Does Auditor Communication Matter? The Role of Knowledge Compatibility*

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This draft: December 2024

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Abstract

Auditors need to keep a high profile as thought leaders due to the knowledge-intensive and credence nature of the audit. However, little is known about how auditors signal their expertise to market targets beyond what can be inferred by their past experience (e.g., industry portfolio). To study the relationship between auditor communication strategy and audit market dynamics and audit quality, I introduce the concept of *knowledge compatibility*, as the alignment between the knowledge that auditors offer and clients demand. I quantify it by the similarity between audit firm podcasts and client forward-looking disclosure. I hypothesize and find that knowledge compatibility is positively associated with (i) audit fees, (ii) the likelihood of new auditor appointments, and (iii) audit quality. I also provide evidence of the credibility of communication and actual knowledge development through hiring activities. These findings highlight the importance of auditor communication and the role of knowledge compatibility to address the idiosyncratic needs of clients.

Keywords: podcasts, auditor communication, knowledge compatibility, audit markets.

*I greatly appreciate the guidance and support of my PhD advisors, Juan Manuel García Lara, Beatriz García Osma, and Encarna Guillamon Saorin. I am grateful for helpful insights from auditors and marketing associates from a leading auditing firm, valuable comments and suggestions from Robert M. Bushman, Hans B. Christensen, Maria Correia, Holger Daske, Eva Labro, Al Ghosh, W. Robert Knechel, and participants at 2024 Auditing Section Doctoral Consortium, the USP & ISCTE Doctoral Colloquium 2024, 2024 PRICIT Doctoral Workshop, the XVIII International Accounting Research Symposium, the Scandinavian Accounting Doctoral Consortium 2024, 4th Bayes/Bristol Accounting PhD conference, the EAA Talent workshop 2024. I acknowledge financial support from the Ministry of Science and Education (PID2019-111358GB-I00, TED2021-129861B-I00, and PID2023-150744NB-C43) and Comunidad de Madrid (PRICIT Universidad Carlos III de Madrid, EPUC3M12).

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Access to the knowledge resources of a broader firm, from highly technical hedge accounting to valuation, cybersecurity, fraud, sustainability, tax and corporate finance expertise, is an enormous asset. As businesses grow more complex, the ability to leverage that wider specialist expertise will become even more important.

— Dilek Çilingir Köstem

EY Global Assurance Talent Leader

1 Introduction

Given the knowledge-intensive nature of the audit profession (Duh, Knechel and Lin, 2020), auditors must continuously adapt and improve their knowledge base. Rapid innovations in science and technology challenge financial reporting and auditing processes to keep pace with capital markets' evolving information needs. This amplifies the demand for auditors to constantly update their expertise and knowledge, whereby auditors increasingly necessitate not only a mastery of accounting and auditing, but also a nuanced understanding of broader economic issues and trends. Against this backdrop and due to the credence nature of the audit (Causholli and Knechel, 2012), communicating auditor's knowledge and expertise to attain a positive public and client perception becomes vital. Successful communication may help audit firms gain a competitive advantage by building trust, bolstering credibility, and optimizing the demand-supply equilibrium (Klein and Leffler, 1981). Therefore, understanding how auditors signal relevant knowledge to current and future market demand and understanding the consequences of such communication are important empirical questions.

To examine these issues, I propose the concept of *knowledge compatibility* as the alignment between (i) the knowledge offered by auditors through their communication strategy and (ii) the knowledge clients need for current and future audits. Prior knowledge and expertise may be signaled *via* past client portfolio and industry specialization. Existing literature extensively uses those proxies to measure what could be denoted as 'historical' knowledge. However, communication of past and existing expertise is increasingly less valuable given the rapid pace of knowledge and business change, and therefore, such approaches may not fully

capture the expertise required for addressing emerging risks and future challenges.[1] Timely communication thus becomes increasingly important to sustain and increase auditor revenues from providing financial audits, extended assurance or consulting.

To catch up with market demand, auditors continuously work on building their reputation as thought leaders whose broad knowledge encompasses multiple industries. Depth and breadth of knowledge are important for several reasons. First, financial audits face emerging issues that require constantly updated knowledge of new technologies (e.g., cybersecurity, cryptocurrency, artificial intelligence), and risks (e.g., ESG), to complement traditional expertise and sharpen professional judgment, which is key to secure audit quality (Asante-Appiah and Lambert, 2023; Commerford, Dennis, Joe and Ulla, 2022; García-Osma, Ha, Knechel and Nguyen, 2024; Hartlieb and Eierle, 2024; Law and Shen, 2020; Liu, 2024). Second, knowledge is a strategic asset that audit firms leverage to increase and diversify their revenue streams from extended assurance services such as for Decentralized Finance (DeFi), cybersecurity, and ESG (Bourveau, Brendel and Schoenfeld, 2024; Knechel, Maex and Park, 2023; Gipper, Ross and Shi, 2022). Indeed, consulting revenues are becoming a primary income source for leading audit firms (Cowle, Kleppe, Moon and Shipman, 2022). Third, prior research suggests that knowledge spillovers from non-audit services might improve the core audit functions (Arruñada, 1999; Svanström, 2013). Consequently, the concept of auditor-client compatibility, which captures the broader nature of expertise in client business risks and challenges, is likely to become increasingly important for audit firms' business development.

