not suffer from assigning high weights to a small number of observations, as the maximum weight is 1.32, and the weight ratio amounts to 0.42 (McMullin & Schonberger, 2022). Panel B of Table C.7 shows that the main inferences on *AUDITORCHANGE* and *PARTNERCHANGE* remain consistent for the entropy-balanced sample.

Additionally, companies might change their audit firm on a frequent basis, e.g., to conduct opinion shopping (e.g., Lennox, 2000). However, frequent audit firm rotations could exert different properties than less frequent switches (e.g., Cowle et al., 2023). To mitigate this concern, the subsample in Panel C of Table C.7 only comprises firm-year observations of companies that did not change their audit firm at all or at most one time since the regulation's entry into force in 2014. This analysis also accounts for the possibility that firms—not subject to, e.g., opinion shopping—anticipated the external rotation requirements and conducted an audit firm change before the maximum tenure. Again, the results largely align with those of the main regression models and document that audit firm rotations lead to more novelty and fewer KAMs retained from the prior year, whereas the renewing impact of audit partner rotations is limited. Lastly, I exclude Italian observations in an untabulated analysis because the regulatory setting differs from the other countries, as audit firm rotations have been mandatory since 1975. The analysis shows that the findings are unaffected by the elimination of Italy.

[79] The findings are similar when audit partner rotations constitute the treatment for entropy balancing.

5.4 Mandatory and Voluntary Rotations

Voluntary rotations might possess properties different from those of mandatory rotations. For instance, the incentives to conduct an earlier rotation could result from auditor-client disagreements or be motivated by opinion shopping (Bleibtreu & Stefani, 2021). Therefore, I distinguish between mandatory and voluntary auditor rotations based on the maximum tenure—excluding tender or joint audit extensions for audit firm rotations—according to the respective national implementation of the EU regulation and the transitional rules (European Commission, 2022; Willekens et al., 2019). Voluntary audit firm rotations make up 454 (81.8%) of all 555 audit firm rotations. Similarly, most of the 1,089 audit partner rotations are of a voluntary nature (791; 72.6%).

Panel A of Table C.8 comprises all 6,103 firm-year observations, while mandatory and voluntary rotations are differentiated. Both types of audit firm rotations are associated with significant and pronounced changes in KAM disclosure, while some coefficients are inconsistently slightly stronger for one type than the other. Noticeably, *KAMS* marginally increases solely in the case of voluntary audit firm rotations (*VAFR*). Concerning audit partner rotations, *KAMS* only rises minorly for mandatory internal rotations (*MPR*). Whereas both types of audit partner rotations result in more novel KAMs and overall changes compared to the prior year, *OLD, P_NEW,* and *DROPPED* are only significant for voluntary audit partner rotations (*VPR*). Collectively, the main findings hold that audit firm rotations are associated with greater changes in KAM disclosure than audit partner rotations, while some specific KAM variables differ between mandatory and voluntary rotations.

Additionally, I exclude voluntary audit firm and voluntary audit partner rotations in Panel B of Table C.8. The results show that mandatory audit firm rotations are associated with significant changes in KAM disclosure (*NEW*, *P_NEW*, *DROPPED,* and *CHANGED*) and significantly fewer KAMs retained from the prior year (*OLD*). The magnitude of these effects is comparable to the main analyses, while an increase in the number of KAMs (*KAMS*) is driven by mandatory audit partner rotations instead of audit firm rotations. Some of the dependent KAM variables receive attenuated coefficients. The overall findings align with the main regression results that audit firm rotations are associated with considerable changes in KAM disclosure, while the fresh-look effect of audit partner rotations is limited.[80]

[80] I find similar inferences when I restrict the observations to firms without any voluntary audit firm or partner rotation in the *entire* sample period, as outlined by Horton et al. (2021).

