

CAM Reporting for Material M&A Transactions: Evidence from the First Year of AS 3101

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Abstract

PCAOB Auditing Standard 3101 requires auditors to disclose critical audit matters (CAMs) involving especially challenging, subjective, or complex auditor judgment. We examine reporting patterns for this judgment-based requirement in the context of mergers and acquisitions (M&As) during the first year of CAM implementation. Using a hand-collected sample of 627 large accelerated filers that disclosed at least one material acquisition in their annual report in fiscal years 2019-2020, we link disclosed M&A transactions to CAM disclosures in auditors' reports. Despite management's determination that the transaction was material and the complexity of acquisition accounting, only 46.4 percent of these disclosed M&A transactions received an M&A-related CAM. Analyses show that deal size is the only factor consistently associated with CAM reporting, while auditor independence, M&A expertise, and other M&A complexity measures are not. These findings provide descriptive evidence and indicate that quantitative transaction magnitude was the primary observable factor associated with early M&A-related CAM reporting, providing a benchmark for evaluating how CAM reporting for disclosed M&A transactions evolves as practices mature.

Keywords: Critical audit matters; mergers and acquisitions; auditor independence; M&A complexity; M&A expertise

Introduction

Auditing and financial reporting standards play an important role in promoting transparency, credibility, and confidence in the information provided to investors. In the United States, the Public Company Accounting Oversight Board (PCAOB) introduced Auditing Standard (AS) 3101 to enhance the informativeness of the auditor's report by requiring the communication of critical audit matters (CAMs). CAMs are matters communicated or required to be communicated to the audit committee that relate to accounts or disclosures that are quantitatively or qualitatively material to the financial statements and that involve especially challenging, subjective, or complex auditor judgment (PCAOB 2017). The standard reflects the longstanding materiality principle grounded in the reasonable investor framework articulated in Staff Accounting Bulletin (SAB) 99 and PCAOB AS 2105, under which information is considered material if there is a substantial likelihood that a reasonable investor would view it as important in making an investment decision, regardless of whether it exceeds conventional quantitative thresholds.

A growing body of literature examines the implementation and consequences of expanded auditor reporting. Prior studies document patterns in CAM disclosures (Beyer, Guragai, and Rapley 2025), investor and market reactions to CAM content (Christensen, Glover, and Wolfe 2014; Kachelmeier, Rimkus, Schmidt, and Valentine 2020; Klevak, Livnat, Pei, and Suslava 2023; Boo, Low, Shankar, and Tan 2025; Goh, Meyer, Pornupatham, Tan, and Viehitarawong 2025), managers' immediate responses to CAM disclosures (Bentley, Lambert, and Wang 2021; Fuller, Joe, and Luippold 2021; Burke, Hoitash, Hoitash, and Xiao 2023), and topic-specific effects such as those related to taxes (Drake, Goldman, Lusch, and Schmidt 2024), goodwill (Jahan and Karim 2024), and M&A transactions (Abbott and Buslepp 2023). Evidence from international settings similarly shows mixed results regarding the informativeness of enhanced auditor reporting (Gutierrez, Minutti-Meza, Tatum, and Vulcheva 2018; Lennox, Schmidt, and Thompson 2023). These studies collectively demonstrate that the introduction of CAMs has increased transparency, yet they also highlight substantial variation in the types of matters auditors choose to report. Consistent with this variation, practitioner evidence documents that M&A-related issues were among the more frequently reported CAM topics during the first year of AS 3101 implementation, although reporting practices differed markedly across firms and engagements (Lao and Wang 2021).

M&As provide a particularly relevant setting to examine CAM reporting because they typically are economically significant transactions that play a central role in firms' strategic growth, market expansion, acquisition of technology and human capital, and realization of operating

synergies, making them particularly salient to investors and other financial statement users. As a result, M&A transactions are likely to meet either quantitative or qualitative materiality thresholds, or both. From an auditing perspective, acquisition accounting under ASC 805 often involves estimation uncertainty, valuation complexity, and reliance on management assumptions, creating settings in which elevated auditor judgment is inherently required. From a materiality perspective, ASC 805 requires management to disclose acquisitions in the financial statement notes when they are either quantitatively or qualitatively material to financial statement users, consistent with SAB 99's investor-oriented definition of materiality. Accordingly, disclosed M&A transactions represent situations in which management has determined the acquisition to be either quantitatively or qualitatively material and that simultaneously involve audit areas characterized by heightened complexity and judgment.

Given these features, one would reasonably expect disclosed M&A transactions to frequently meet the definition of a CAM under AS 3101. However, despite the presence of both materiality and inherent audit complexity, only 46.4 percent of large accelerated filers (LAFs) that completed at least one disclosed acquisition in the first year of AS 3101 implementation received an M&A-related CAM. For example, EY reported an M&A-related CAM for WestRock Company's acquisition of KapStone Paper and Packaging Corporation, but did not do so for Workday Inc.'s acquisition of Scout RFP. This variation raises questions about cross-sectional differences in CAM reporting patterns for disclosed, material acquisitions during the initial year of AS 3101 implementation.