To communicate such dynamic expertise development, audit firms employ active communication strategies to position themselves as market leaders who work closely with clients as

[1]Although auditor industry expertise is not directly observable, the convention of measuring auditor industry expertise by an auditor industry portfolio is widely used with an implicit assumption that industry specialization is associated with industry expertise (Minutti-Meza, 2013). See examples from Craswell, Francis and Stephen L (1995); Ferguson, Francis and Stokes (2003); Francis, Reichelt and Wang (2005); Reichelt and Wang (2010) among others. With the same spirit, prior research has examined auditor-client alignment based on auditor industry portfolios (e.g., similar between client disclosure and other clients audited by its auditor (Brown and Knechel, 2016), audit fees in client's industry (Numan and Willekens, 2012)).

strategic partners rather than mere accounting compliance checkers. In practice, auditors employ multiple communication channels, including public materials (e.g., newsletters, guidance documents, professional reports), podcasts, videos, or event sponsorship. Communication efforts potentially differentiate audit firms from competitors and showcase their capacity to add value to clients, reducing information asymmetry and facilitating contract negotiation.

I quantify knowledge compatibility by similarity scores between an auditor's podcast content and a client's forward-looking disclosures from "Item 1A Risk Factors" and "Item 7 Management's Discussion and Analysis (MD&A)" of the annual reports. Although podcasts are only one communication channel, their dynamic and topic-based nature offer nuanced variations of auditor knowledge development, while their informal nature offers insights from daily communication practices. In addition, they are widely listened to. A recent survey suggests that 47% of US citizens aged 12 and older have listened to a podcast in the past month,[2] a 10% increase from the previous year, where 49% of monthly podcast listeners are college-educated, compared to 44% in the overall population. Indeed, podcast data is particularly suitable to measure multifaceted, timely, and dynamic audit firm communication strategies for several reasons. First, podcast content showcases auditor knowledge across many topics, from accounting, auditing, and tax to emerging issues and economy-wide trends. This breadth allows me to capture the most prominent expertise that auditors develop and aim to disseminate. Second, podcast speakers are not limited to audit firm partners and directors but may include external high-profile experts from regulatory bodies, executives, and researchers, offering varied professional perspectives and communication credibility. Such invitations signal auditor connections, high-level knowledge, and peer recognition as experts.[3]

[2]Infinite Dial 2024 survey by Edison Research. Available here: https://www.edisonresearch.com/wp-content/uploads/2024/06/Infinite-Dial-2024-Presentation.pdf

[3]For example, a podcast on recent developments in revenue recognition and its upcoming implementation challenges, where a board member of the International Accounting Standards Board (IASB) or the Financial Accounting Standards Board (FASB) is also present, lends credibility to auditor knowledge and competitive positioning in the field. For more examples, see: *(i)* Jingdong Hua (Vice Chair of the ISSB) and Mardi McBrien (Managing Director, Climate Disclosure Standards Board) in PwC's podcast *Talking ESG: How the ISSB is building fluency in sustainability* [link], *(ii)* Scott Frohman (Head of Defense Programs at Google Cloud) in Deloitte's podcast *How cloud-powered AI is transforming the US government* [link], *(iii)* Elizabeth Renieris (Senior Research Associate at the Institute for Ethics in AI at Oxford University) in EY's podcast

Third, due to their informal nature, podcasts often provide more time-variant content than websites,[4] and more timely insights into current business topics that might not be as readily published in other formal written formats (e.g., market reports and accounting guidance), while still being in line with the main communication strategy of the audit firm.

Interviews with marketing associates from a leading audit firm confirm that podcast content aligns closely with their communication themes and reflects their viewpoints of complex issues from daily practice. Auditors bundle podcasts with other materials in communication packages and send them regularly to clients. The marketing packages serve as a gateway to open in-depth conversations between clients and audit teams, offering opportunities for the audit team to introduce tailored accounting and business solutions and services.[5] Audit firms also disseminate those materials beyond their client portfolio to contribute to their public knowledge base and reinforce their profiles as thought leaders. This approach aligns with evidence that auditor public appearance is crucial, as reputation impacts market share and perceived credibility (Skinner and Srinivasan, 2012; Khurana and Raman, 2004).

I collect metadata and download podcasts from Google Podcasts as it offers an open and centralized platform for most audit firm podcasts, allowing consistent data collection and accurate timestamps without scraping restrictions like other platforms.[6] Reviewing metadata, including channels, episodes, and podcast descriptions, I first identify six main topics, their themes, and the most typical keywords. I then use that input for an interactive process of Gemini prompts and human audits for podcast topic classification and keyword validation that will be used to quantify specific knowledge compatibility measures.