Table C.8: Mandatory and Voluntary Audit Firm and Audit Partner Rotations

Panel A: Mandatory and Voluntary Audit Firm and Audit Partner Rotations

Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
MAFR	0.087	0.444***	–0.357***	0.192***	0.449***	0.396***
	(0.868)	(5.002)	(–3.670)	(5.560)	(4.341)	(5.405)
VAFR	0.087*	0.513***	–0.426***	0.180***	0.525***	0.425***
	(1.708)	(10.919)	(–9.160)	(11.236)	(10.500)	(11.502)
MPR	0.126**	0.127**	–0.001	0.026	0.047	0.060*
	(2.061)	(2.485)	(–0.028)	(1.641)	(0.966)	(1.700)
VPR	–0.039	0.063**	–0.102***	0.030***	0.087***	0.060***
	(–0.984)	(2.150)	(–2.751)	(2.756)	(2.731)	(2.692)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.355	0.185	0.220	0.102	0.176	0.109

Panel B: Mandatory Audit Firm and Audit Partner Rotations

Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
MAFR	0.084	0.434***	–0.350***	0.190***	0.453***	0.390***
	(0.843)	(4.872)	(–3.616)	(5.569)	(4.360)	(5.358)
MPR	0.130**	0.132**	–0.002	0.026	0.053	0.061*
	(2.156)	(2.570)	(–0.039)	(1.637)	(1.072)	(1.717)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	4,858	4,858	4,858	4,858	4,858	4,858
Adj. R^2	0.352	0.152	0.224	0.075	0.155	0.079

This table presents the OLS regression results and the corresponding t-values for the six dependent KAM variables. Panel A comprises mandatory and voluntary audit firm and audit partner rotations. Panel B considers mandatory audit firm and audit partner rotations while excluding all voluntary rotations. Country-, industry-, and year-fixed effects are included. Standard errors are clustered at the firm level. *, **, and *** denote significance at the 1%, 5%, and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix C.1.

6 Additional Analyses

In Table C.9, I analyze whether audit firms and audit partners disclose fewer novel KAMs and retain more prior-year KAMs for longer tenure durations. *TENURE* and *PARTNERTENURE* are calculated as the natural logarithm of the audit firm and partner tenure, respectively. Panel A uses both tenure variables instead of *AUDITORCHANGE* and *PARTNERCHANGE* and documents that the suspected behavior of more old and fewer new KAMs exists for longer audit firm and partner tenure in relation to five of the six dependent variables. Only the number of KAMs is unaffected by audit firm and partner tenure. Panel B in Table C.9 combines audit firm tenure with the audit partner rotation variable in the same model, while Panel C in Table C.9

includes the audit firm rotation variable and audit partner tenure. Less novelty in KAM disclosures year-over-year is consistent for the tenure variables across all model specifications.[81]

Table C.9: Influence of Audit Firm and Audit Partner Tenure on KAM Disclosure

Panel A: Audit Firm and Audit Partner Tenure						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
TENURE	–0.036	–0.087***	0.051**	–0.030***	–0.100***	–0.069***
	(–1.580)	(–6.537)	(2.529)	(–6.297)	(–6.896)	(–6.578)
PARTNERTENURE	0.021	–0.097***	0.118***	–0.037***	–0.095***	–0.085***
	(0.869)	(–5.580)	(5.229)	(–5.877)	(–5.122)	(–6.337)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.354	0.174	0.216	0.089	0.168	0.094
Panel B: Audit Firm Tenure						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
TENURE	–0.032	–0.113***	0.081***	–0.040***	–0.126***	–0.091***
	(–1.509)	(–8.800)	(4.237)	(–8.729)	(–8.969)	(–8.889)
PARTNERCHANGE	0.009	0.068***	–0.059**	0.024***	0.067**	0.048**
	(0.279)	(2.624)	(–1.994)	(2.604)	(2.427)	(2.517)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.354	0.171	0.213	0.085	0.166	0.089
Panel C: Audit Partner Tenure						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
AUDITORCHANGE	0.112**	0.442***	–0.330***	0.160***	0.451***	0.370***
	(2.237)	(9.898)	(–7.083)	(10.072)	(9.155)	(10.409)
PARTNERTENURE	0.027	–0.047**	0.074***	–0.018**	–0.050**	–0.041***
	(1.114)	(–2.673)	(3.243)	(–2.828)	(–2.576)	(–3.033)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.354	0.185	0.221	0.102	0.176	0.109