The goal of this study is to examine the factors associated with the reporting of M&A-related CAMs during the first year of AS 3101 implementation. We focus on auditor characteristics such as independence and M&A expertise, and on M&A complexity such as deal size and other acquisition-related complexity. M&A transactions are well-suited to this investigation because they incorporate both quantitative and qualitative dimensions of materiality and require substantial professional judgment. Moreover, the implementation year provides a unique environment to observe CAM reporting practices before firmwide templates, peer benchmarking, or herding behavior began to standardize reporting practices (Dannemiller, Doxey, Hoang, and Houston 2022; Griffith, Rousseau, and Zehms 2022).

To conduct our empirical analysis, we manually identified M&A transactions disclosed by management as material in Form 10-K for the 2019-2020 fiscal years and linked these disclosed transactions to CAM disclosures extracted from the corresponding auditors' reports. Consistent with the CAM definition and prior archival practice, we treat an acquisition

as material when management discloses the transaction in the 10-K and does not explicitly describe it as immaterial. This approach reflects management's application of materiality judgments under ASC 805 and SAB 99, which provides the basis for CAM reporting. Our sample includes 627 LAFs with at least one acquisition disclosed as material in the financial statements.

The multivariate results show that deal size is the only factor consistently associated with M&A CAM reporting. Auditor independence, non-audit services, tenure, and M&A expertise are not significantly related to the likelihood of CAM disclosure. These findings describe observable reporting patterns in which quantitative transaction magnitude was the dominant observable factor associated with M&A-related CAM disclosure. Because archival data do not permit direct observation of auditors' internal deliberations, these conclusions characterize broad disclosure patterns rather than specific decision processes.

Our study complements and extends Abbott and Buslepp (2023), who examine how investors respond to the disclosure of business-combination CAMs. While their analysis focuses on the consequences of M&A-related CAM disclosures, we examine factors associated with M&A-related CAM reporting for disclosed, material M&A transactions during the first year of AS 3101 implementation. Additionally, our study builds on the descriptive practitioner evidence in Lao and Wang (2021), who document early CAM reporting patterns, by providing systematic archival evidence on the factors related to M&A-related CAM reporting. By focusing on disclosed M&A transactions during the first year of AS 3101 implementation, we provide descriptive evidence on early reporting patterns before peer benchmarking and more standardized disclosure practices emerged.

Our study also contributes to the growing literature on CAMs by providing descriptive evidence on factors associated with CAM reporting in a high-judgment, high-materiality setting and during the standard's inaugural year. Because the first year of AS 3101 represents a unique regulatory transition period, our evidence provides a historical benchmark against which future research can compare subsequent reporting patterns. Our main contribution lies in documenting that quantitative indicators, particularly deal size, were prominently associated with early CAM reporting for material M&A transactions. This raises questions about the extent to which qualitative aspects of materiality emphasized by SAB 99 were incorporated into CAM reporting. Our descriptive evidence characterizes early CAM reporting practices under AS 3101 and helps identify areas where additional regulatory guidance may enhance consistency in future reporting.

This research has implications for auditors, regulators, and practitioners. Understanding the factors associated with CAM reporting helps inform efforts to improve the transparency of auditor communications

and encourages more consistent consideration of qualitative materiality. The results also underscore the ethical importance of communicating matters that require significant professional judgment, even when those matters may not be large in quantitative terms. Because acquisitions often require substantial audit judgment and involve assumptions that could materially affect financial reporting, transparent communication of these challenges is part of the auditor's ethical responsibility to support users' understanding of complex transactions. Policymakers may find these insights valuable when evaluating whether additional clarification or illustrative examples would support more uniform application of CAM requirements across audit firms.

Literature review and hypotheses development

Expanded auditor reporting under PCAOB AS 3101 requires auditors to communicate CAMs for matters that were especially challenging, subjective, or complex. Unlike traditional audit disclosures, CAMs are intended to convey information about areas of the audit associated with heightened complexity or uncertainty and therefore permit variation in reporting across engagements. As a result, CAM reporting outcomes are not mechanically determined by quantitative thresholds and may vary across firms and transactions.

A growing body of literature examines the implementation and consequences of CAM disclosures and their international equivalent, Key Audit Matters (KAMs). Prior studies document substantial variation in CAM content and frequency, as well as mixed evidence regarding their informativeness to users. More recent U.S.-based evidence shows that CAM disclosures can affect perceptions of uncertainty and prompt changes in management disclosure and reporting behavior (Klevak et al. 2023; Burke et al. 2023). Topic-specific research further suggests that CAMs related to taxes, goodwill, and M&As can shape reporting quality and investor assessments (Abbott and Buslepp 2023; Drake et al. 2024; Jahan and Karim 2024). Collectively, this literature highlights that CAM reporting is neither uniform nor automatic, reinforcing the importance of understanding the factors underlying auditors' disclosure decisions, particularly during the initial implementation period when CAM reporting practices had not yet converged, and auditor discretion was most observable.

