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It's a matter of style: The role of audit firms and audit partners in key audit matter reporting

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Abstract

We examine the relative importance of audit firm versus partner decision styles in key audit matter (KAM) reporting. Standard setters intended KAMs to increase the usefulness of the audit report by requiring the partner-led engagement team to disclose engagement-specific information about the most significant judgments they made during the audit. However, stakeholders expressed widespread concern that audit firms' longstanding efforts toward standardization would result in generic KAMs at the audit firm level and provide partners little opportunity or incentive for engagement-specific reporting. We evaluate this high-stakes tension between standard setters' goals for audit reporting and auditors' deep-rooted practices by leveraging data from the United Kingdom, which has required partner identification since 2009 and expanded audit reports since 2013. We find that clients sharing the same partner receive KAMs that are 10% more textually similar than clients with different partners. In contrast, clients sharing the same audit firm receive KAMs that are just 2% more textually similar than clients with different audit firms. This implies that partner decision styles are more important in influencing KAM outcomes than audit firm styles. Collectively, our results suggest that partners make unique KAM reporting judgments, countering concerns that audit firms' efforts toward standardization will yield boilerplate KAMs. This evidence extends the literature on expanded audit reporting and partner decision styles and provides valuable insights into a contemporary issue in audit regulation with broader implications for understanding dynamics within the profession.

KEYWORDS
audit firm, audit partner, audit regulation, decision style, expanded audit reporting, key audit matters

Une question de style : le rôle des cabinets d'audit et des associés d'audit dans la divulgation des questions clés d'audit

Résumé

Les auteurs examinent l'importance relative du style décisionnel du cabinet d'audit par opposition à celui de l'associé dans la divulgation des questions clés d'audit (QCA). Selon les normalisateurs, les QCA ont pour but d'accroître l'utilité du rapport d'audit en exigeant de l'équipe dirigée par l'associé et chargée de la mission de contrôle légal de divulguer des informations spécifiques à la mission sur les jugements les plus importants qu'elle a émis au cours de l'audit. Toutefois, les parties prenantes ont exprimé leur inquiétude sur le risque que les efforts de normalisation déployés depuis longtemps par les cabinets d'audit aboutissent à des QCA basiques au sein des cabinets et n'offrent aux associés que peu d'occasions ou de motivations pour communiquer des rapports spécifiques à la mission. Les auteurs évaluent cette tension entre les objectifs des normalisateurs en matière de communication de rapport d'audit et les pratiques profondément enracinées des auditeurs en exploitant des données provenant du Royaume-Uni, qui exige l'identification des associés depuis 2009 et des rapports d'audit élaborés depuis 2013. Ils constatent que les clients ayant le même associé reçoivent des QCA dont la similitude textuelle est de 10 % plus importante que celle des clients ayant différents associés. En revanche, les clients fréquentant le même cabinet d'audit reçoivent des QCA dont la similitude textuelle n'est que de 2 % plus importante que celle des clients fréquentant différents cabinets d'audit. Cela signifie que les styles décisionnels des associés sont plus importants pour influencer les résultats des QCA que les styles des cabinets d'audit. Dans l'ensemble, ces résultats suggèrent que les associés émettent des jugements distincts quant à la divulgation des QCA, ce qui va à l'encontre des préoccupations selon lesquelles les efforts des cabinets d'audit sur le plan de la normalisation aboutiraient à des QCA basiques. Ces données contribuent aux études sur la communication de rapport d'audit élaboré et les styles décisionnels des associés, et fournissent des informations précieuses sur un problème contemporain lié à la réglementation de l'audit ayant des implications plus larges pour la compréhension des dynamiques au sein de la profession.

MOTS-CLÉS

associé d'audit, cabinet d'audit, communication élargie de l'audit, questions critiques de l'audit, réglementation de l'audit, style décisionnel

1 | INTRODUCTION

We examine the relative importance of audit firm-level and partner-level decision styles in explaining key audit matter (KAM) reporting. KAMs are audit report disclosures describing matters of the most significance to the audit due to their challenging nature, subjectivity, application of professional judgment, and/or use of specialists (IAASB ISA 701, 2016). Existing literature on the sociology of the accounting profession identifies tension between firms' efforts toward standardization of audit products and partners' role as knowledge entrepreneurs who leverage their expertise and proprietary knowledge of the client to make engagement-specific decisions (Covaleski et al., 1998; Dirsmith et al., 1997, 2015). Research reveals audit firm-level styles for client financial reporting and audit quality (Cook et al., 2020; Francis et al., 2014; Francis & Michas, 2013). Other studies report that partners' unique styles predict audit fees, audit quality, and client earnings comparability (Cameran et al., 2020; J. Z. Chen et al., 2020; Gul et al., 2013; Mauritz et al., 2023; Taylor, 2011). Against this backdrop, stakeholders are concerned that KAMs will become "boilerplate" based on audit firms' central guidance rather than partners' judgments about client-specific circumstances (Gunn, 2016; Heffes, 2013; PwC, 2014).

Our study investigates the relative importance of audit firm-level and partner-level styles in explaining KAM reporting outcomes, answering the call in Minutti-Meza (2021) for research "determining whether and how the expanded report affects the auditor's process." We define style as the audit firm's (partner's) unique and stable pattern for issuing textually similar KAMs across clients and reporting years. To inform our investigation, we draw on institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) to understand how KAM reporting standards—the first significant change in audit reporting in over 70 years—relate to legitimated practices in the accounting profession (Dirsmith et al., 1997; Fogarty et al., 2006; Greenwood et al., 2002). There is tension between existing institutional norms (Power, 2003) and the application of individual professional expertise in auditing (Tinker & Koutsaumadi, 1997). Decisions about the audit report—the single most important outcome of the audit process—are a high-stakes setting in which to evaluate this tension.

We construct a sample of client company-year peer pairs to understand the extent to which sharing an audit partner versus sharing an audit firm yields more similar KAM reports. We measure KAM similarity using the cosine textual similarity between the pair's KAMs after down-weighting commonly used words. We examine KAM reports of London Stock Exchange (LSE) main market companies from 2013, the start of KAM reporting in the United Kingdom, through 2019. Our sample comprises 54,405 company-peer pairs, each from the same industry, consisting of 1,378 company-year observations from 22 audit firms and 345 partners.

We find that partner styles are much more important in influencing KAM similarity than audit firm styles. Specifically, sharing the same partner is associated with KAMs that are 10% more textually similar, whereas sharing the same firm is associated with KAMs that are 2% more similar. In supplemental testing, we show that partners are more important than firms in influencing similarity in the number, topic, length, strong and weak modal tone, and cognitive processing tone of KAMs. We find that partners and firms are equally important to influencing the readability and positive or negative tone of KAMs, consistent with audit firms guiding partners toward words that are more understandable to readers and more neutral. Finally, we show that in the early years of KAM reporting (2013–2014), audit partners and firms have about the same influence on KAM outcomes, but that firm influence declines and partner influence dominates as time passes. Collectively, our results suggest that despite the longstanding legitimation of standardized audit reporting and broader trends toward firm-level systematization of audit processes, regulatory requirements for KAM reporting successfully exert pressure such that KAMs reflect individual partners' judgments about engagement-specific circumstances.

In supplemental tests, we investigate the potential consequences of partners' KAM styles. KAM reporting may provide partners with a new opportunity to signal publicly the quality they deliver via superior descriptions of their important judgments and related audit procedures.

While prior literature suggests that KAM regulation did not enhance the usefulness of the audit report to investors (Bédard et al., 2019; Gutierrez et al., 2018; Lennox et al., 2022), it is possible that a partner's persistent KAM style could yield an informative signal of partner-level quality even if any one KAM report is not informative about the client. We test this possibility by examining whether partners' KAM styles are associated with audit fees, quality, and investor response. We find no significant associations, suggesting that KAM reporting does not provide partners the opportunity to signal their individual quality. We conduct further supplemental tests examining the association between partners' KAM styles and characteristics such as gender, educational background, and professional experience. We find few significant associations between these characteristics and KAM styles, as well as low explanatory power. This suggests other factors, such as partners' cognition and professional judgment, drive KAM reporting styles.

We employ extensive controls for economic and accounting similarity, as well as a battery of robustness tests, to rule out the possibility that partners' KAM styles arise because the clients within a partner's portfolio are economically similar due to the endogenous matching of partners with clients. We examine year-over-year changes in the KAMs of partners' new versus continuing clients and find that partners change new-client KAMs to make them more similar to those of their existing clients. We find no significant similarity between the KAMs of a partner's existing clients and the KAMs of new clients in the 2 years before the partner is hired; the similarity occurs after the partner signs both clients' KAM reports. Our results are also robust to a subsample of client-peer pairs with exogenous (mandatory) partner rotations, employing a coarsened exact matching algorithm, and controlling for unique features of financial disclosure regulation in the United Kingdom.

Our study provides a number of contributions to research, regulation, and practice. First, by answering the call in Cooper and Robson (2006) to focus on the audit firm as an important site of professionalization where accounting standards are translated into practice, we provide evidence about KAM implementation relevant to regulators and audit report users. Our finding that audit firm-level styles are relatively less important than individual partner styles in predicting KAM outcomes provides evidence that the fear that KAMs would become boilerplate at the audit firm level has not been realized. Instead, our results suggest that individual partners are the locus of KAM decisions, making engagement-specific judgments as regulators intended. This evidence complements Griffith et al.'s (2023) interview-based evidence on partners' KAM implementation, answering the call for greater emphasis on multi-method triangulation in accounting research (Bloomfield et al., 2016; Dyckman & Zeff, 2014).

Second, we extend the expanded audit reporting literature by showing that audit firm and partner styles are important determinants of variation in KAM disclosures. Little is known about the determinants of KAM reporting, with most of the extant archival and experimental literature examining the consequences of KAMs (Burke et al., 2023; Christensen et al., 2014; Elliott et al., 2020; Gutierrez et al., 2018; Kachelmeier et al., 2020; Lennox et al., 2022). The few studies examining KAM determinants focus primarily on client-related factors, such as estimates and tax complexity (Andreicovici et al., 2021; Burke et al., 2023; Drake et al., 2021; Lynch et al., 2022). Rousseau (2022) shows that audit committee (AC) characteristics are significantly associated with KAM outcomes, illustrating the importance of individual decision-makers in KAMs. We extend this literature by demonstrating that partner decision styles (and, to a lesser extent, audit firm styles) are important determinants of KAM outcomes.