This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. In Panel A, the natural logarithm of the audit firm tenure (*TENURE*) and the natural logarithm of the audit partner tenure (*PARTNERTENURE*) are included. Panel B and Panel C combine the tenure variables with *AUDITORCHANGE* and *PARTNERCHANGE*. Country-, industry-, and year-fixed effects are included. Standard errors are clustered at the firm level. *, **, and *** denote significance at the 1%, 5%, and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix C.1.

[81] Note, however, that significant changes in KAM disclosure are largely restricted to the year of audit firm or audit partner rotations in untabulated analyses, driving the results for longer tenure durations.

Table C.10: Influence of Direction and Timing of Audit Firm Rotations on KAM Disclosure

Panel A: Direction of Audit Firm Rotations						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
Upward	0.249	0.655***	–0.406***	0.274***	0.741***	0.517***
	(1.535)	(5.087)	(–2.678)	(4.887)	(4.408)	(4.464)
Lateral Big 4	0.040	0.504***	–0.464***	0.182***	0.524***	0.432***
	(0.800)	(10.080)	(–9.716)	(10.579)	(10.038)	(10.849)
Lateral non-Big 4	0.451*	0.510***	–0.059	0.139***	0.279**	0.281***
	(1.870)	(2.766)	(–0.363)	(3.120)	(2.158)	(3.157)
Downward	0.077	0.398***	–0.321**	0.158***	0.446***	0.373***
	(0.536)	(3.756)	(–2.385)	(4.020)	(3.108)	(3.890)
PARTNERCHANGE	0.007	0.080***	–0.073**	0.029***	0.075**	0.059***
	(0.225)	(3.084)	(–2.479)	(3.149)	(2.721)	(3.127)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.355	0.185	0.221	0.102	0.177	0.109
Panel B: Timing of Audit Firm Rotations						
Variable	(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
Q1	–0.075	0.454***	–0.530***	0.219***	0.610***	0.442***
	(–0.760)	(4.592)	(–4.797)	(5.593)	(5.348)	(5.764)
Q2	0.109**	0.513***	–0.404***	0.184***	0.501***	0.420***
	(2.075)	(10.528)	(–8.179)	(10.640)	(9.427)	(10.692)
Q3	0.221	0.317**	–0.096	0.058	0.467***	0.151**
	(1.207)	(2.492)	(–0.632)	(1.564)	(2.824)	(2.094)
Q4	0.174	0.794***	–0.620***	0.249***	0.414**	0.733***
	(0.557)	(2.759)	(–3.243)	(3.557)	(2.043)	(3.459)
After Q4	–0.310	0.589*	–0.899***	0.301**	0.517***	0.851**
	(–0.958)	(1.932)	(–3.328)	(2.460)	(4.012)	(2.145)
PARTNERCHANGE	0.007	0.081***	–0.074**	0.029***	0.076***	0.060***
	(0.219)	(3.095)	(–2.495)	(3.144)	(2.726)	(3.145)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R^2	0.354	0.186	0.221	0.104	0.176	0.112

This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. Panel A differentiates the direction of an audit firm rotation, where the corresponding variables equal one if an audit firm rotation occurs in the respective direction in the year, and zero otherwise. Panel B differentiates the timing when an audit firm rotation occurs. The corresponding variables equal one if an audit firm rotation takes place in the respective quarter, and zero otherwise. Country-, industry-, and year-fixed effects are included. Standard errors are clustered at the firm level. *, **, and *** denote significance at the 1%, 5%, and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix C.1.