CAM disclosures are closely related to financial statement materiality as defined under GAAP. Consistent with SAB 99, matters may be considered significant to users even when they fall below conventional quantitative benchmarks because qualitative factors can make even small items material. In practice, however, observable materiality-related outcomes in auditing and disclosure contexts are strongly associated with size-based financial statement measures, even as qualitative considerations are formally

emphasized (Choudhary, Merkley, and Schipper 2019). Archival evidence also suggests that qualitative considerations are reflected in reporting outcomes beyond numerical magnitude (Acito, Burks, and Johnson 2009) and that disclosure decisions in related contexts reflect heterogeneous and flexible thresholds in practice (Chung, Geiger, Paik, and Rabe 2021). Recent evidence further indicates that heightened uncertainty in materiality-related settings is associated with higher perceived audit risk and audit pricing (Huang, Li, Zhang, and Zhou 2024). Together, this research supports framing CAM disclosures as outcomes that are not mechanically determined by size-based rules and may reflect both quantitative and qualitative considerations.

CAM identification occurs within a principles-based reporting framework under AS 3101 that allows variation in disclosure across engagements. Prior behavioral auditing research shows that when standards permit discretion, auditors may rationalize judgments in ways that reflect contextual incentives rather than applying uniform criteria (Kadous, Kennedy, and Peecher 2003). Consistent with this view, CAMs have been characterized as a form of risk-related communication, with archival evidence showing associations between CAM characteristics and audit fees (Chen, Nelson, Wang, and Yu 2024). Together, this literature suggests that CAM reporting outcomes may vary systematically across engagements and contexts, rather than functioning as purely checklist-based disclosures.

Mergers and acquisitions provide a particularly salient context for examining CAM reporting patterns because acquisition accounting frequently involves valuation uncertainty, complex purchase price allocations, and reliance on management assumptions regarding fair value measurements and future performance. Prior research documents substantial variability in auditors' judgments when auditing goodwill and other acquisition-related valuations, reflecting the inherent subjectivity of these estimates (Glover, Taylor, and Wu 2017). Further, auditors' M&A expertise may influence how acquisition-related uncertainty is evaluated and addressed (Gal-Or, Hoitash, and Hoitash 2022). Evidence from expanded reporting regimes also suggests that M&A key audit matter disclosures increase with deal features tied to information asymmetry and overpayment risk, which are not fully captured by size alone (Nylen, Wangerin, and Zehms 2025).

Finally, the disclosure environment may constrain observable variation in CAM reporting, particularly in the initial implementation period. Prior research notes emerging norms and convergence in CAM reporting practices during early adoption (Dannemiller et al. 2022; Griffith et al. 2022). Consistent with this, research on expanded auditor reporting documents substantial boilerplate and template use in critical matter disclosures (Carlé, Pappert, and Quick 2023), and recent evidence suggests

that CAMs deviating from common practice are more informative than herding-consistent disclosures (Anding, Blay, and Bozanic 2025). These studies motivate a restrained framing in which CAM reporting reflects both audit firm-level heterogeneity and institutional forces that encourage convergence in disclosure language and scope.

Guided by this literature, we examine whether auditor independence, M&A expertise, and M&A complexity are associated with the decision to report an M&A-related CAM in the first year of AS 3101 implementation. Auditor independence has important implications in auditing research (DeFond and Zhang 2014; Dye 1993) and is relevant in the context of CAM disclosures because CAM disclosures may increase scrutiny, legal exposure, and potential client resistance. These pressures may create economic or relational incentives that weaken independence and may make auditors less willing to communicate matters involving significant judgment publicly. Auditor expertise may affect CAM reporting through a different mechanism. Auditors with greater M&A expertise may be better equipped to resolve complex valuation issues, thereby reducing perceived uncertainty and decreasing the likelihood that such matters are deemed to rise to the level of a CAM. Finally, transaction complexity directly affects audit difficulty. Larger or more complex acquisitions are more likely to generate audit challenges that meet the CAM criteria.

Based on the preceding discussion, we develop the following hypotheses:

- **H1:** Lower auditor independence is associated with a lower likelihood of reporting an M&A related CAM.
- **H2:** Greater auditor M&A expertise is associated with a lower likelihood of reporting an M&A related CAM.
- **H3:** Greater M&A complexity is associated with a higher likelihood of reporting an M&A related CAM.

Research methodology

Data and Sample

We restrict our sample to LAFs that were subject to the initial adoption of PCAOB AS 3101 and had fiscal year ends between June 30, 2019, and June 30, 2020. We focus on the first year of CAM reporting because it provides the clearest setting in which to observe early CAM reporting practices before peer practices, disclosure templates, or herding effects became more prevalent (Dannemiller et al. 2022; Griffith et al. 2022). Limiting the sample to LAFs also ensures consistency in regulatory requirements because CAM disclosures were mandatory for LAFs beginning June 30, 2019, while smaller filers were not required to comply until later periods.

We begin with an initial sample of 1,990 LAFs. To identify firms that completed at least one M&A during the fiscal year subject to the CAM reporting requirement, we manually review each firm's Form 10-K and search for disclosures referencing "acquisition(s)," "merger(s)," or "business combination(s)." We then identify material M&A transactions based on management disclosures in the financial statement notes, consistent with disclosure requirements under ASC 805. Accordingly, we exclude acquisitions that management explicitly described as immaterial in the Form 10-K.¹ This process yields an initial sample of 675 LAFs with at least one M&A disclosed as material during the period.