Third, we leverage the KAMs setting to overcome endogeneity and generalizability challenges in existing studies of partner decision styles. Prior studies show that sharing the same auditor results in higher accounting and earnings comparability (Cameran et al., 2020; J. Z. Chen et al., 2020; Jiu et al., 2020) and that shared partners drive more similarity in clients' narrative disclosures than shared audit firms (Mauritz et al., 2023). Measuring partner styles via client financial reporting outcomes poses identification challenges because "a company's financial reporting quality is a joint product of the accounting choices made by *both* the

company *and* its auditor. This increases the odds that a researcher will incorrectly ascribe the client's financial reporting quality to the characteristics of the audit partner rather than the client's own characteristics" (Lennox & Wu, 2018, p. 24). In contrast, the audit report is the sole purview of the independent auditor, and KAMs are a direct result of the partner's decision-making to which the partner signs his or her name. As a result, we mitigate the endogeneity limitations of prior literature "by measuring more directly what audit partners actually do during the audit. This can help to reduce the risk that the documented associations capture client characteristics rather than a partner effect" (Lennox & Wu, 2018, p. 24). Some prior literature examines auditor reporting choices via going-concern reporting and modified opinions, which auditors rarely issue and that often contain standardized language (S. Chen et al., 2010; Goodwin & Wu, 2016; Hardies et al., 2014; He et al., 2017; Sundgren & Svanström, 2014; Ye et al., 2011). In contrast, the KAMs setting provides a unique opportunity to examine nuanced textual attributes of partners' reporting decisions in a large and generalizable sample of companies.

Fourth, we extend the literature on the partner-level drivers of audit decisions. Prior literature on partners' audit quality styles finds partner-level differences important, but "demographic variables explain very little of the inter-partner variation in audit outcomes" (Cameran et al., 2020; Francis, 2023, p. 22; Gul et al., 2013). However, other research finds that demographic characteristics such as partner age or gender are associated with audit outcomes (Hardies et al., 2014; Ye et al., 2011). Our study extends this literature in two ways. First, we leverage the identification advantages of the KAMs setting (discussed above) to measure more directly the partner's decision outcomes. This addresses the possibility that prior literature struggles to detect strong demographic effects because it examines outcomes that are the joint product of the auditor and client (Lennox & Wu, 2018). Second, we examine novel partner characteristics prior literature does not consider, including international rotations, client secondments, practice leadership roles, majoring in a nonaccounting field of business or economics, attending a foreign university, and experience serving foreign clients.[1] Despite these empirical advantages, our results show that partner characteristics do not meaningfully explain KAM reporting styles. Instead, our results imply that other factors, such as professional judgment, skepticism, and risk attitudes, drive inter-partner variation, setting the stage for behavioral research to examine these factors.

Finally, we provide archival evidence that institutional theory accurately explains the audit profession's response to new regulation by showing that the relative importance of audit firm-versus partner-level styles changes over time. Institutional theory predicts that organizations and the individuals within them respond to the uncertainty associated with change by copying each other's behavior and converging to common practices. Accordingly, we show that in the early years of KAM reporting, audit firm and partner styles are equally important to KAM reporting. As time passes, the audit firm's importance declines, and the partner's decision style dominates. This is consistent with partners' exercising more individualized expert judgment as they gain specialized knowledge about KAM reporting, as well as the firm reducing coercive pressure on partners to standardize as fears about unintended negative consequences of KAMs fade. However, we find that KAM reporting does not provide audit partners the opportunity to publicly signal their audit quality, consistent with existing skepticism about the usefulness of KAMs (Minutti-Meza, 2021). Collectively, our evidence provides a lens informing future research on auditing regulation, especially given the new standards on audit firm quality control practices (Financial Reporting Council [FRC], 2021).

We proceed as follows. Section 2 contains our literature review and hypotheses. Section 3 articulates methods, Section 4 discusses results, and Section 5 concludes.

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[1]International rotations refer to situations in which globally networked audit firms send an auditor from one member firm to another to serve in a specific role for a set period of time (Westermann & Downey, 2022). Client secondments refer to situations in which an auditor takes a leave of absence from their audit firm to work in a management and/or accounting function of a former client. Client secondments were permitted throughout our sample period and have only recently been banned due to independence concerns effective March 2020 (FRC, 2019).

2 | LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 | Institutional setting: The evolution of expanded audit reporting in the UK

The UK's Financial Reporting Council (FRC) sets auditing, governance, and financial reporting standards and led the evolution toward expanded audit reporting in the United Kingdom. In response to the financial crisis of 2008, the FRC issued a consultation paper proposing to expand narrative financial report disclosures by boards, audit committees, and auditors to provide users with a comprehensive understanding of how companies assess and manage risk (FRC, 2011a). Comment letters about the proposals ranged from generally supportive (National Association of Pension Funds, 2011; National Fraud Authority, 2011; PwC, 2011) to strongly disapproving—with concerns that users might find the disclosures boilerplate and irrelevant (PKF LLP, 2011; Unilever PLC, 2011). Ultimately, the FRC concluded "that auditors can and should provide increased insight into the audit process so as to reassure users of financial statements that all material matters have been properly disclosed" (FRC, 2011b, p. 5).

As a result, The FRC began requiring KAM-like "risk of material misstatement" disclosures for audits of LSE premium segment companies effective September 2013 (FRC, 2013).[2] These disclosures discuss the risks of material misstatement that auditors identify as having the greatest effect on audit strategy and resources (FRC ISA 700 19A-a). The FRC revised these disclosures to conform with the IAASB KAM reporting requirements in 2017 (FRC ISA 701, 2016b) and began requiring expanded audit reports for LSE standard segment companies. The FRC's goal for these standards was to respond to users' information needs, as follows:

> Users of financial statements have expressed an interest in those matters about which the auditor had the most robust dialogue with those charged with governance . . . and have called for additional transparency about those communications. For example, users have expressed particular interest in understanding significant judgments made by the auditor in forming the opinion on the financial statements as a whole. (FRC ISA 701-A2, 2016b)

The UK's KAM Standard, ISA 701, requires that the auditor shall (1) determine, from the matters communicated with those charged with governance, those matters that required significant attention, (2) describe each key audit matter, (3) discuss why the matter was considered to be one of most significance, and (4) explain how the auditor addressed the matter. KAM reports typically describe significant risks, transactions, events, and/or estimates (FRC ISA 701-9, 2016b).[3,4]

The effects of expanded audit disclosures remain uncertain. Some research finds that expanded reporting regimes in France, the United Kingdom, China, and the United States do not affect investor reactions, audit fees, audit report delay, or audit quality (Bédard et al., 2019; Bochkay et al., 2020; Gutierrez et al., 2018; Lennox et al., 2022; Liao et al., 2022). Other research finds that KAMs increase audit and financial reporting quality and affect investor decisions (Goh et al., 2020; H. Li et al., 2019; Porumb et al., 2021; Reid et al., 2019). Studies examining the consequences of KAMs related to specific topical areas find that KAMs

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[2]LSE premium segment firms are required to comply with higher standards of disclosure and corporate governance, maintain a minimum free float of 10%, and have 75% of their business supported by their revenue earning record over the past 3 years (LSE, 2023).

[3]See Appendix S1, Section 1 (in the Supporting Information) for KAM examples.

[4]PCAOB Critical Audit Matter (CAM) reporting began in 2019 (PCAOB AS 3101, 2017) and differs somewhat from KAM reporting. The major difference is that CAMs must relate to material financial statement accounts and disclosures, whereas KAMs may include important judgments not directly related to financial statement accounts. See Lohwasser et al. (2023) for a complete discussion.

are associated with changes in managers' financial reporting and disclosure choices (Andreicovici et al., 2021; Burke et al., 2023; Drake et al., 2021) and their purchases of non-audit services (Lynch et al., 2022).

2.2 | Institutional setting: UK audit partner assignment and audit committee interactions

We focus on the author(s) of expanded audit reports, both at the individual audit partner level and the overall audit firm level. Audit partner assignment in the United Kingdom is consistent with audit firms' portfolio management decisions internationally. Individual clients, their audit firm, and the partner who serves the engagement participate in a process of client acceptance and continuance decisions that reflect client needs, audit firm expertise, and engagement team (and audit partner) characteristics (Bell et al., 2002; Cook et al., 2020; Ittonen et al., 2015; Johnstone, 2000, 2001; Johnstone & Bedard, 2001, 2003, 2004; Johnstone et al., 2004). Auditors assess risks that derive from client characteristics, consider how those risks affect audit risk and auditor business risk—the risk that the audit firm will suffer a loss on the engagement via poor profitability, litigation, or reputational harm—and then strategically respond by adjusting audit planning, pricing, and procedures.

Consistent with this perspective, one UK audit partner with whom we spoke described capacity (busyness), independence, industry expertise, and geographic proximity as the most important factors in auditor-client matching: "Your capacity to do the job well at the right time of year would really determine whether or not you can undertake that work. . . . We allocate and match clients with individuals who have sector expertise . . . and a location close to that client." Auditor-client matching is also "about chemistry with the company . . . and it's about the chemistry that you have with the audit committee," along with the partner's relationships.

UK standards require the audit committee to have primary responsibility for hiring and overseeing the auditor, including "influencing the appointment of an engagement partner" (FRC, 2016a, paragraph 58). Accordingly, Rousseau (2022) finds that audit committees with greater cognitive diversity are associated with higher-quality KAM outcomes. The United Kingdom requires partners to rotate off an engagement every 7 years to facilitate independence. Audit firms must rotate every 10 years (Beattie et al., 2015; Cameran et al., 2015; EU Regulation No. 537/2014), although this may be delayed an additional 10 years if the audit is put up for tender after the initial period (EU Regulation No. 537/2014).

2.3 | How do audit firms and partners respond to KAM standards?

The literature on KAM reporting leaves an open question about how audit firms and partners respond to the new reporting model. Cooper and Robson (2006, p. 416) emphasize the role of audit firms as "important sites where accounting practices emerge, become standardized and regulated, where accounting rules and standards are translated into practice, and where professional identities are mediated, formed and transformed." Institutional theory motivates our examination of how KAM reporting judgments may vary at the audit firm and partner levels. Institutional theory posits that organizations adopt practices that involve symbolic meanings and implemental actions to portray conformance with societal values, thereby achieving legitimacy and increasing survival prospects (Meyer & Rowan, 1977; Parsons, 1956, 1960). The longstanding nature of standardized audit reporting as legitimate practice suggests it will be difficult to abandon, consistent with the idea that organizations maintain practices "not by rational decision or design but because they are taken for granted as the way these things are done" (Scott, 1987, p. 505). Institutional theory posits that individuals and organizations facing

uncertainty tend to imitate each other's behavior, suggesting that KAM reporting will be homogeneous at the audit firm level (DiMaggio & Powell, 1983). However, the regulatory requirement that auditors report engagement-specific KAMs suggests partners may break this mold, as coercive pressure from the government is "explicitly considered deinstitutionalizing . . . since any use of sanctions indicates that other attractive alternatives exist" (Zucker, 1987, p. 444).

Firms' and partners' adaptation to KAM regulation occurs in the context of existing dynamics within the profession. Since the 1970s, accounting firms have attempted to standardize audit practices to advance the "one firm" concept: that clients are assured of a homogenous level of audit quality across the firm regardless of which individuals actually perform the audit (Dirsmith et al., 1997; Power, 2003). Firms' efforts to ensure homogeneity include centralized guidance, strategic partner rotations across clients and practice areas, compensation practices, promotion structures, and mentoring (Cooper & Robson, 2006; Covaleski et al., 1998; Suddaby et al., 2009). In some ways, partners benefit from centralization because it creates a "defensive systematization" of audit practices that can increase efficiency and reduce partners' legal exposure (Dirsmith et al., 2015, p. 187). In other ways, standardization encroaches on the partner's role as a knowledge entrepreneur, whose power in the firm arises from using one's professional expertise and proprietary knowledge of the client to make judgments that defy standardization due to their complexity and uniqueness (Dirsmith et al., 2015).