Furthermore, I investigate whether the pronounced fresh-look effect of audit firm rotations on KAM disclosure persists for all directions of audit firm rotations. I create four indicator variables that take the value of one if the audit firm rotation occurs in the respective direction—from non-Big 4 to Big 4 (*Upward*), Big 4 to Big 4 (*Lateral Big 4*), non-Big 4 to non-Big 4 (*Lateral non-Big 4*), and Big 4 to non-Big 4 (*Downward*)—and zero otherwise. Panel A of Table C.10 shows that the increase in new KAMs and the omittance of prior-period KAMs is

significant and widely consistent for five of the six models, irrespective of the direction of the audit firm rotation. Only the number of KAMs increases in case of lateral non-Big 4 audit firm rotations. Overall, I find that audit firm rotations from non-Big 4 to Big 4 auditors are associated with the highest coefficients on a fresh-look effect.

Lastly, I consider the impact of the timing of audit firm rotations on the KAM disclosure variables. First-year audits require the incoming audit firm to set up its audit strategy and planning. Late engagements reduce the preparation time of new audit firms, which could (adversely) affect the audit (cf. Howard et al., 2023, p. 4). I define indicator variables as equal to one if audit firm rotations occur in the respective quarters of the audited financial year (*Q1* to *Q4*) or after the fourth quarter (*After Q4*) and zero otherwise. Panel B of Table C.10 illustrates that a fresh look persists throughout all different timings of audit firm rotations.

7 Discussion and Conclusion

Retaining the same auditor over a long period may lead to overfamiliarity with the auditee and result in less critical appraisal (Carey & Simnett, 2006). Similar audit strategies and identical focus areas over the years might miss emerging issues and could enable management to circumvent controls (Lennox & Wu, 2018). This is of particular relevance as the development of personal relationships could increase trust in management and impair auditor skepticism (Patterson et al., 2019). This study answers the question of whether audit firm and audit partner rotations represent an effective mechanism to overcome overfamiliarity and reinforce a fresh look at the audit by analyzing KAM reporting. Thereby, I exploit the dual rotation regime of mandatory audit partner and audit firm rotations to investigate the suspected fresh-look effects and answer the call for more cross-country evidence in the EU (e.g., Velte & Loy, 2018).

The results show that audit firm rotations are associated with pronounced changes in KAM disclosure, substantiating the fresh-look effect of external rotations. In contrast, the influence of audit partner rotations on the novelty of KAM reporting appears to be limited. These findings corroborate the argument of institutional pressures towards standardization within audit firms—for instance, through internal policies, guidelines, and best practices—that only rotations of the entire audit firm can overcome (Duboisée de Ricquebourg & Maroun, 2023). Moreover, various practical considerations may contribute to the limited fresh-look effect of audit partner rotations. Despite the individual audit partner's great importance found in some prior studies (e.g., Cameran et al., 2022; Horton et al., 2021), their influence might be attenuated as complex auditing mandates require large engagement teams, installing an EQCR, and consulting specialist auditors (e.g., Zimmerman et al., 2023). Similarly, the EU regulations demand that internal

rotations should occur on a gradual basis, underpinning the suspected “shadowing” practice of incoming audit partners (Gipper et al., 2021). Overall, the otherwise consistency in staff might explain the limited fresh-look effects of audit partner rotations.

These inferences remain unchanged when differentiating between mandatory and voluntary audit firm and partner rotations. The evidence suggests that, primarily, audit firm rotations yield a fresh look at the key audit areas, irrespective of the nature of the rotation. However, the findings on voluntary rotations could be preconditioned on the general requirement to rotate. Firms may decide to change their auditor in anticipation of an upcoming rotation obligation. This is especially true for audit firm rotations, as the EU audit reform prescribes a staggered timing of the audit firm rotation requirement, depending on the start of the engagement by the current audit firm. Therefore, the importance of mandatory rotations is likely even greater and extends to some part of the significant findings for voluntary rotations.