To mitigate the influence of extreme observations, we follow Leone, Minutti-Meza, and Wasley (2019) and remove influential observations identified using Cook's distance. We also exclude observations with missing data required for our analyses. The final sample comprises 627 LAFs that disclosed at least one material M&A transaction, of whom 291 (46.4 percent) received an M&A-related CAM and 336 (53.6 percent) did not. We obtain CAM disclosures from Audit Analytics.

Our focus on LAFs prioritizes internal validity over generalizability when examining CAM reporting decisions during the initial implementation period. Smaller filers were not required to adopt AS 3101 during this period and may be less likely to engage in material M&A activity. Thus, including them would introduce variation unrelated to audit judgment or transaction characteristics.

Variables and Model

We estimate the following logistic regression model to examine the association between auditor independence, M&A expertise, M&A complexity, and the likelihood that an auditor reports an M&A-related CAM:

$$CAM = \alpha_{1-3} AUDITOR INDEPENDENCE + \alpha_4 M\&A \\ EXPERTISE + \alpha_{5-8} M\&A COMPLEXITY + \alpha_{9-20} \\ CONTROLS + \text{Auditor Fixed Effects} + \text{Industry Fixed} \\ \text{Effects} + \varepsilon$$

The dependent variable, *CAM*, is an indicator variable equal to one if the auditor reports an M&A-related CAM in the expanded auditor's report and zero otherwise.

The *AUDITOR INDEPENDENCE* proxies included in the model capture observable economic incentives and experience that may influence

¹ For example, Walmart Inc. completed the acquisition of Flipkart, a foreign eCommerce business, in the second quarter of fiscal 2020 for cash consideration of \$16 billion and identified the Flipkart acquisition as immaterial in the 10-K. Therefore, we exclude this deal from our sample.

auditors' willingness to communicate challenging audit matters publicly. These measures do not directly observe auditor independence or judgment, but proxy for conditions that prior literature associates with variation in audit reporting behavior.

To capture incentives related to auditor independence, we include three commonly used proxies. *CLIENT IMPORTANCE* measures the ratio of a client's total fees to the total fees earned by the audit office and captures the economic significance of the client to the auditor (Craswell, Stokes, and Laughton 2002; Francis and Yu 2009). *NON-AUDIT SERVICE FEES* measure the proportion of non-audit fees relative to the total fees and reflect the strength of the auditor-client economic bond (PCAOB 2011; Carcello, Neal, Reid, and Shipman 2020). *AUDITOR TENURE* is measured as the natural logarithm of the length of the auditor-client relationship and captures familiarity that may influence reporting incentives and auditor objectivity (Myers, Myers, and Omer 2003; PCAOB 2011). While these proxies do not directly measure independence, they capture economic and relational incentives that may affect auditors' disclosure.

We also include *M&A EXPERTISE*. Following Gal-Or et al. (2022), we define *M&A EXPERTISE* as an indicator variable equal to one if the audit office has audited at least 50 public clients that completed acquisitions over a three-year period, and zero otherwise.² Office-level exposure represents the most granular observable proxy available in archival data and has been shown to capture meaningful variation in audit outcomes. Auditors with greater M&A experience may be better equipped to evaluate acquisition-related accounting issues, potentially reducing perceived uncertainty associated with such transactions.

The *M&A COMPLEXITY* captures observable features of the acquisition that are associated with elevated audit difficulty and valuation uncertainty. *DEAL SIZE* is measured as total deal value scaled by lagged total assets and reflects the transaction's quantitative magnitude. Consistent with anecdotal evidence and practitioner discussions, auditors often view deal size as a primary factor in evaluating whether an acquisition involves particularly challenging judgment that warrants CAM disclosure.³ *GOODWILL* is measured as goodwill recognized in the acquisition scaled by total deal value and captures the extent of unidentifiable assets subject to future impairment risk. Goodwill plays a critical role in acquisition accounting because it often reflects potential overpayment and can affect future profitability, making it an area that auditors closely scrutinize.

² Our results are robust to using alternative definitions of auditor M&A expertise following Gal-Or et al. (2022), including thresholds based on at least 40 clients, at least 30 clients, and 30% of all clients at the audit office.

³ We thank two audit partners for their helpful discussions about CAMs.

INTANGIBLE GROWTH measures growth in definite-lived and indefinite-lived intangible assets, excluding goodwill, and reflects valuation judgment related to identifiable intangible assets.

To further capture acquisition-related complexity, we include *COMPLEXITY*, defined as the change in the number of unique monetary XBRL tags disclosed in the annual financial statements from the pre-acquisition period to the post-acquisition period. Prior research shows that the level of XBRL tags captures accounting reporting complexity (Hoitash and Hoitash 2018), and that changes in reporting structure reflect increases in complexity associated with major transactions (Adams, Kim, Kravet, and Lee 2025). Our measure captures the incremental accounting reporting complexity attributable to the acquisition. While these measures do not directly observe auditors' deliberations, they proxy for transaction characteristics associated with greater reporting complexity and audit scope.

We include a comprehensive set of control variables based on prior research (e.g., Palmrose, Richardson, and Scholz 2004; Hoitash and Hoitash 2018). These controls account for whether the firm has completed multiple acquisitions, whether it is a serial acquirer, restatement announcements, overall accounting reporting complexity, firm size, financial condition, growth, auditor fixed effects, and industry fixed effects. All variables are defined in Table 1.