The United Kingdom's audit quality control standard illustrates this tension between the primacy of partners versus firms in audit decision-making, stating that: "Quality control systems . . . are the responsibility of the audit firm. . . . The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement" (FRC ISA 220, 2009). One UK partner with whom we spoke confirmed that "the responsible individual [partner] has total responsibility . . . for the selection of KAMs." However, partner decision-making relies on firm inputs because "we have an audit work program for the selection of KAMs . . . that helps document and justify why they've selected the KAMs they have." KAMs are subject to central review: "The wording is always agreed with technical. . . . They have to approve the KAMs and any wording that's put out." Griffith et al. (2023) provide similar insights with interviews of US audit partners. These partners report leading their team's KAM efforts with reference to firm-level guidance and the input of national office experts.

Research reveals between-firm differences in audit outcomes, consistent with efforts toward within-firm homogeneity. De Franco et al. (2020) and Francis et al. (2014) show that companies sharing the same audit firm have more comparable MD&A reports and earnings. Additional studies focus on differences between Big 4 and non–Big 4 firms, finding that the Big 4 generally provide higher quality (Becker et al., 1998; Behn et al., 2008; Farber, 2005; Feroz et al., 1991; Francis et al., 1999; Francis & Krishnan, 1999; Geiger & Rama, 2006; Khurana & Raman, 2004; Krishnan, 2003; Palmrose, 1988).[5] Other research documents audit office-level differences in quality, fees, and going-concern reporting (Choi et al., 2010; DeFond et al., 2018; Ferguson et al., 2003; Francis & Yu, 2009; Omer et al., 2018; Reynolds & Francis, 2000).

Extending this research, we leverage the fact that certain features of KAM reporting lend themselves to firm-level standardization. KAMs focus on those audit areas that involve the most complex and subjective auditor judgment, which are closely tied to the client's economic activities and disclosure choices. Audit firms may respond to this uncertainty by developing standard KAM reporting guidance for particular economic situations, leaving little room for partners to develop unique KAM reporting styles. There are also incentives for both audit firms

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[5]We note that while Lawrence et al. (2011) suggests this Big 4 effect arises due to client differences rather than auditor differences, other studies argue that this is not the case (Cready, 2021; DeFond et al., 2016, 2017).

and partners to prefer boilerplate KAMs that minimize litigation risk and decision effort, rather than encouraging partners to tailor their KAM judgments to unique facts and circumstances.[6] Descriptive evidence reveals that some audit firms' guidance contains lists of words that partners should consider including or excluding from their KAM reports and that some firms require a central review of KAMs before issuance (Griffith et al., 2023). Audit firm-level reporting preferences may therefore inhibit partners' ability to develop unique KAM decision styles.

Contrary to these arguments, other studies show that partner characteristics are associated with various audit outcomes (see Lennox & Wu, 2018 for a review) and demonstrate that CEOs, CFOs, managers, and audit partners exhibit individualized decision styles (see Plöckinger et al., 2016 for a review). For example, J. Z. Chen et al. (2020) and Jiu et al. (2020) show that Chinese firms with common signing auditors have higher earnings and accounting comparability, and Mauritz et al. (2023) find that German firms sharing the same partner have more similar audited narrative disclosures. Other studies illustrate that audit report signatories have individualized style effects on audit quality (Cameran et al., 2020; Gul et al., 2013; L. Li et al., 2017; Wang et al., 2015), and Aobdia et al. (2015) find that the market positively values partners with a record of constraining discretionary accruals. Taylor (2011) further shows that audit partners have unique profiles for fee discounts and premia. Collectively, the literature suggests that both audit firms and the individual partners within them affect audit outcomes—although their relative contributions are unclear—motivating the following non-directional hypothesis:

> **Hypothesis 1.** The relative importance of audit firm-level and audit partner-level decision styles in KAM reporting outcomes will differ.

3 | METHODS

3.1 | Sample selection

We examine KAMs in audit reports of London stock exchange (LSE) main market nonfinancial companies with fiscal years ending from the first month of KAM disclosures (September 2013) through March 2019.[7] We obtain the text of KAM reports, partner identities, and audit-related control variables from Audit Analytics Europe. We obtain financial information from FactSet. To understand how sharing an audit firm and partner affects KAM similarity, we conduct our analyses using company-peer pairs in the same two-digit SIC industry. Because we expect audit partners' and audit firms' KAM styles to influence KAMs both within and between client-year observations, we require the paired observations to be from the same industry but not the same year following Brown & Tucker (2011) and Peterson et al. (2015).

Table 1 details how we construct our sample. We begin with 1,962 LSE nonfinancial companies from September 2013 to March 2019. We remove 35 observations with missing Audit Analytics Europe data and another 549 with missing FactSet International data, resulting in 1,378 company-year observations. We then create pairwise observations by identifying all unique company-year peer pairs from observations within the same two-digit SIC industry

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[6]A PwC report on the implementation of KAM standards cautions that "forcing the pace of change might have adverse consequences—especially in litigious environments—and this could result in a retreat back to boilerplate. . . . If both companies and the profession do not see the benefits of the new reporting model, and approach the new reports as a necessary compliance exercise only, there is a very real risk of longer reports with simply more boilerplate language" (PwC, 2014, p. 6).

[7]We include LSE main market companies traded on both the premium and standard segments. As we describe in Section 4.4.3, our results are robust to separately examining each segment.

T A B L E 1 Sample composition.

	Obs.
Number of LSE main market nonfinancial companies with data in Audit Analytics Europe in the KAM regulation period (September 2013–March 2019)	1,962
Less: observations missing Audit Analytics data on auditor-related variables	(35)
Less: observations missing FactSet International Fundamentals Annual data on financial control variables	(549)
Number of company-year observations	1,378
Number of unique company-peer pairs within the same two-digit SIC code	54,405
Number of unique companies	305
Number of audit firms	22
Number of audit offices	108
Number of partners:	345
Number of partners with demographic information publicly available on LinkedIn and audit firm profiles	165

Abbreviations: KAM, key audit matter; LSE, London Stock Exchange.

code, yielding 54,405 pairs.[8,9] Across our sample, there are 305 unique client companies, 22 audit firms, 108 audit offices, and 345 partners.[10] In supplemental tests, we examine partner characteristics for 165 partners with available data on LinkedIn or audit firm websites.

3.2 | Empirical design

Following De Franco et al. (2020), J. Z. Chen et al. (2020), and Jiu et al. (2020), we use a pairwise statistical design to understand the relative importance of audit firm-level versus audit partner-level decision styles in KAM reporting outcomes:

$$
\begin{aligned}
KAM\_Similarity_{ij} = {}& \beta_{0ij} + \beta_1\, SamePartner_{ij} + \beta_2\, SameAudFirm_{ij} + \beta_3\, ClientFixedEffects_{ij} \\
& + \beta_4\, SameAudOffice_{ij} + Economic\_Similarity\_Controls_{ij} \\
& + Audit\_Similarity\_Controls_{ij} + KAMLength\_Similarity\_Controls_{ij} \\
& + YearFE_{ij} + IndustryFE_{ij},
\end{aligned} \tag{1}
$$

where ij indexes the client company-peer pair.

We measure *KAM_Similarity*, the textual similarity of company-peer pair KAM reports, using term frequency-inverse document frequency cosine similarity. Hereafter, we refer to this method simply as "cosine similarity"—see Brown and Tucker (2011), Peterson et al. (2015), and Burke et al. (2023). We calculate term frequency by representing each KAM with a vector of

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[8]The following example illustrates our approach to constructing company-peer pairs. A group of peer firms (industry group) has three companies (A, B, and C) and three partners (P1–P3), over 2 years (Y1 and Y2) as follows: Y1–A–P1, Y1–B–P1, Y1–C–P2, Y2–A–P1, Y2–B–P2, and Y2–C–P3. These 6 company-year observations will result in 15 unique pairs, where we expect that the pairs (Y1–A–P1, Y1–B–P1) and (Y1–A–P1, Y2–A–P1) will be more comparable than the other 13 pairs if a partner style exists. However, other drivers of comparability between pairs are the same audit firm style (e.g., if P1 and P3 belong to the same audit firm) and same client style (e.g., Company A will likely have similar KAMs in Y1 and Y2).

[9]When we confine the company-year pairs to observations from the same year, the findings follow a similar pattern, but the statistical significance becomes weaker. This is consistent with a reduction in statistical power due to the lower sample size (8,576 company-year observations and 41 observations for which *SamePartner* equals one).

[10]Our sample represents all industries except for financial companies. The most common industries in our sample are business services (14.59%), chemicals (7.47%), and metal mining (6.82%).

length n, where n equals the number of unique words in the full text of all KAM disclosures in the sample (referred to as the "corpus" of KAMs). The vector values equal the number of times the unique word appears in the KAM for a particular company year. Inverse document frequency refers to "down-weighting" each unique word based on the number of times it appears in the corpus, such that very common words receive little weight and less frequently used words are weighted more heavily. The cosine angle between each company-peer pair of vectorized KAMs takes on a value between zero and one, where a higher (lower) score denotes higher (lower) similarity between the pair of KAMs.[11] See the Appendix for variable definitions.

The primary independent variables are (1) *SamePartner*, an indicator variable equal to one if the company-peer pair shares a partner, and (2) *SameAudFirm*, an indicator variable equal to one if the company peer-pair shares an audit firm. We test the relative importance of partners and audit firms to *KAM_Similarity* with a post-estimation test of whether the coefficient $\beta_1 SamePartner_{ij}$ equals the coefficient $\beta_2 SameAudFirm_{ij}$, or if one coefficient is significantly larger than the other. We also employ a Vuong (1989) χ^2 likelihood statistic to test whether the *SamePartner$_{ij}$* variable adds significant explanatory power to Model (1).

We control for other factors that may be associated with *KAM_Similarity*, including indicators for whether pair ij are from the same client (*ClientFixedEffects*) or are audited by the *SameAudOffice*. We control for economic similarity of company-peer pairs via the absolute value of the difference in the pairs' size (log of assets), ROA, operating cash flow, leverage, market-to-book ratio, and sales volatility. We multiply this difference by negative one such that higher values reflect more economically similar companies (J. Z. Chen et al., 2020; De Franco et al., 2020; Jiu et al., 2020). Following Francis et al. (2014) and J. Z. Chen et al. (2020), we control for company-peer pairs' accounting comparability using the similarity in performance-matched discretionary accruals. We control for audit-related features via similarity in audit fees and employing a Big 4 auditor. We include the peer company's value on these controls to capture the variable level (e.g., *Size_peer*) in addition to the similarity between companies i and j (e.g., $|Size_i - Size_j| \times -1$).