Consistent with the main results in Table C.6, I find indications that longer audit firm and partner tenure are associated with less novelty in KAM disclosure, substantiating the necessity of rotations to reinforce a new perspective on the audit. The fresh-look effects are most pronounced in the periods where the respective change occurs, further emphasizing the standardization within audit firms and the various practical considerations limiting fresh-look effects. These findings provide further arguments in favor of rotation requirements. Additional analyses show that the main findings are consistent, irrespective of the direction of the audit firm rotations. Thereby, rotations from non-Big 4 to Big 4 audit firms yield the highest coefficients on a fresh look, corresponding to the notion of more vigorous auditing by Big 4 auditors (e.g., Palmrose, 1988). Besides, the fresh-look effects of audit firm rotations persist across various timings of the rotation, suggesting that auditors maintain a fresh look even if they possess minimal preparation time in case of late audit firm rotations. This is particularly noteworthy as audits during the busy season are otherwise associated with an attenuated fresh look in this study.

Overall, in light of the mixed findings on the consequences of audit firm and partner rotations, this study presents novel evidence from the EU setting, highlighting a fresh-look effect associated with audit firm and—to a limited extent—with partner rotations. Thereby, I provide timely information for the review of the effects of the EU audit reform that has introduced mandatory audit firm rotation and KAM disclosure (European Commission, 2022). The findings of a fresh-look effect associated with audit firm rotations and the limited impact of audit partner rotations speak to the EU’s decision to introduce external rotation requirements in addition to the preexisting internal rotation rules.

Accordingly, the results show that the rotation requirement supports the promulgated goal of strengthening auditor independence and elevating professional skepticism (EU, 2014b). This study also provides new evidence to the longstanding debate on whether mandatory audit firm and partner rotation should be introduced. As Lennox (2014) details, many countries worldwide initially established audit firm rotation requirements in the past, only to repeal them shortly after, as high uncertainty still exists about the costs and benefits of the requirement. The results in favor of audit firm rotations that primarily realize a fresh-look effect might be of interest to regulators considering the implementation of audit firm rotation regulations. Future research might extend to countries with different institutional and cultural peculiarities, particularly in cross-country settings, to broaden the understanding of the fresh-look effects of audit firm and partner rotations. The EU itself also provides an interesting setting for future research as the mandatory rotation regulations require frequent audit firm and audit partner rotations in the upcoming years.

This study is subject to several limitations. First, the analyses are based on the available data in Audit Analytics and Refinitiv, which may result in the underrepresentation of some capital markets in the examined countries. Second, transitional effects might influence the results since audit firms may possess increased incentives to provide high-quality audits as many audit mandates become available due to the mandatory rotation requirements (Friedrich et al., 2023). Third, this study focuses on the fresh look of new audit firms and partners in terms of key audit areas and does not analyze the effect of rotations and changes in KAM disclosure on audit quality or capital markets, opening intriguing avenues for future research. Fourth, auditors could use their judgment in determining KAMs to overstate differences from their predecessors. However, enforcement agencies scrutinize KAM disclosure (e.g., APAS, 2020), and prior research indicates that expanded audit reports generally mirror the audit process (e.g., Camacho-Miñano et al., 2024; Elshafie, 2023; Sierra-García et al., 2019). Finally, I consider the fresh-look effects of audit firm and partner rotations but do not contemplate the costs associated with a rotation.

Despite the aforementioned limitations, the study makes important contributions to better understanding the effects of audit firm and audit partner rotations on the identification of key areas of an audit and provides intriguing avenues for future research to build on the European experience.