Table 1: Definition of Variables

Variables	Description	Variable Type
Dependent Variable		
<i>CAM</i>	1 if the auditor communicates an M&A-related CAM, 0 otherwise	Binary
Independent Variables		
AUDITOR INDEPENDENCE		
<i>CLIENT</i>	The ratio of a client's total fees to the sum of total fees for all clients in an office	Continuous
<i>IMPORTANCE</i>	The sum of non-audit fees divided by the total fees paid to the auditor	Continuous
<i>NON-AUDIT SERVICE FEES</i>	The natural log of the tenure of the auditor measured in years	Continuous
<i>AUDITOR TENURE</i>		
M&A EXPERTISE		
<i>M&A EXPERTISE</i>	1 if at least 50 clients at an audit office completed an acquisition in the current or prior two fiscal years, 0 otherwise	Binary
M&A COMPLEXITY		
<i>DEAL SIZE</i>	Total deal value scaled by lagged total assets	Continuous
<i>GOODWILL</i>	Goodwill scaled by total deal value	Continuous
<i>INTANGIBLE GROWTH</i>	Growth in definite-lived and indefinite-lived intangible assets, excluding goodwill, divided by total assets	Continuous
<i>COMPLEXITY</i>	the change in the accounting items (i.e., unique	Continuous

monetary XBRL tags) disclosed in the annual financial statements from before to after the acquisition

Control Variables

<i>MULTIPLE ACQUISITIONS</i>	1 if the client completed more than one acquisition, 0 otherwise	Binary
<i>SERIAL ACQUIRER</i>	1 if the client completed an acquisition in the current or prior two years, 0 otherwise	Binary
<i>RESTATEMENTS ACCOUNTING REPORTING COMPLEXITY (ARC)</i>	1 if the client announced a restatement, 0 otherwise	Binary
<i>SIZE</i>	The count of accounting items (i.e., XBRL tags) disclosed in the annual financial statements	Continuous
<i>LEVERAGE</i>	The log of total assets	Continuous
<i>MARKET-TO-BOOK</i>	Book value of debt divided by book value of assets	Continuous
<i>LOSS</i>	Market-to-Book ratio	Continuous
<i>FOREIGN SEGMENTS</i>	1 if the client reports a loss, 0 otherwise	Binary
<i>INTANGIBLE</i>	1 if the client has foreign operations, 0 otherwise	Binary
<i>TOTAL CAM</i>	The sum of business segments and geographic segments	Continuous
	The sum of definite-lived intangible assets, indefinite-lived intangible assets, and goodwill divided by total assets	Continuous
	The total number of CAMs in the auditor's report	Continuous

Results

Descriptive Statistics

Table 2 presents the descriptive statistics for *AUDITOR INDEPENDENCE*, *M&A EXPERTISE*, *M&A COMPLEXITY*, and control variables used in the regression analyses. With respect to *AUDITOR INDEPENDENCE* and *M&A EXPERTISE*, fees from a specific client account for approximately 13.0 percent of total fees at the engagement office, on average, and non-audit service fees represent 15.4 percent of total fees paid to auditors. The average auditor tenure is approximately 15 years. Only 1.4 percent of the audit offices in the sample are classified as having M&A expertise, indicating that high levels of M&A exposure at the office level are relatively uncommon.

Turning to *M&A COMPLEXITY*, the average deal size is 9.5 percent of lagged total assets, with a highly skewed distribution as reflected in the reported percentiles. Goodwill represents 45.9 percent of total deal value on average, consistent with acquisition accounting involving substantial unidentifiable assets. Growth in intangible assets excluding goodwill is modest, averaging 0.7 percent of total assets. The average increase in accounting reporting complexity following the acquisition is approximately

24 more unique monetary XBRL tags, indicating a meaningful expansion in reporting complexity associated with M&A activity.

Table 2: Descriptive Statistics

Variable	Mean	Std Dev	P25	Median	P75
AUDITOR INDEPENDENCE					
<i>CLIENT IMPORTANCE</i>	0.130	0.181	0.026	0.063	0.156
<i>NON-AUDIT SERVICE FEES</i>	0.154	0.131	0.044	0.130	0.237
<i>AUDITOR TENURE</i>	2.713	0.916	2.079	2.890	3.296
M&A EXPERTISE					
<i>M&A EXPERTISE</i>	0.014	0.119	0	0	0
M&A COMPLEXITY					
<i>DEAL SIZE</i>	0.095	0.147	0.012	0.037	0.112
<i>GOODWILL</i>	0.459	0.256	0.282	0.476	0.638
<i>INTANGIBLE GROWTH</i>	0.007	0.068	-0.010	-0.001	0.003
<i>COMPLEXITY</i>	23.576	48.404	-1	23	48
CONTROLS					
<i>MULTIPLE ACQUISITIONS</i>	0.341	0.475	0	0	1
<i>SERIAL ACQUIRER</i>	0.233	0.423	0	0	0
<i>RESTATEMENTS</i>	0.086	0.281	0	0	0
<i>ARC</i>	457.464	137.751	357	430	544
<i>SIZE</i>	8.658	1.406	7.631	8.525	9.506
<i>LEVERAGE</i>	0.321	0.205	0.164	0.315	0.452
<i>MARKET-TO-BOOK</i>	6.738	21.087	1.496	3.003	6.102
<i>LOSS</i>	0.289	0.454	0	0	1
<i>FOREIGN</i>	0.555	0.497	0	1	1
<i>SEGMENTS</i>	2.957	1.302	2	2	4
<i>INTANGIBLE</i>	0.326	0.232	0.106	0.301	0.515
<i>TOTAL CAM</i>	1.796	0.764	1	2	2