We include the similarity in total words in the KAM report, *KAMwrds*, to control for the possibility that longer KAMs have more opportunity to take on higher values of *KAM_Similarity* (Brown & Tucker, 2011). We include industry fixed effects to capture complex accounting issues and industry-specific activities. We include year fixed effects to control for macroeconomic conditions, and we cluster standard errors by company-year pair. We winsorize continuous variables at the first and 99th percentile to control for influential observations.

4 | RESULTS

4.1 | Descriptive statistics

Table 2, Panel A, presents descriptive statistics. The company-peer pairs of KAMs are about 25% similar in the words auditors use and the frequency with which they employ those words (cosine similarity). The partners in our sample report a mean of 3.54 KAMs per audit opinion, comprising about 293 words each. *KAMReadability* implies that a reader will need about 15 years of education to understand the typical KAM. Three percent of the company-peer pairs have the *SamePartner*, while 26% have the *SameAudFirm*. Five percent of client company-peer observations are from the same client (*ClientFixedEffects*), 11% have the same office conducting the audit, and 16% are from the same year. The mean client *Size* equals $8,422 million

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[11]Following Brown and Tucker (2011) and Peterson et al. (2015), we preprocess KAM text for cosine analysis by removing stop words and employing a Porter stemming algorithm to obtain root words. Our findings are robust to including stop words and using the unstemmed KAM text.

T A B L E 2   Descriptive statistics.

Panel A: Univariate descriptive statistics

Variable	Obs.	Mean	SD	Min.	Median	Max.
Dependent variable						
KAM_Similarity	54,405	0.25	0.13	0.06	0.23	0.81
Additional KAM reporting outcomes						
KAMTopicSimilarity	54,405	−3.03	1.46	−9.00	−3.00	0.00
NumKAMs	1,378	3.54	1.53	1	3	8
KAMReadability	1,378	−15.21	1.53	−19.32	−15.09	−11.53
wrdsperKAM	1,378	293.15	103.38	60.50	287.83	564.33
NetPosKAMTone	1,378	−0.57	0.32	−1.00	−0.63	0.42
NetStrongKAMTone	1,378	−0.56	0.55	−1.00	−0.85	1.00
CogProcKAMTone	1,378	11.27	1.73	7.12	11.24	15.94
Independent variables						
SamePartner	54,405	0.03	0.17	0	0	1
SameAudFirm	54,405	0.26	0.44	0	0	1
Control variables						
ClientFixedEffects	54,405	0.05	0.22	0	0	1
SameAudOffice	54,405	0.11	0.32	0	0	1
SameYear	54,405	0.16	0.36	0	0	1
Size ($, millions)	1,378	8,422	22,155	12	1,427	154,932
ROA	1,378	0.06	0.10	−0.37	0.05	0.38
OCF	1,378	0.10	0.08	−0.16	0.09	0.42
MTB	1,378	3.65	5.71	−11.53	2.29	40.98
SalesVol	1,378	680.52	2,058.83	0.71	125.16	17,261.07
Leverage	1,378	0.22	0.17	0.00	0.20	0.74
PerfMatchDiscAcc	1,378	−0.01	0.05	−0.17	−0.01	0.12
Big4	1,378	0.92	0.27	0	1	1
Loss	1,378	0.16	0.37	0	0	1
AudFees ($, millions)	1,378	2.19	4.13	0.04	0.67	24.01
LagTotAccruals	1,348	−0.04	0.07	−0.30	−0.03	0.19

Panel B: Descriptive statistics by unit of analysis

	Obs.	Mean	SD	Min.	Max.
Audit firm					
Offices per audit firm	22	4.91	7.72	1	24
Clients per audit firm	22	18.59	37.06	1	114
Partners per audit firm	22	15.91	29.25	1	89
Audit office					
Clients per audit office	108	4.10	10.24	1	65
Partners per audit office	108	3.68	7.43	1	45
Audit partner					
Unique clients per partner throughout sample period	345	1.70	1.12	1	7
Annual clients per partner	345	1.27	0.54	1	4
Unique industries per partner throughout sample period	345	1.58	0.95	1	6
Annual industries per partner	345	1.23	0.50	1	4

Note: A sample size of 54,405 indicates that the variable is summarized at the company-peer level. We summarize all variables not calculated at the company-peer level at the company-year level (sample size of 1,378) as the repeated observations in the company-peer sample would result in summary statistics that do not represent the underlying sample distribution. We report all monetary figures in US dollars. See the Appendix for variable definitions.

Abbreviation: KAM, key audit matter.

in total assets. Mean *ROA* equals 6%. Operating cash flow is 10% of total assets. Ninety-two percent of our sample are *Big4* auditors, and mean audit fees are $2.19 million.[12]

Table 2, Panel B, describes the audit firms, offices, and partners in our sample. The mean audit firm has about 5 offices, 19 public clients, and 16 partners. The mean audit office has 4.10 public clients audited by 3.68 partners. The average partner audits a mean of 1.70 unique in-sample clients from 1.58 unique industries.[13]

4.2 | Tests of H1: Relative importance of audit firm-level and partner-level decision styles

4.2.1 | Relative importance of firm-level and partner-level decision styles to KAM similarity

We present the results of testing H1 in Table 3. Columns (1) and (2) present a model with our primary control variables and demonstrate that KAM reports issued by the *SamePartner* are 10% more similar than reports with different partners (Column 1: $\beta = 0.10$, $p \leq 0.01$). In contrast, sharing the *SameAudFirm* is associated with KAM reports that are 2.3% more similar (Column 1: $\beta = 0.023$, $p \leq 0.01$). Post-estimation tests confirm that this difference in coefficients is significant (Column 1: test statistic = 59.73, $p \leq 0.01$) and that the *SamePartner* variable adds significant explanatory power to the regression (Column 1: Vuong χ^2 stat. = 9.62, $p \leq 0.01$). Columns 3 and 4 illustrate that these findings are robust to a simplified model examining only *SamePartner*, *SameAudFirm*, *SameAudOffice*, and fixed effects.[14,15] Collectively, this evidence implies that individualized partner judgment, rather than standardized audit firm practices, are the locus of auditors' KAM reporting decisions.

Results for control variables reveal that audit reports for the same client in different time periods (*ClientFixedEffects*) have more similar KAMs (Column 1: $\beta = 0.242$, $p \leq 0.01$) than audit reports for different clients. KAM reports for company-peer pairs sharing the *SameAudOffice* are likewise more similar (Column 1: $\beta = 0.025$, $p \leq 0.01$) than company-peer pairs with different offices. KAM reporting is also more similar for company-peer pairs with similar return on assets (*ROASimilarity*), leverage (*LeverageSimilarity*), accruals (*PerfMatchDiscAccSimilarity*), and audit fees (*AudFeeSimilarity*) than for pairs with differing financial and audit fee characteristics.

4.2.2 | Relative importance of partner versus audit firm-level style to other KAM attributes

While *KAM_Similarity* is the most granular way to observe the extent to which audit partners and firms exhibit stable styles, we can gain additional insight by understanding their relative importance to other KAM attributes. The existence of firm templates for KAM identification and drafting and writing guides that encourage engagement teams away from certain words and toward others (Griffith et al., 2023) raises the possibility that the relative importance of partners' and firms' styles may vary over other attributes. In Table 4, we investigate partner and audit firm styles with respect to the similarity in the number, topic, readability, length, net

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[12]We present correlations in Appendix S1, Section 2, panel A.

[13]We note that the mean of 1.70 in-sample clients differs from the total number of clients per year from Table 2, Panel A (2.46), because clients trading on the alternative investment market or lacking the data necessary for measuring control variables are excluded from the sample.

[14]Appendix S1, Section 3, further demonstrates that these findings are robust to including a large number of control variables, including similarity in accounts and transactions likely to give rise to certain KAM topics, as well as controls for auditor busyness, industry specialization, and client-auditor economic bonding.

[15]The findings are also robust to a model with the same controls as Mauritz et al. (2023) (untabulated).

T A B L E 3   Relative importance of audit partner versus audit firm styles in KAM reporting.

	Main controls		Simplified model	
	(1)	(2)	(3)	(4)
	KAM_Similarity		KAM_Similarity	
Variables	Coeff.	*t*-stat	Coeff.	*t*-stat
SamePartner	0.100***	(10.82)	0.099***	(10.15)
SameAudFirm	0.023***	(5.00)	0.026***	(4.96)
ClientFixedEffects	0.242***	(24.50)	0.269***	(29.82)
SameAudOffice	0.025***	(3.01)	0.030***	(3.41)
SizeSimilarity	−0.004	(−1.51)		
ROASimilarity	0.130***	(5.11)		
OCFSimilarity	0.034	(1.09)		
MTBSimilarity	−0.000	(−0.05)		
SalesVolSimilarity	−0.000***	(−3.32)		
LeverageSimilarity	0.101***	(5.47)		
AudFeeSimilarity	0.013***	(3.69)		
PerfMatchDiscAccSimilarity	−0.088*	(−1.74)		
SameYear	0.006***	(5.36)		
Size_peer	0.006	(1.30)		
ROA_peer	0.010	(0.29)		
OCF_peer	−0.068*	(−1.69)		
SalesVol_peer	−0.000**	(−2.33)		
Leverage_peer	−0.048**	(−2.28)		
MTB_peer	−0.001*	(−1.71)		
AudFees_peer	−0.006	(−0.93)		
PerfMatchDiscAcc_peer	0.003	(0.08)		
Big4Similarity	0.037***	(3.50)		
Big4_peer	−0.016	(−1.23)		
KAMwrdsSimilarity	0.000	(0.75)	0.000	(1.44)
KAMwrds_peer	0.000***	(9.71)	0.000***	(9.03)
Constant	0.296***	(5.38)	0.183***	(21.07)
Observations	54,405		54,405	
Adjusted R^2	0.483		0.428	
Year FE	Yes		Yes	
Industry FE	Yes		Yes	
Test of $\beta SamePartner = \beta SameAudFirm$:				
Test statistic	59.73		41.76	
p-value	0.00		0.00	
Test of whether *SamePartner* variable adds significant explanatory power:				
Vuong chi-squared statistic	9.62		9.23	
p-value	0.00		0.00	

Note: Robust two-tailed *t*-statistics clustered on company-peer pair are in parentheses. See the Appendix for variable definitions.
Abbreviation: KAM, key audit matter.
***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 4 Relative importance of audit partner and audit firm styles to additional KAM textual attributes.