Appendix C.1: Variable Definitions

Variable	Definition
KAM Disclosure Variables	
KAMS	The number of key audit matters disclosed in the audit report.
NEW	The number of key audit matters disclosed in the audit report that were not disclosed in the audit report of the prior year.
OLD	The number of key audit matters disclosed in the audit report that were also disclosed in the audit report of the prior year.
P_NEW	*NEW* divided by *KAMS* per company.
DROPPED	The number of key audit matters disclosed in the audit report of the prior year that are not disclosed in the audit report of the current year.
CHANGED	The sum of *NEW* and *DROPPED* scaled by the number of key audit matters of the prior year.
Audit Firm and Audit Partner Rotation Variables	
AUDITORCHANGE	Indicator variable = 1 if the audit firm has changed, 0 otherwise.
PARTNERCHANGE	Indicator variable = 1 if the responsible engagement partner has changed while the audit firm has remained the same, 0 otherwise.
Audit Control Variables	
AUDITFEES	The natural logarithm of audit fees.
BIGFOUR	Indicator variable = 1 if the firm's auditor is a Big 4 auditor (Deloitte, EY, KPMG, or PwC), 0 otherwise.
BUSYSEASON	Indicator variable = 1 if the fiscal year ends on December 31, 0 otherwise.
NAF	The ratio of non-audit fees to total fees.
SPECIALIST	Indicator variable = 1 if the auditor is the annual audit fee market share leader in the country and industry of the firm.
Firm Control Variables	
AGE	Firm age calculated as years between the first year of Refinitiv year-end account figures for the firm and the current fiscal year.
CURASSETS	Current assets scaled by total assets.
GCO	Indicator variable = 1 if the firm receives a going concern opinion, 0 otherwise.
INVREC	Inventory and accounts receivable scaled by total assets.
LEVERAGE	Total debt scaled by total assets.
LOSS	Indicator variable = 1 if the firm has a negative net income, 0 otherwise.
MTB	Market-to-book ratio calculated as the market capitalization of the firm divided by the book value of common equity.
QUICK	Quick ratio calculated as the ratio of cash and equivalents plus accounts receivable to current liabilities.
ROA	Operating income scaled by total assets.
SIZE	Natural logarithm of total assets in thousands of EUR.

The appendix presents the definitions of the variables used in the regression models.