M&A-related CAMs by Audit Firm

Table 3 reports the frequency of M&A-related CAM disclosures by audit firm. Across the 627 M&A transactions disclosed as material in the sample, auditors report an M&A-related CAM in 291 cases (46.4 percent of material acquisitions). Reporting rates vary across audit firms. EY reports the highest percentage of M&A-related CAMs at 57.6 percent, followed by non-Big 4 auditors at 50.0 percent. KPMG and PwC report M&A-related CAMs in approximately 45.6 and 45.3 percent of cases, while Deloitte reports the lowest rate at 32.6 percent. These differences describe heterogeneity in observed reporting outcomes across audit firms, although the results do not identify the underlying drivers of this variation.

Table 3: Number of M&A CAMs by Audit Firm

	KPMG	Deloitte	PwC	EY	Non-Big 4	Total
Total material M&As	114	135	150	170	58	627
M&A CAMs reported	52	44	68	98	29	291
M&A CAMs reported as a percentage of total material	45.6%	32.6%	45.3%	57.6%	50.0%	46.4%

M&As

Test of Differences in Means

Table 4 presents the tests of differences in means between firms that report an M&A-related CAM and those that do not. For *AUDITOR INDEPENDENCE* and *M&A EXPERTISE*, we find no statistically significant differences in client importance, non-audit service fees, auditor tenure, or M&A expertise. These results indicate that, in univariate comparisons, the auditor characteristics examined do not distinguish between firms that report and those that do not report M&A-related CAMs.

In contrast, two *M&A COMPLEXITY* measures differ significantly across the two groups. Companies that received M&A-related CAMs engage in substantially larger transactions, with the difference in deal size significant at the one percent level. Reporting complexity is also significantly higher for firms with M&A-related CAMs. Other measures, including goodwill intensity and intangible asset growth, do not differ significantly across groups. Collectively, these univariate descriptive results suggest that certain *M&A COMPLEXITY* measures are the primarily observable features associated with M&A-related CAM disclosure in the first year of implementation.

Table 4: Test of Differences in Means

Variable	CAM = 0		CAM = 1		Difference
	N	Mean	N	Mean	
AUDITOR INDEPENDENCE					
<i>CLIENT IMPORTANCE</i>	336	0.134	291	0.126	0.008
<i>NON-AUDIT SERVICE FEES</i>	336	0.161	291	0.146	0.015
<i>AUDITOR TENURE</i>	336	2.748	291	2.673	0.075
M&A EXPERTISE					
<i>M&A EXPERTISE</i>	336	0.015	291	0.014	0.001
M&A COMPLEXITY					
<i>DEAL SIZE</i>	336	0.034	291	0.166	-0.132***
<i>GOODWILL</i>	336	0.471	291	0.445	0.026
<i>INTANGIBLE GROWTH</i>	336	0.009	291	0.006	0.003
<i>COMPLEXITY</i>	336	14.711	291	33.811	-19.100**
CONTROLS					
<i>MULTIPLE ACQUISITIONS</i>	336	0.339	291	0.344	-0.004
<i>SERIAL ACQUIRER</i>	336	0.211	291	0.258	-0.046
<i>RESTATEMENTS</i>	336	0.089	291	0.082	0.007
<i>ARC</i>	336	463.003	291	451.069	11.934
<i>SIZE</i>	336	8.819	291	8.472	0.347***
<i>LEVERAGE</i>	336	0.330	291	0.311	0.019
<i>MARKET-TO-BOOK</i>	336	7.423	291	5.947	1.475
<i>LOSS</i>	336	0.262	291	0.320	-0.058
<i>FOREIGN</i>	336	0.613	291	0.488	0.125***
<i>SEGMENTS</i>	336	3.086	291	2.808	0.279***
<i>INTANGIBLE</i>	336	0.300	291	0.356	-0.056***
<i>TOTAL CAM</i>	336	1.402	291	2.251	-0.849***

Multivariate Analysis

Table 5 presents the results of logistic regression analyses examining the association between auditor independence, M&A expertise, M&A complexity, and the likelihood of reporting an M&A-related CAM. Column (1) includes only auditor characteristics such as independence and M&A expertise, Column (2) adds M&A complexity, and Column (3) further includes control variables, auditor fixed effects, and industry fixed effects.⁴

Consistent with the univariate results, none of the auditor independence measures nor M&A expertise are significantly associated with the likelihood of reporting an M&A-related CAM across model specifications. These findings indicate that the auditor attributes examined in this study do not explain cross-sectional variation in M&A-related CAM reporting during the initial year of AS 3101.