Variables	(1) NumKAMs Similarity	(2) KAMTopic Similarity	(3) KAMReadability Similarity	(4) wrdsperKAM similarity	(5) NetPosKAMTone Similarity	(6) NetStrongKAM ToneSimilarity	(7) CogProcKAM ToneSimilarity
SamePartner	0.276***	0.423***	0.224***	34.996***	0.045***	0.082***	0.392***
SameAudFirm	0.010	0.083	0.219***	8.840***	0.012	0.013	−0.015
ClientFixedEffects	0.107	1.172***	0.255***	11.242***	0.075***	0.155***	0.253***
SameAudOffice	0.024	0.072	0.011	−11.079***	0.031*	−0.011	0.158**
SizeSimilarity	0.028	−0.042	−0.053**	0.338	0.004	−0.009	0.005
ROASimilarity	0.224	0.581**	0.313	38.155*	−0.217***	0.001	0.838*
OCFSimilarity	−0.562	−1.117	0.221	−17.447	0.336	0.525	0.606
MTBSimilarity	0.022*	0.017***	−0.002	−0.122	−0.001*	−0.003*	0.012
SalesVolSimilarity	0.000***	0.000**	0.000	0.001*	−0.000***	−0.000	−0.000
LeverageSimilarity	0.091	0.411**	−0.007	−9.813	−0.006	−0.071	−0.325*
AudFeeSimilarity	0.091*	0.100**	0.023	−2.430	0.009	0.001	−0.045
PerfMatchDiscAccSimilarity	−0.455	−0.527	−0.195	31.561	−0.037	−0.351*	0.521
SameYear	0.048**	0.072***	0.025	19.305***	0.006	0.001	0.079***
Size_peer	0.030	0.024	0.001	−2.863	0.004	0.023	0.032
ROA_peer	−0.125	−0.402	−0.345	9.675	−0.187**	−0.008	−0.738
OCF_peer	1.057**	0.592	0.411	53.028*	0.365***	−0.221	0.271
SalesVol_peer	0.000	0.000	0.000	0.001	−0.000**	−0.000**	0.000
Leverage_peer	0.030	−0.629***	−0.019	8.216	0.015	−0.190**	0.021
MTB_peer	0.005	0.012	0.017***	0.366	−0.004**	−0.001	−0.004
AudFees_peer	−0.038	−0.123*	−0.004	0.137	0.021**	−0.009	−0.044
PerfMatchDiscAcc_peer	0.401	−0.383	0.367	11.370	0.350***	−0.380*	0.943*
Big4Similarity	0.130	−0.100	0.106	14.359***	−0.011	−0.012	0.471***
Big4_peer	−0.112	0.083	0.046	5.314	−0.061**	0.003	−0.100
Constant	−0.866	−1.529**	−1.819***	−113.204***	−0.623***	−0.574***	−1.315***

(Continues)

TABLE 4 (Continued)

Variables	(1) NumKAMs Similarity	(2) KAMTopic Similarity	(3) KAMReadability Similarity	(4) wrdsperKAM similarity	(5) NetPosKAMTone Similarity	(6) NetStrongKAM ToneSimilarity	(7) CogProcKAM ToneSimilarity
Observations	54,405	54,405	54,405	54,405	54,405	54,405	54,405
Adjusted R^2	0.092	0.112	0.026	0.031	0.050	0.018	0.039
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Test of $\beta SamePartner = \beta SameAudFirm$:							
Test statistic	14.04	9.14	0.00	24.93	2.25	7.52	18.01
p-value	0.00	0.00	0.94	0.00	0.13	0.01	0.00
Test of whether $SamePartner$ variable adds significant explanatory power:							
Vuong chi-squared statistic	4.19	4.81	2.97	6.34	3.11	2.58	4.89
p-value	0.00	0.00	0.00	0.00	0.00	0.01	0.00

Note: See the Appendix for variable definitions.

Abbreviation: KAM, key audit matter.

***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

positive and negative tone, net strong and weak modal tone, and cognitive processing tone of KAMs.[16,17] We find that having the *SamePartner* has a significantly greater impact on the similarity in number, topic, length, strong and weak modal tone, and cognitive processing tone of KAMs than having the *SameAudFirm* (test statistics for the null hypothesis $\beta SamePartner = \beta SameAudFirm$ range from 7.52 to 24.93, $p \leq 0.01$).[18] Collectively, these results support the inference from Table 3 that partners are the primary locus of KAM decisions. We find that the effects of having the *SamePartner* versus *SameAudFirm* are about equal for KAM readability and net positive/negative tone (*p*-value on test statistics ≥0.13). This phenomenon is consistent with audit firms guiding partners toward words that are more understandable to readers and away from language that describes the client in a positive or negative, rather than neutral, light. Our Vuong Chi-squared tests reveal that *SamePartner* adds significant explanatory power for all KAM outcomes.

4.3 | Supplemental tests

4.3.1 | Consequences of partners' KAM styles to audit fees, quality, and investor decision-making

Standard setters intended that KAMs provide investors with information about auditors' most important judgments and related audit procedures (FRC ISA 701, 2016b). Accordingly, KAM reporting may provide audit partners a new opportunity to signal publicly the quality they deliver. If this is the case, we would expect partners' KAM reporting styles to be associated with previously validated measures of audit quality, such as higher fees, less earnings management, and greater stock market responses to audit report issuance. However, previous studies show that adopting KAM reporting does not affect these outcomes (Bédard et al., 2019; Gutierrez et al., 2018; Lennox et al., 2022) and argue that KAM standards do not provide an avenue to disclose incrementally decision-useful information about the client (Minutti-Meza, 2021). These studies suggest that partners may not signal the quality they deliver via KAM reporting.

Table 5 tests these competing possibilities by estimating the association between partners' mean *KAM_Similarity* and various audit quality and market outcomes. The results reveal no significant associations between partners' KAM styles and audit fees, performance-matched discretionary accruals, or abnormal market returns.[19] These findings illustrate that observing an auditor's consistent KAM style across clients and reporting years—which has the potential to be informative in aggregate, even if any single KAM report is not informative about a client—still does not yield meaningful consequences to the audit environment and audit report

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[16]Net positive tone is the number of positive words in the KAMs minus the number of negative words scaled by the combined positive and negative words. Net strong tone is the number of strong modal words (e.g., strongly, clearly, unequivocally) in the KAMs section of the audit report minus the number of weak modal words (e.g., might, could, depending) scaled by the sum of strong modal and weak modal words. Both follow the 2018 update to the Loughran and McDonald (2011) word lists. The summary statistics in Table 2, Panel A reveal that KAMs contain 57% more negative words than positive words and 56% more weak modal words than strong modal words. We measure cognitive processing tone, "the extent to which someone differentiates between multiple competing solutions and the extent to which someone integrates among solutions," with linguistic inquiry word count software (Tausczik & Pennebaker, 2010, p. 35). We follow Rousseau (2022) in selecting relevant KAM outcomes to examine.

[17]We present correlations among these KAM attributes in Appendix S1, Section 2, Panel B. We find a maximum correlation coefficient of 0.307, indicating that the textual attributes measure distinct features of the KAM.

[18]In additional untabulated analyses, we likewise find that partners' styles are more important than audit firm styles to similarity in additional measures of KAM tone. These include uncertain tone, litigious tone, and constraining tone measured via the 2018 update to the Loughran and McDonald (2011) word lists, and insight, cause, differentiation, quantitative, and risk tones measured via Linguistic Inquiry and Word Count (Tausczik & Pennebaker, 2010).

[19]We also find null results for alternative measures of audit fees (including the partner's fee growth and fee growth leadership within their audit firm, untabulated) as well as alternative measures of earnings management (including total accruals, discretionary accruals, small profit, and small earnings increase, untabulated).

TABLE 5 Consequences of partners' KAM styles to audit fees, quality, and investor reactions.

Variables	(1) AudFees	(2) PerfMatchDiscAcc	(3) AbRet
Ptr_KAM_Similarity_Mean	0.210	−0.010	−0.013
	(0.76)	(−1.05)	(−0.85)
Size	0.587***	−0.001	−0.005***
	(20.28)	(−1.57)	(−3.62)
ROA	−0.781	0.051**	0.031
	(−1.43)	(2.05)	(0.70)
Loss	−0.043	0.003	0.003
	(−0.43)	(0.59)	(0.35)
MTB	0.015**	0.001***	0.000
	(2.59)	(3.49)	(0.01)
Leverage	−0.060	0.001	0.012
	(−0.19)	(0.10)	(1.03)
OCF	0.300	−0.119***	0.009
	(0.52)	(−5.22)	(0.24)
SalesVol	0.000***	0.000	0.000
	(3.02)	(1.29)	(1.24)
Big4	0.174	0.006	−0.011
	(1.28)	(0.87)	(−1.20)
LagTotAccruals	0.373	0.006	0.005
	(0.82)	(0.32)	(0.16)
Constant	8.949***	0.005	0.062***
	(32.94)	(0.43)	(3.68)
Observations	1,264	1,264	1,239
Adjusted R^2	0.707	0.023	0.013
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes

Note: Robust two-tailed *t*-statistics clustered on company in parentheses. *Ptr_KAM_Similarity_Mean* is the mean *KAM_Similarity* for all company-peer pairs audited by partner *k*. *AbRet* is the value-weighted abnormal returns for the 3-day window centered on the company's annual report release date. *Loss* is an indicator variable equal to one if the company reports a loss in year *t*. *LagTotAccruals* is the lag of total accruals, measured as the difference between income before extraordinary items and cash flows from operations adjusted for cash flows from extraordinary items, scaled by lagged total assets. See the Appendix for all other variable definitions. Abbreviation: KAM, key audit matter.
***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

users. Collectively, this suggests that while partners exhibit individualized KAM styles, those styles do not provide a meaningful signal of partner-level quality.

4.3.2 | Do partners' individual characteristics explain their KAM reporting styles?

We next examine whether partners' individual characteristics explain their KAM styles. Some research shows that partner decisions vary with characteristics such as age (Goodwin & Wu, 2016), gender (Abdelfattah et al., 2020; Hardies et al., 2014), tenure and busyness

(Carey & Simnett, 2006; Sundgren & Svanström, 2014; Ye et al., 2011), and client economic importance (Chi et al., 2012). In contrast, Gul et al. (2013) find that demographics explain less than 3% of the variation in audit signatories' audit quality styles, and Cameran et al. (2020) find that demographic characteristics do not explain inter-partner variation in audit quality. Because the financial reporting outcomes used to measure audit quality are a joint product of *both* auditor and manager decisions, it is possible that this research does not detect demographic effects because the outcomes it examines are an indirect measure of the partner's decision-making (Lennox & Wu, 2018). We extend this literature by leveraging KAMs, a direct outcome of the partners' audit reporting decisions, to examine whether partner characteristics explain partners' KAM styles. We employ the following model:

$$
\begin{aligned}
Partner\_KAM\_Similarity_k = \beta_{0k} &+ Female_k + Adv\_Degree_k + Acct\_Major_k + Biz\_Econ\_Major_k \\
&+ Educ\_Cohort_k + UK\_University_k + Top5\_School_k + BigN\_Exp_k \\
&+ Int\_Second_k + Client\_Second_k + Prctc\_Ldr_k + Exp\_Yrs_k \\
&+ ForeignClient_k + Busyness_k + Ind\_Specialist_k + \varepsilon_k,
\end{aligned}
\tag{2}
$$

where k indexes each partner. We measure the extent to which a partner tends to issue similar KAMs across time and clients ($Partner\_KAM\_Similarity_k$) using the mean and median $KAM\_Similarity_{ij}$ across all company-peer pairs audited by partner k. We examine partners' characteristics, including gender (*Female*), education (*Adv_Degree*, *Acct_Major*, *Biz_Econ_Major*, *Educ_Cohort*, *UK_University*, *Top5_School*), and experience (*BigN_Exp*, *Int_Second*, *Client_Second*, *Prctc_Ldr*, *Exp_Yrs*, *ForeignClient*, *Busyness*, and *Ind_Specialist*). This list encompasses and expands upon partner characteristics from prior research (Cameran et al., 2020; Gul et al., 2013). We hand-collect this data from partners' publicly available LinkedIn pages, audit firm profiles, and audit firm press releases; of the 345 partners in our primary sample, 165 have complete data for these analyses.