Appendix C.2: Main Regressions by Country

Country		(1) *KAMS*	(2) *NEW*	(3) *OLD*	(4) *P_NEW*	(5) *DROPPED*	(6) *CHANGED*
Austria	AFR	0.072	0.414*	–0.343	0.247**	0.111	0.587*
	APR	–0.236	–0.026	–0.210	0.005	–0.016	–0.032
Belgium	AFR	0.002	0.141	–0.143	0.089	0.163	0.181
	APR	0.348	0.363	–0.015	0.061	0.018	0.052
Croatia	AFR	–0.506*	–0.047	–0.458	0.038	0.747*	0.320
	APR	–0.091	0.258	–0.349	0.182	0.103	0.258
Cyprus	AFR	–0.340	2.044	–2.384**	0.266	–0.128	0.283
	APR	–0.369	0.316	–0.685	–0.017	0.303	–0.023
Denmark	AFR	0.031	0.644***	–0.614***	0.299***	0.246	0.707***
	APR	0.292**	0.188	0.104	0.038	0.021	0.037
Estonia	AFR	–0.749	–0.417	–0.332	–0.209	–0.505	–0.689**
	APR	–0.303	0.018	–0.322	–0.001	0.065	0.010
Finland	AFR	–0.082	0.368**	–0.449***	0.130***	0.415***	0.302***
	APR	0.046	–0.012	0.058	–0.007	–0.024	0.011
Germany	AFR	0.077	0.408***	–0.331***	0.141***	0.296***	0.333***
	APR	–0.041	–0.018	–0.023	0.013	0.028	0.029
Greece	AFR	–0.054	0.229	–0.283	0.056	0.052	0.152
	APR	0.022	–0.047	0.069	–0.038	–0.014	–0.081
Hungary	AFR	0.149	0.184	–0.036	0.030	0.727	0.314
	APR	0.665	–0.377	1.042*	–0.313	–0.388	–0.881**
Ireland	AFR	0.341	1.716**	–1.374**	0.465***	0.864***	1.324*
	APR	0.587***	0.466*	0.120	0.129	–0.188	0.217
Italy	AFR	0.124	0.349**	–0.225	0.173**	0.466***	0.416**
	APR	–0.047	0.005	–0.052	0.019	0.120	0.019
Latvia	AFR	1.743	2.588*	–0.845	–0.362	1.095	0.947
	APR	–2.283***	–1.045	–1.238	–0.428	1.482**	0.275
Lithuania	AFR	0.007	–0.149	0.156	–0.104*	–0.242	–0.316*
	APR	0.278	0.324	–0.046	0.134	0.186	0.255
Luxembourg	AFR	0.552	0.142	0.410	–0.078	–0.480	–0.225
	APR	0.479	0.825**	–0.345	0.234	0.794***	0.603
Malta	AFR	1.419*	2.911***	–1.492***	0.849**	0.845	2.454***
	APR	–0.137	0.110	–0.247	0.088	–0.167	0.206
Netherlands	AFR	–0.390	0.292	–0.682**	0.145	0.601*	0.209
	APR	–0.015	0.018	–0.034	–0.003	0.233	0.006
Norway	AFR	0.273**	0.602***	–0.330*	0.250***	0.285*	0.672***
	APR	0.091	0.086	–0.005	0.004	–0.098	–0.026
Poland	AFR	0.044	0.308	–0.264	0.113*	0.561***	0.351**
	APR	–0.433*	–0.137	–0.296	0.031	0.217	0.016
Portugal	AFR	–0.045	0.754**	–0.799**	0.217**	1.194***	0.648**
	APR	–0.136	–0.197	0.060	–0.031	–0.560	–0.089
Romania	AFR	0.233	0.868***	–0.635	0.519**	0.371	1.186***
	APR	–0.273	–0.003	–0.269	0.116	0.067	0.195
Spain	AFR	–0.075	0.498**	–0.574**	0.230***	0.809**	0.397***
	APR	–0.361**	–0.081	–0.280*	–0.020	0.077	0.047
Sweden	AFR	0.037	0.440***	–0.403***	0.218***	0.488***	0.491***
	APR	–0.111*	0.023	–0.134**	0.016	0.078	0.056
United Kingdom	AFR	0.172	0.779***	–0.607***	0.226***	0.991***	0.447***
	APR	0.160*	0.289***	–0.129	0.071***	0.140*	0.152***

The appendix presents the main regression results of Equation (C.1) on the influence of audit firm rotations (AFR) and audit partner rotations (APR) on the six dependent KAM variables, calculated by each country separately. Industry- and year-fixed effects are included. Standard errors are clustered at the firm level. *, **, and *** denote significance at the 1%, 5%, and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. Colored rows denote that *BUSYSEASON*, *GCO*, or *BIGFOUR* were omitted from the regression because the indicator variables consistently possess the same value in the respective country. The number of observations did not allow for separate regressions in Bulgaria, the Czech Republic, Iceland, Slovakia, and Slovenia.

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Declaration of Own Contribution

Part A of this doctoral thesis was co-authored with Rolf Uwe Fülbier and Jan Seitz.

My principal contributions to this research project encompassed the coordination and execution of the empirical data collection, as well as the design and computational implementation of the LDA topic model. These activities were supported by Jan Seitz. I also played a supporting role in the development of the systematization, research design, and data analysis, which were led by Jan Seitz. Rolf Uwe Fülbier was primarily involved in the positioning of the manuscript within the academic literature.

All three authors contributed to the writing of the project. I assumed primary responsibility for the comprehensive description of the sample, the technical implementation of the research methodology—the LDA model—and co-led the presentation and interpretation of the results, including the additional analyses, in collaboration with Jan Seitz. My co-author Jan Seitz was primarily responsible for drafting the systematization, theory development, and research design. Rolf Uwe Fülbier primarily focused on writing the introduction of the manuscript.

Part B included in this doctoral thesis was co-authored with Sven Hörner. The authors contributed equally to the conception, execution, and writing of the project.

Part C presented in this doctoral thesis was conducted independently by the author.