In contrast, deal size is the only M&A complexity measure consistently and significantly associated with M&A-related CAM disclosure. The coefficient on deal size is positive and significant across specifications, indicating that larger acquisitions are substantially more likely to be reported as CAMs. The strong association between deal size and CAM disclosure is consistent with prior evidence showing that auditors' materiality judgments in practice are heavily anchored in size-based benchmarks, particularly when judgments must be documented and defended ex post (Choudhary et al. 2019). Other M&A complexity measures, including goodwill intensity, intangible asset growth, and accounting reporting complexity, are not significantly associated with CAM reporting after controlling for deal size and other factors.

The Area under the ROC Curve (AUC) increases from 0.537 in Column (1) to 0.849 in Column (2), indicating that the inclusion of M&A complexity materially improves the model's ability to classify M&A related CAM outcomes.⁵ The AUC increases further to 0.935 in Column (3) with the inclusion of controls and fixed effects. This classification performance is driven primarily by observable transaction characteristics, particularly deal size, rather than by auditor-specific attributes.

⁴ To address potential multicollinearity concerns, we estimate corresponding linear probability models (LPMs) and compute variance inflation factors (VIFs). The mean VIF is 1.02, 1.05, and 2.44 in Columns (1), (2), and (3), respectively, indicating that multicollinearity is not a concern.

⁵ The area under the ROC curve ranges from 0 to 1, with values above 0.7 as acceptable and above 0.9 as excellence (Bradley 1997).

Table 5: Logistic Regression Results

Variables	(1)	(2)	(3)
	<i>CAM</i>		
Intercept	0.204 (0.776)	-1.218*** (-3.253)	-0.261 (-0.210)
AUDITOR INDEPENDENCE			
<i>CLIENT IMPORTANCE</i>	-0.192 (-0.426)	-0.024 (-0.045)	-0.690 (-0.871)
<i>NON-AUDIT SERVICE FEES</i>	-0.789 (-1.266)	-0.335 (-0.442)	0.245 (0.235)
<i>AUDITOR TENURE</i>	-0.074 (-0.833)	0.050 (0.473)	0.130 (0.849)
M&A EXPERTISE			
<i>M&A EXPERTISE</i>	-0.085 (-0.125)	0.051 (0.061)	0.014 (0.008)
M&A COMPLEXITY			
<i>DEAL SIZE</i>		16.902*** (9.248)	15.630*** (7.384)
<i>GOODWILL</i>		-0.485 (-1.245)	-0.746 (-1.385)
<i>INTANGIBLE GROWTH</i>		-0.675 (-0.371)	-0.425 (-0.161)
<i>COMPLEXITY</i>		0.003 (1.388)	0.003 (0.924)
Control Variables	Excluded	Excluded	Included
Auditor Fixed Effects	Excluded	Excluded	Included
Industry Fixed Effects	Excluded	Excluded	Included
Sample Size	627	627	627
Area under the ROC Curve (AUC)	0.537	0.849	0.935

Deal Size and CAM Reporting

Figure 1 illustrates the frequency of M&A-related CAM disclosures by deal size quintile. Consistent with the regression results in Table 5, the figure shows a monotonic increase in the likelihood of CAM reporting as deal size increases. Only 6.9 percent of material M&A transactions in the smallest quintile received a CAM, compared to 23.4 percent in the second quintile, 44.4 percent in the third quintile, 68.3 percent in the fourth quintile, and 91.8 percent in the largest quintile. The figure visually reinforces the multivariate findings by demonstrating that deal size is the primary observable factor associated with M&A-related CAM reporting.

While these results highlight a strong association between deal size and CAM disclosure, they do not capture unobservable factors such as auditor-client negotiation dynamics, internal firm review processes, or engagement-level deliberations, which may also influence reporting outcomes.

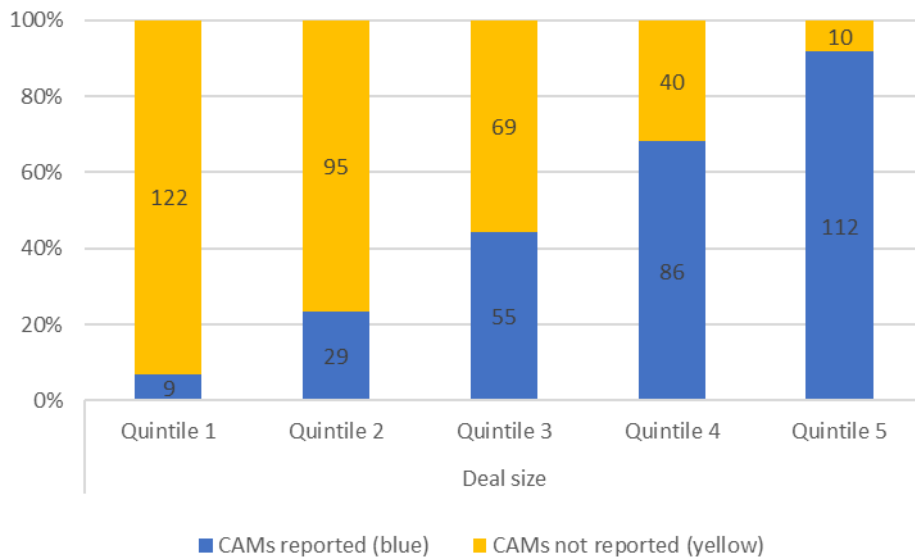


Figure 1: Frequency of M&A-related CAMs by Deal Size Quintile

Summary of Results

Overall, these results indicate that M&A-related CAM reporting during the first year of AS 3101 implementation was primarily associated with observable transaction characteristics, particularly deal size, rather than with auditor characteristics such as independence or M&A expertise. These descriptive findings document reporting patterns in which readily observable quantitative signals were the dominant factor associated with M&A-related CAM disclosure, consistent with a conservative and standardized implementation approach during the initial adoption period.