Table 6, Panel A, describes partner characteristics. Fifteen percent of partners are female, 18% hold an advanced degree, and 32% majored in accounting. Ninety-five percent have Big 4 experience, 30% have completed international secondments, 10% have completed client secondments, and 68% have held a practice leadership role in their firm. The average partner has 28.82 years of experience and audits 2.46 public clients annually.

We present regression results in Table 6, Panel B. The adjusted R^2 values reveal that partner characteristics that can be measured with archival data explain from 0.4% to 4.7% of partners' KAM decision styles, implying that other factors explain the remaining 95% to 100% of partners' unique decision styles. We find that female partners issue marginally more similar KAMs (Column 1: $\beta = 0.053$, $p \leq 0.10$) and that partners who majored in a nonaccounting field of business or economics issue marginally less similar KAMs (Column 1: $\beta = -0.044$, $p \leq 0.10$). The most significant association is that partners who have taken secondments from their audit firms to work at client companies tend to issue more similar KAMs (Column 1: $\beta = 0.064$, $p \leq 0.05$).[20] Collectively, we find that partner characteristics do not strongly predict their KAM styles. This implies that other factors, such as partners' application of professional judgment and skepticism to their KAM decisions in the broader context of their audit firms' culture, resources, and incentive environment, drive substantive variation in partners' KAM reporting styles.

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[20]As an example of an in-sample partner with a client secondment, Frances Simpson of KPMG notes in her LinkedIn profile: "I spent 6 months on secondment to one of our key retail clients—working on the integration of a transformational acquisition for the business and taking responsibility for the related accounting."

TABLE 6 Association between partners' KAM styles and demographic characteristics.

Panel A: Descriptive statistics

Variable	Obs.	Mean	SD	Min.	Median	Max.
Female	165	0.15	0.35	0	0	1
Adv_Degree	165	0.18	0.38	0	0	1
Acct_Major	165	0.32	0.47	0	0	1
Biz_Econ_Major	165	0.32	0.47	0	0	1
Educ_Cohort	165	1990	6.06	1978	1990	2005
UK_University	165	0.94	0.24	0	1	1
Top5_School	165	0.15	0.36	0	0	1
BigN_Exp	165	0.95	0.23	0	1	1
Int_Second	165	0.30	0.46	0	0	1
Client_Second	165	0.10	0.30	0	0	1
Prctc_Ldr	165	0.68	0.47	0	1	1
Exp_Yrs	165	28.82	6.21	14	29	42
ForeignClient	165	0.25	0.43	0	0	1
Busyness	165	2.46	2.04	1.00	2.05	15.85
Ind_Specialist	165	0.70	0.46	0	1	1

Panel B: Regression results

	Ptr_KAM_Similarity_Mean		*Ptr_KAM_Similarity_Median*	
	(1)	**(2)**	**(3)**	**(4)**
Variables	**Coeff.**	***t*-stat**	**Coeff.**	***t*-stat**
Female	0.053*	(1.83)	0.052	(1.47)
Adv_Degree	0.006	(0.20)	0.012	(0.36)
Acct_Major	0.016	(0.58)	0.014	(0.44)
Biz_Econ_Major	−0.044*	(−1.68)	−0.034	(−1.09)
Educ_Cohort	−0.000	(−0.15)	−0.002	(−0.63)
UK_University	−0.034	(−0.74)	−0.039	(−0.74)
Top5_School	−0.026	(−0.86)	−0.040	(−1.07)
BigN_Exp	−0.067	(−1.31)	−0.053	(−0.83)
Int_Second	0.026	(1.18)	0.018	(0.66)
Client_Second	0.064**	(2.35)	0.084***	(2.85)
Prctc_Ldr	−0.001	(−0.05)	0.002	(0.07)
Exp_Yrs	−0.003	(−1.14)	−0.005	(−1.40)
ForeignClient	−0.000	(−0.01)	−0.012	(−0.34)
Busyness	−0.001	(−0.21)	−0.001	(−0.21)
Ind_Specialist	0.014	(0.50)	0.010	(0.30)
Constant	1.797	(0.29)	5.381	(0.75)
Observations	165		165	
Adjusted R^2	0.047		0.004	

Note: In Panel A, partners' demographic features are summarized at the individual audit partner level (165 observations with available demographic data). In Panel B, Robust two-tailed *t*-statistics are in parentheses. *Ptr_KAM_Similarity_Mean* is the mean *KAM_Similarity* for all company-peer pairs audited by partner *k*. *Ptr_KAM_Similarity_Median* is the median *KAM_Similarity* for all company-peer pairs audited by partner *k*. See the Appendix for all other variable definitions.

Abbreviation: KAM, key audit matter.

***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

4.3.3 | Intertemporal changes in the relative importance of partner-level versus firm-level style

It is possible that the relative importance of audit partner-level versus firm-level style has changed over time. When the expanded audit reporting model was new and uncertainty about the change was high, auditors may have perceived more to gain from the defensive systematization of standardization (Dirsmith et al., 2015) and copied each other's behavior to avoid being an outlier (DiMaggio & Powell, 1983; Griffith et al., 2023). As partners gain experience issuing KAMs, they may be more likely to exhibit unique styles as their knowledge entrepreneurship develops in the KAM space (Dirsmith et al., 2015). Firms may also relax pressure on partners to standardize their reporting as fears about unintended negative consequences go unrealized (e.g., litigation, inspection findings, and strained client relationships) (Griffith et al., 2023; PwC, 2014). We explore possible intertemporal changes in the relative importance of partner versus firm-level style by reestimating Model (1) separately for the early years of KAM reporting (2013–2014), the middle years (2015–2016), and the later years during which the FRC modified UK KAMs to align with the IAASB (2017–2019).

The results in Table 7, Panel A, show that partner styles and firm styles are about equally important in the 2013–2014 period (test statistic on the test of $\beta SamePartner = \beta SameAudFirm = 0.67$; p-value $= 0.41$). The coefficient on *SamePartner* is larger than the coefficient on *SameAudFirm* in the 2015–2016 period (test statistic $= 5.90$, p-value $= 0.02$) and the 2017–2019 period (test statistic $= 3.46$, p-value $= 0.06$). These results imply that audit firm training and strategic direction were equally important as partner style in the early adoption years when uncertainty about KAM regulations was the greatest. With the passage of time, the results reveal that partner influence on KAM reporting dominates.

Two possible reasons exist for this pattern of intertemporal results—either partner importance grows or audit firm importance declines over time. To investigate which of these is more plausible, we employ seemingly unrelated regression tests to estimate differences in coefficients between the time periods (e.g., comparing the coefficient on *SamePartner* and *SameAudFirm* in the 2013–2014 period to the 2015–2016 and 2017–2019 periods, respectively). We report the results in Table 7, Panel B. We find that the coefficient on *SamePartner* stays about the same over the entire sample period (p-values on tests of differences ≥ 0.14). We find that the coefficient on *SameAudFirm* significantly decreases from 2013–2014 to 2015–2016 (Panel A: Column 1, $\beta = 0.051$; Column 3, $\beta = 0.021$; p-value on the test of difference ≤ 0.01) and rebounds somewhat in the 2017–2019 period (Panel A: Column 5, $\beta = 0.032$, p-value on the test of difference ≤ 0.05). This is consistent with the importance of firm-level forces declining after the early years of KAM reporting, then rebounding slightly in 2017 after the United Kingdom modified its expanded reporting requirements to conform with IAASB KAM standards.

4.3.4 | Differences in Big 4 versus non–Big 4 auditors

We next explore whether the relative importance of audit partner versus audit firm styles varies between Big 4 and non–Big 4 auditors. Big 4 firms may have a greater impetus to act as "one firm" that delivers a standardized product across clients (Power, 2003). On the other hand, Big 4 firms devote particularly extensive resources to training personnel on new standards (Griffith et al., 2023). As a result, partners at Big 4 firms may have greater knowledge that better prepares them to develop unique KAM styles than partners at non–Big 4 firms. We examine these possibilities by estimating Model (1) separately for Big 4 and non–Big 4 audit firms. The results show that the coefficient on *SamePartner* is significantly larger than the coefficient on *SameAudFirm* in both the Big 4 and non–Big 4 sample ($p \leq 0.01$, untabulated), but the coefficient

TABLE 7 Intertemporal variation in the relative importance of partner versus firm styles to KAM reporting.

Panel A: Regression results

Variables	2013 and 2014		2015 and 2016		2017–2019	
	(1)	(2)	(3)	(4)	(5)	(6)
	KAM_Similarity		KAM_Similarity		KAM_Similarity	
	Coeff.	t-stat	Coeff.	t-stat	Coeff.	t-stat
SamePartner	0.079**	(2.46)	0.073***	(3.78)	0.108***	(2.73)
SameAudFirm	0.051***	(4.65)	0.021***	(2.96)	0.032***	(4.56)
ClientFixedEffects	0.247***	(7.84)	0.334***	(16.25)	0.295***	(10.02)
SameAudOffice	−0.008	(−0.64)	0.035***	(2.91)	0.033***	(2.74)
SizeSimilarity	−0.005*	(−1.70)	−0.001	(−0.37)	−0.002	(−0.68)
ROASimilarity	0.115***	(3.02)	0.183***	(3.92)	0.120***	(3.99)
OCFSimilarity	0.094**	(2.09)	0.065	(1.41)	−0.053	(−1.09)
MTBSimilarity	−0.001	(−1.25)	−0.000	(−0.23)	0.000	(0.42)
SalesVolSimilarity	−0.000	(−0.63)	−0.000***	(−3.19)	−0.000*	(−1.96)
LeverageSimilarity	0.122***	(4.91)	0.088***	(3.62)	0.114***	(4.73)
AudFeeSimilarity	0.012**	(2.60)	0.013***	(2.89)	0.012***	(2.96)
PerfMatchDiscAccSimilarity	−0.196**	(−2.51)	−0.202***	(−2.67)	0.034	(0.56)
SameYear	0.003	(0.96)	−0.000	(−0.69)	0.005***	(3.28)
Size_peer	0.006	(0.98)	0.005	(0.92)	0.005	(1.03)
ROA_peer	−0.002	(−0.04)	0.070	(1.03)	−0.027	(−0.71)
OCF_peer	−0.029	(−0.47)	−0.078	(−1.09)	−0.073	(−1.22)
SalesVol_peer	−0.000	(−0.74)	−0.000**	(−2.24)	−0.000	(−1.36)
Leverage_peer	−0.046*	(−1.71)	−0.049*	(−1.79)	−0.039	(−1.63)
MTB_peer	−0.001	(−0.85)	−0.001	(−0.80)	−0.001	(−1.60)
AudFees_peer	−0.002	(−0.32)	−0.011	(−1.38)	−0.004	(−0.71)
PerfMatchDiscAcc_peer	−0.007	(−0.10)	0.023	(0.26)	−0.016	(−0.21)
Big4Similarity	0.046***	(2.61)	0.049***	(2.94)	0.032***	(2.83)
Big4_peer	−0.034*	(−1.68)	−0.009	(−0.48)	−0.013	(−0.87)
KAMwrdsSimilarity	0.000***	(3.46)	0.000	(0.08)	0.000	(0.13)
KAMwrds_peer	0.000***	(4.97)	0.000***	(7.18)	0.000***	(6.68)
Constant	0.279***	(3.83)	0.354***	(4.65)	0.287***	(5.44)
Observations	2,882		6,107		10,028	
Adjusted R^2	0.444		0.542		0.500	
Year FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Sample period	2013 and 2014		2015 and 2016		2017–2019	
Test of $\beta SamePartner = \beta SameAudFirm$:						
Test statistic	0.67		5.90		3.46	
p-value	0.41		0.02		0.06	
Test of whether SamePartner variable adds significant explanatory power:						
Vuong chi-squared statistic	1.26		1.92		3.45	
p-value	0.208		0.055		0.001	

T A B L E 7   (Continued)

Panel B: Test of differences in coefficients for *SamePartner* and *SameAudFirm* over time				
	SamePartner		**SameAudFirm**	
Comparison range	χ^2	*p*-value	χ^2	*p*-value
Compare coefficient for 2013–2014 versus 2015–2016	0.03	0.86	15.53	0.00
Compare coefficient for 2013–2014 versus 2017–2019	0.73	0.39	7.20	0.01
Compare coefficient for 2015–2016 versus 2017–2019	2.17	0.14	4.79	0.03

Note: In Panel A, robust two-tailed *t*-statistics clustered on company-peer pair in parentheses. See the Appendix for variable definitions. Panel B reports χ^2 statistics from seemingly unrelated regression estimation tests of whether the coefficients for *SamePartner* and *SameAudFirm* vary significantly over time.
Abbreviation: KAM, key audit matter.
***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

on *SamePartner* in the non–Big4 sample is not significant. We find that the *SamePartner* variable adds explanatory power in the Big 4 sample (Vuong $\chi^2 = 9.67$, $p \leq 0.01$, untabulated) but not the non–Big 4 sample (Vuong $\chi^2 = 0.80$, $p = 0.42$, untabulated). Collectively, these results suggest that Big 4 audit firms primarily drive our findings.[21] However, we caution that the difference may be due to lower statistical power in the non–Big 4 sample ($n = 448$ company-peer pairs) compared to the Big 4 sample ($n = 46{,}011$ company-peer pairs).

4.4 | Robustness tests

4.4.1 | Endogeneity

An alternative explanation for our findings is that auditors exhibit unique KAM styles because the clients in their portfolios are similar due to the endogenous matching of auditors with clients. In addition to the controls for client economic and accounting similarity that we employ in Model (1), we perform a battery of robustness tests to rule out this alternative explanation.

Modifications to new clients' KAMs
First, we examine how audit firms and partners on first-year engagements change their new clients' KAM reports from the prior year's KAMs that the predecessor auditor issued. We expect that partners will modify new clients' KAMs to fit their unique KAM reporting styles, resulting in new clients' KAMs becoming similar to those of the partners' continuing clients. We test this expectation with the following model, which is consistent with De Franco et al. (2020) and includes robust standard errors clustered on company-peer pair:

$$
\begin{aligned}
KAMModificationSimilarity_{ij} = {} & \beta_{0ij} + \beta_1\, NewToExistingPartner_{ij}/\beta_1\, NewToExistingAudFirm_{ij} \\
& + B_2\, ClientFixedEffects_{ij} + EconomicSimilarityControls_{ij} \\
& + AuditSimilarityControls_{ij} + KAMLengthSimilarityControls_{ij} \\
& + YearFE_{ij} + IndustryFE_{ij}.
\end{aligned}
\tag{3}
$$

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[21]In untabulated results, we re-perform our analysis for H1 using separate indicator variables for each Big 4 firm (e.g., *SameAudFirmPwC*, *SameAudFirmEY*, *SameAudFirmDeloitte*, and *SameAudFirmKPMG*). We find that partner-level styles are more important to KAM outcomes than firm-level styles at all four firms. We find no significant differences in the magnitudes of the Big 4's *SameAudFirm* coefficients, with the exception that KPMG exhibited greater audit-firm level effects than Deloitte.

KAMModificationSimilarity is the tf-idf cosine similarity between the *changes* in company *i*'s KAM report from $t-1$ to t and the *full* KAM report of company *j* at time *t*. *NewToExistingPartner* is an indicator variable equal to one if company *i* is a new client of the partner and company *j* is a continuing client. *NewToExistingAudFirm* is an indicator variable equal to one if company *i* is a new audit firm client and company *j* is a continuing client. The remainder of the sample for this test, for which *NewToExistingPartner* or *NewToExistingAudFirm* equals zero, comprises comparisons between the changes in the continuing client KAM for company *i* and the full KAM of other continuing client *j*.

Table 8 reveals that partners modify new-client KAMs to make them more similar to the KAMs of their continuing clients (Column 1, $\beta = 0.208$, $p \le 0.01$). This is consistent with KAM similarity arising due to each partner's unique judgment, rather than similarities within each partner's client portfolio. If the latter explanation were true, we would not observe a more pronounced effect for the modification of a new client's KAMs than the modification of an existing client's KAMs. We observe a similar phenomenon in comparing *NewToExistingAudFirm* KAM modifications (Column 3, $\beta = 0.046$, $p \le 0.01$). Using seemingly unrelated regression estimation, we find that the magnitude of the partner effect on modifying new-client KAM reports to align with their unique style is greater than the audit firm effect ($\chi^2 = 567.41$, $p \le 0.01$). These tests reinforce our primary inferences that partners are the locus of KAM decisions.

Exogenous audit partner rotations

We further address concerns that KAM similarity arises through endogenous partner selection by examining the robustness of our results to a subsample of observations that exhibit exogenous (mandatory) partner rotations. We identify exogenous partner rotations as those instances in which the audit partner changed, the audit firm did not change, and the client experienced only one such change during the 7-year sample period. In untabulated results, we find that that sharing the *SamePartner* ($\beta = 0.075$, $p \le 0.01$) is more important to KAM similarity than having the *SameAudFirm* ($\beta = 0.024$, $p \le 0.01$) in a subsample of 10,857 company-peer pairs in which both companies had an exogenous rotation.

Falsification test: KAM similarity around moving to a new audit partner

We perform a falsification test to confirm that KAM similarity does not arise because clients hire partners already issuing KAMs similar to those the client is currently receiving. To do so, we reestimate Model (1) after including indicator variables for 1 year before sharing the same partner (audit firm), 2 years before sharing the same partner (audit firm), and sharing an audit partner (first year and subsequent years of sharing an audit firm) following De Franco et al. (2020).[22] If clients select auditors that already issue similar KAMs, we will observe significant associations with KAM similarity before the client hires that auditor. We report the results in Appendix S1, Section 4, which shows no significant associations between sharing the same partner or audit firm and KAM similarity for each of the 2 years before sharing an auditor. We find marginally positive associations between sharing a partner and KAM similarity. Likewise, we find positive associations between shared audit firms and KAM similarity for first-year engagements (and continuing engagements. Our finding that KAM similarity does not occur until two clients share an audit partner is consistent with partners' KAM styles arising as they exercise individualized judgment in issuing KAMs rather than through endogenous auditor selection.

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[22]We do not construct separate indicators for first year and continuing engagements at the audit partner level because the sample sizes for these indicators are too small to yield sufficient statistical power for a meaningful test (13 first year engagements and 16 continuing engagements).

TABLE 8   Modifications to new clients' KAMs.

Variables	(1) KAMModificationSimilarity Coeff.	(2) KAMModificationSimilarity t-stat	(3) KAMModificationSimilarity Coeff.	(4) KAMModificationSimilarity t-stat
NewToExistingPartner	0.208***	(21.59)		
NewToExistingAudFirm			0.046***	(6.86)
ClientFixedEffects	−0.071***	(−5.78)	−0.074***	(−23.64)
SizeSimilarity	0.000	(0.06)	0.002**	(2.45)
ROASimilarity	0.088**	(2.14)	0.021	(1.64)
OCFSimilarity	−0.074	(−1.40)	−0.025	(−1.40)
MTBSimilarity	−0.000	(−0.31)	−0.000	(−1.43)
SalesVolSimilarity	−0.000	(−0.62)	−0.000	(−0.72)
LeverageSimilarity	−0.007	(−0.20)	−0.005	(−0.66)
AudFeeSimilarity	−0.011	(−1.40)	−0.003**	(−2.14)
PerfMatchDiscAccSimilarity	0.009	(0.17)	0.034	(1.41)
SameYear	0.017	(1.05)	0.006***	(3.08)
Size_peer	−0.001	(−0.50)	−0.002*	(−1.66)
ROA_peer	0.052	(1.00)	0.027**	(2.52)
OCF_peer	0.021	(0.37)	−0.016	(−1.33)
SalesVol_peer	−0.000	(−1.07)	−0.000	(−1.07)
Leverage_peer	−0.013	(−0.74)	−0.008	(−1.31)
MTB_peer	−0.000	(−0.33)	−0.000	(−0.12)
AudFees_peer	0.001	(0.14)	0.002	(1.35)
PerfMatchDiscAcc_peer	−0.081	(−1.25)	−0.033*	(−1.93)
Big4Similarity	−0.070***	(−2.78)		
Big4_peer	−0.005	(−0.40)	0.005	(0.59)
KAMwrdsSimilarity	0.000***	(3.16)	0.000***	(3.49)
KAMwrds_peer	0.000***	(7.18)	0.000***	(9.57)
Constant	−0.071*	(−1.74)	−0.025*	(−1.69)
Observations	2,753		21,422	
Adjusted R^2	0.196		0.090	
Year FE	Yes		Yes	
Industry FE	Yes		Yes	
Seemingly unrelated regression test of $\beta NewtoExistingPartner = \beta NewtoExistingAudFirm$:				
Chi-squared statistic	567.41			
p-value	0.00			

Note: Robust two-tailed *t*-statistics clustered on company-peer pair in parentheses. *KAMModificationSimilarity* is the term frequency-inverse document frequency cosine similarity between the modifications to the KAM report of company i from $t − 1$ to t and the full KAM report of company j at time t. Measures the distance between the vectorized text where one means they are exactly the same and zero means they have no similarity. *NewToExistingPartner* is an indicator variable equal to one if company i is a first-year audit client of partner k and peer-pair company j is a continuing (not first-year) audit client of partner k. *NewToExistingAudFirm* is an indicator variable equal to one if company i is a first-year audit client of the audit firm and peer-pair company j is a continuing (not first-year) audit client of the firm. See the Appendix for all other variable definitions. Abbreviation: KAM, key audit matter.
***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

4.4.2 | Matched sample

We acknowledge that our sample contains a small number of company-peer pairs with the *SamePartner* (3%) and the *SameAudFirm* (26%). To ensure this does not bias our results, we repeat our analysis with a matched sample in which each pair that shares an auditor is matched with a pair that does not using a coarsened exact matching algorithm following De Franco et al. (2020). Each matched pair is from the same industry and is most similar in size. In four untabulated analyses, we find that our results for Model (1) are fully robust to matching on *SamePartner*, *SameAudFirm*, *SameAudOffice*, and *ClientFixedEffects*, respectively.