Discussion and Conclusion

This study examines the factors associated with reporting patterns of M&A-related Critical Audit Matter (CAM) disclosures during the first year of AS 3101 implementation. Using a sample of LAFs that disclosed acquisitions as material based on management’s materiality determination, we document a clear descriptive pattern: M&A-related CAM reporting is strongly associated with transaction size, whereas observable auditor independence measures and office-level M&A expertise are not systematically associated with CAM disclosure decisions. These findings describe observable reporting patterns during the first year of a new judgment-based reporting requirement in a complex audit setting.

The prominence of deal size in the observed reporting patterns indicates that early M&A-related CAM disclosures were strongly associated with readily observable quantitative indicators. Although AS 3101 and SAB

99 emphasize qualitative materiality and professional judgment, the observed reporting pattern shows that transaction magnitude was the dominant factor associated with M&A-related CAM disclosure. This pattern is consistent with a conservative implementation approach in which auditors prioritized clear and defensible criteria in the standard's inaugural year.

Importantly, the prominence of deal size does not imply that other aspects of M&A complexity were irrelevant to auditors' deliberations. Rather, qualitative dimensions such as valuation uncertainty, integration risk, or strategic importance may have been more difficult to operationalize consistently in public disclosures, particularly in the absence of established norms or illustrative guidance. In this sense, early CAM reporting reflects constrained judgment shaped by both professional considerations and institutional features of initial adoption.

Contrary to our hypotheses, we find no evidence that auditor independence proxies or M&A expertise are associated with the likelihood of reporting an M&A-related CAM. These null results should not be interpreted as evidence that auditor incentives or experience are unimportant. Instead, these reporting patterns suggest that observable differences in auditor independence or M&A expertise did not translate into differential reporting outcomes during the first year of AS 3101 implementation. Institutional constraints such as internal firm review processes, risk management considerations, and emerging disclosure templates may have compressed cross-auditor variation, leading transaction-level characteristics that are easily verifiable to dominate disclosure decisions.

The findings also have ethical implications for auditors' communication responsibilities under AS 3101. CAM disclosures are intended to enhance transparency by highlighting matters that required particularly challenging or subjective auditor judgment. When CAM reporting is driven primarily by quantitative indicators such as deal size, there is a risk that material transactions involving significant qualitative uncertainty receive limited attention in the auditor's report. For stakeholders, this may reduce the usefulness of CAMs as signals of where audit effort and professional judgment were most heavily applied, particularly for acquisitions that are strategically important or highly judgment-intensive despite being smaller in magnitude.

From an ethical perspective, auditors face a tension between consistency and completeness in CAM reporting. Emphasizing easily defensible quantitative thresholds may promote comparability and reduce exposure to challenge, especially during early implementation. Prior evidence suggests that auditors' reliance on quantitative materiality thresholds reflects a conservative response to inspection and litigation risk rather than an absence of professional judgment (Choudhary et al. 2019),

highlighting the ethical challenge of ensuring that qualitatively complex but smaller transactions receive appropriate disclosure attention. At the same time, an overreliance on size-based criteria may understate engagement-specific complexity and obscure risks relevant to users' understanding of the financial statements. Balancing quantitative and qualitative considerations requires auditors to evaluate not only the magnitude of an acquisition but also the nature of the underlying uncertainties and the extent of audit judgment involved.

As with any archival study, our findings should be interpreted in light of several limitations. Archival data do not permit direct observation of auditors' internal deliberations, client negotiations, or firm-level review processes, and our measures of auditor independence, expertise, and transaction complexity are necessarily proxies. Consistent with evidence that most observable variation in auditors' materiality judgments is driven by size-based factors rather than qualitative deliberations (Choudhary et al. 2019), our measures capture reporting outcomes rather than the full scope of unobservable internal judgment processes. In addition, our focus on LAFs during the first year of AS 3101 implementation enhances internal validity but may limit generalizability to later periods or smaller registrants. Accordingly, our inferences describe associations in reporting outcomes rather than causal effects. Furthermore, these descriptive reporting patterns of M&A CAMs may not generalize to auditor judgment more broadly.

Despite these limitations, this study contributes to the CAM literature by providing descriptive evidence on how auditors applied a judgment-based disclosure requirement in a highly complex setting during the standard's inaugural year. By establishing a baseline for early CAM reporting practices, our findings offer a benchmark for future research examining how M&A CAM disclosures evolve as auditors gain experience, guidance develops, and reporting norms mature. Future research could examine whether qualitative aspects of M&A complexity become more salient in CAM reporting over time, how internal audit firm processes shape disclosure decisions, and how users interpret CAMs that emphasize qualitative versus quantitative risk factors. As CAM practices mature, continued attention to how auditors communicate judgment-intensive issues will be important for maintaining public trust and ensuring that expanded auditor reporting fulfills its intended role in promoting transparency and accountability.

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