4.4.3 | Differences in LSE premium versus standard segment firms

Our sample includes companies with both standard and premium listings on the LSE main market, and two regulatory differences between these groups are relevant to our study. First, premium segment companies' auditors were required to adopt the KAM-like risk of material misstatement (RMM) disclosures in 2013, while standard segment companies' auditors were not required to adopt expanded audit reporting until the introduction of KAMs in 2017 (although some adopted RMMs voluntarily). To confirm that this regulatory difference does not confound our results, we examine Model (1) separately for the premium segment and standard segment companies. In untabulated results, we find that sharing the *SamePartner* is significantly more important to KAM similarity than having the *SameAudFirm* in both standard segment and premium segment company audit reports. This implies that the timing difference in adopting expanded audit reporting and whether the reporting is voluntary or mandatory does not confound our inference about the relative importance of audit firm and audit partner styles.

Second, under the UK Corporate Governance Code, premium segment companies' audit committees (ACs) must include a report describing their activities, including the most significant financial reporting issues they considered, in the companies' annual filings (FRC, 2014). Because auditors select KAMs from auditor-AC communications, it is possible that AC reporting choices might influence KAM reporting (Rousseau, 2022). We conduct two analyses to confirm that the AC reporting environment does not confound our findings. First, we reexamine Model (1) in a subsample of 1,254 company-peer pairs comprised of LSE standard segment companies. These companies are not required to issue AC reports. In untabulated results, we find that sharing the *SamePartner* yields greater *KAM_Similarity* than sharing the *SameAudFirm* in this sample, consistent with our primary inferences. Second, we hand-collect the AC reports for a subsample of 3,112 FTSE 100 company-peer pairs with premium listings. We then calculate a variable measuring the tf-idf cosine similarity of the company-peer pairs' AC reports and reestimate Model (1) after controlling for AC report similarity. Consistent with Table 3, we continue to find that sharing the *SameAudPartner* yields KAMs that are about 10% more similar ($\beta = 0.095$, $p \leq 0.01$, untabulated). We find that sharing the *SameAudFirm* does not significantly predict KAM similarity after controlling for the cosine similarity of the AC report (untabulated). Consistent with our primary inferences, we find that the coefficient on *SamePartner* is significantly larger than the coefficient on *SameAudFirm* and that the *SamePartner* variable adds significant explanatory power to the model (Vuong χ^2 stat. $= 4.94$, $p \leq 0.01$).

Regarding additional KAM textual attributes, we find that sharing the *SamePartner* yields greater similarity in the length and cognitive processing tone of KAMs than sharing the *SameAudFirm* after controlling for the related textual similarity in the AC report (untabulated). Furthermore, none of the measures of AC report similarity (cosine similarity, readability, length, net positive negative tone, net strong weak modal tone, and cognitive processing tone) predict KAM similarity on the related dimension at the $p \leq 0.05$ level (untabulated). Collectively, these results reveal that partners' KAM styles are independent of AC reporting choices.

5 | CONCLUDING REMARKS

We acknowledge certain limitations to our research. First, we note that our measures of audit firm and partner KAM decision styles speak only to relative differences among firms and partners. Auditing standards do not specify what constitutes a "good" KAM report, so we make no claims about the relative superiority of any particular style in complying with standards. Second, we note that our sample of LSE main market companies trends our sample toward larger client companies and their auditors.

Despite these limitations, our study offers several unique contributions. First, we show that audit firm styles are less important than partner styles in predicting KAM outcomes, alleviating concerns about "boilerplate" reporting. Second, we extend the expanded audit reporting literature by showing that audit firm and partner styles are important determinants of variation of KAM disclosures. Third, we leverage the KAMs setting (where the audit report is the sole purview of the auditor) to extend the literature on partner decision styles by disentangling client financial reporting choices from auditor choices.

Our study illustrates varied opportunities for future research. First, future studies might triangulate our results by examining whether and how KAM training and guidance vary across audit firms and describing partners' approaches to KAM reporting. Second, future research could examine whether the relative importance of audit firm versus partner styles evolves differently in the US CAMs setting. Finally, behavioral research could examine whether factors such as partners' expertise, risk attitudes, and skepticism drive inter-partner variation in KAM reporting styles.

DATA AVAILABILITY STATEMENT
All data are available from publicly available sources.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

APPENDIX: VARIABLE DEFINITIONS

Variable	Definition
Panel A: Dependent variables	
KAM_Similarity	Term frequency-inverse document frequency cosine similarity between the KAM reports of companies i and j. Measures the distance between the vectorized text of the two KAM reports, where one means they are exactly the same and zero means they have no similarity
Panel B: Independent variables	
SamePartner	Indicator variable equal to one if the same partner audits company-year observations i and j
SameAudFirm	Indicator variable equal to one if the same audit firm audits company-year observations i and j
Panel C: Control variables	
Economic similarity controls:	
SizeSimilarity[a]	Equal to $-1 \times |Size_i - Size_j|$, where *Size* is the log of total assets
ROASimilarity[a]	Equal to $-1 \times |ROA_i - ROA_j|$, where *ROA* is income divided by average total assets
OCFSimilarity[a]	Equal to $-1 \times |OCF_i - OCF_j|$, where *OCF* is cash from operations, scaled by total assets
LeverageSimilarity[a]	Equal to $-1 \times |Leverage_i - Leverage_j|$, where *Leverage* is total debt divided by total equity
MTBSimilarity[a]	Equal to $-1 \times |MTB_i - MTB_j|$, where *MTB* is the market value of equity divided by book value of equity
SalesVolSimilarity[a]	Equal to $-1 \times |SalesVol_i - SalesVol_j|$, where *SalesVol* is the standard deviation of the past 3 years' sales
SameYear	Indicator variable equal to one if observations i and j are from the same year
ClientFixedEffects	Indicator variable equal to one if observations i and j are of the same client company
PerfMatchDiscAccSimilarity[a]	Equal to $-1 \times |PerfMatchDiscAcc_i - PerfMatchDiscAcc_j|$, where *PerfMatchDiscAcc* is the performance-adjusted discretionary accruals for company j, calculated using the Kothari et al. (2005) model
Audit similarity controls:	
SameAudOffice	Indicator variable equal to one if the same audit office audits company-year observations i and j
AudFeeSimilarity[a]	Equal to $-1 \times |AudFees_i - AudFees_j|$, where *AudFees* is the log of audit fees
Big4Similarity[a]	Equal to $-1 \times |Big4_i - Big4_j|$, where *Big4* is an indicator variable equal to one if the company employs a Big4 auditor
KAMwrdsSimilarity[a]	Equal to $-1 \times |KAMwrds_i - KAMwrds_j|$, where *KAMwrds* equals the number of words in the company's KAM report
Panel D: Additional KAM reporting outcomes	
NumKAMsSimilarity	Equal to $-1 \times |NumKAMs_i - NumKAMs_j|$, where *NumKAMs* is the number of KAMs in the audit report
KAMTopicSimilarity	Number of KAM topics not shared by companies i and j times -1
KAMReadabilitySimilarity	Equal to $-1 \times |KAMReadability_i - KAMReadability_j|$, where *KAMReadability* is the Gunning-Fog Index for the KAMs portion of the audit report measuring the number of years of education needed to comprehend the KAMs times -1

A P P E N D I X   (Continued)

Variable	Definition
wrdsperKAMsimilarity	Equal to $-1 \times |wrdsperKAM_i - wrdsperKAM_j|$, where *wrdsperKAM* is the number of words in the KAMs portion of the audit report scaled by the number of KAMs
NetPosKAMToneSimilarity[b]	Equal to $-1 \times |NetPosKAMTone_i - NetPosKAMTone_j|$, where *NetPosKAMTone* is the number of positive words in the KAMs section of the audit report minus the number of negative words, scaled by the sum of positive and negative words
NetStrongKAMToneSimilarity[b]	Equal to $-1 \times |NetStrongKAMTone_i - NetStrongKAMTone_j|$, where *NetStrongKAMTone* is the number of strong modal words (e.g., strongly, clearly, unequivocally) in the KAMs section of the audit report minus the number of weak modal words (e.g., might, could, depending) scaled by the sum of strong modal and weak modal words
CogProcKAMToneSimilarity	Equal to $-1 \times |CogProcKAMTone_i - CogProcKAMTone_j|$, where *CogProcKAMTone* is the percentage of words in the KAM included in the Linguistic Inquiry Word Count (LIWC) cognitive processing language category, reflective of "the extent to which someone differentiates between multiple competing solutions and . . . integrates among solutions" (Tausczik & Pennebaker, 2010, p. 35)
Panel E: Audit partner characteristics	
Female	Indicator variable equal to one if the partner is female
Adv_Degree	Indicator variable equal to one if the partner holds a Master's degree or higher
Acct_Major	Indicator variable equal to one if the partner majored in accounting
Biz_Econ_Major	Indicator variable equal to one if the partner majored in a nonaccounting field of business or economics
Educ_Cohort	Year the partner finished their undergraduate degree
UK_University	Indicator variable equal to one if the partner attended a university in the United Kingdom
Top5_School	Indicator variable equal to one if the partner graduated from Oxford, Cambridge, Imperial College London, University College London, or the London School of Economics
BigN_Exp	Indicator variable equal to one if the partner has experience at a large accounting firm
Int_Second	Indicator variable equal to one if the partner has completed an international secondment
Client_Second	Indicator variable equal to one if the partner has completed a client secondment
Prctc_Ldr	Indicator variable equal to one if the partner has held a leadership role in their firm's audit practice
Exp_Yrs	Years of experience in public accounting, measured as 2019 minus the year the partner started in public accounting plus one
ForeignClient	Indicator variable equal to one if the partner signs for at least one client headquartered outside the United Kingdom during the sample period
Busyness	Average number of clients the partner audits in a given year
Ind_Specialist	Indicator variable equal to one if the partner derives 50% or more of their total audit fees from a single industry at least once during the sample period

[a] We include peer company *j*'s value on these economic, accounting, and audit-related controls to capture the variable level (e.g., *Size_peer*) in addition to the similarity between companies *i* and *j* (e.g., $SizeSimilarity = |Size_i - Size_j| \times -1$). For brevity, we do not duplicate the variable definitions with the suffix *_peer* for each control.

[b] Tone measures are calculated following the 2018 update to the Loughran and McDonald (2011) word lists.