The descriptive evidence indicates that the number of podcasts increases over time.

Elizabeth Renieris on Beyond Data: Reclaiming Human Rights at the Dawn of the Metaverse [link].

[4]For example, Cowle et al. (2022) shows that marketing materials provided in audit firm websites have more stable content over time, revealing a 90% correlation between an alternative measure based on archived web pages from 2007 and the main measure based on the consulting content accessed in 2018.

[5]A marketing package might contain newsletters, guidance, professional reports, and other materials.

[6]While podcasts are also available on audit firm websites, they are subject to web scraping restrictions and inconsistent page structures. In addition, commercial platforms such as iTunes and Spotify do not allow the takeout of audio files.

Auditors discuss diverse topics with a relatively low focus on *Accounting and auditing practices*. Instead, they often discuss *Technology and digital transition*, *ESG and sustainability*, *Tax*, and *Industry and business trends* reflecting market trends, or concurrent risks like *COVID-19 and other pandemics*. Notably, different auditors have different distributions of podcast topics, suggesting auditors' efforts to acquire unique knowledge and build their reputation. The evidence suggests that podcast content signals the most prominent expertise that individual auditors cultivate to differentiate themselves from competitors. The wide array of topics covered also aligns with the concept of knowledge compatibility in addressing the complexities in modern audits, the expanded scope of assurance services (e.g., cybersecurity, ESG), and the growing importance of consulting revenues.

I use this measure to examine the relationship between knowledge compatibility and audit market outcomes and quality. First, I hypothesize that higher knowledge compatibility is associated with increased audit fees, drawing parallels to the industry specialization literature (Huang, Liu, Raghunandan and Rama, 2007; Casterella, Francis, Lewis and Walker, 2004; Ferguson et al., 2003). This may operate through efficiency-driven value and market-based premium mechanisms (Hay and Knechel, 2010; Numan and Willekens, 2012). Second, when hiring a new auditor, I hypothesize a positive association between knowledge compatibility and the likelihood of auditor appointment. This is because of clients' reliance on auditors' public profiles and expertise to reduce information asymmetry in auditor selection (Beattie, Fearnley and Hines, 2013; Johnson and Lys, 1990), where clients switch to auditors that fit their specific needs (Brown and Knechel, 2016). Specialized knowledge is predicted to be crucial given the increasing complexity of client operations and reporting requirements (Barth, 2022; Knechel, 2021). Last, I hypothesize that audit quality increases with knowledge compatibility because client-specific business knowledge sharpens professional judgment.

My findings support these hypotheses. Knowledge compatibility is positively associated with audit fees and the likelihood of future auditor appointments. Specifically, a one standard deviation increase in knowledge compatibility based on Item 7 (Item 1A) corresponds to a

2.5% (3.7%) increase in audit fees and a 15 (25) percentage point increase in the likelihood of auditor appointments. I also find evidence of higher audit quality, as measured by lower discretionary accruals. This suggests that auditors' communication of their most prominent knowledge captures actual expertise rather than solely marketing efforts. Current and future clients consistently value knowledge of *Technology and digital transition* and *ESG and sustainability*. In addition, while tax and accounting knowledge are key in audit pricing, emerging trends and risks are associated with the hiring of new auditors.

Results are robust to controlling for auditor industry expertise and other audit-related variables, reinforcing the importance of signaling knowledge beyond current industry specialization. The results are robust when using different 10-K items and employing FinBERT similarity scores. I extend the analysis to consulting opportunities and find that knowledge compatibility is also associated with higher non-audit fees, supporting the benefits that auditors leverage on the broader knowledge. Further, the presence of guest speakers may enhance the credibility of knowledge signaled through auditors' communication strategies, thereby strengthening the relationship between knowledge compatibility and audit pricing. Additionally, results on audit firm hiring efforts alleviate the concern that auditor podcasts capture solely marketing efforts rather than actual knowledge development and communication.

My paper makes several contributions to the literature. First, I add to the limited work on auditor communication strategy and its consequences. Given the changes to the profession since the early evidence on audit marketing provided by Hay and Knechel (2010), my results provide insights into how auditors actively communicate prominent expertise development to maintain and improve their reputation.[7] I introduce and exploit a novel podcast database with a richness of properties that future research can rely on to quantify audit firm characteristics.

Second, I create a new concept and measure of auditor-client compatibility. While Brown

[7]Other studies also use data from communication platforms but do not examine auditor communication. For example, Cowle et al. (2022) quantify auditor consulting opportunities from audit firm websites. Liu, Tang, Walton, Zhang and Zhao (2023) quantify auditor sustainability focus by auditors' tweets. García-Osma et al. (2024) highlight how Big 4 auditors navigate the complexities of emerging issues like cryptocurrency accounting without authoritative guidance by issuing individual professional guidance.

and Knechel (2016) develops an *indirect* measure of auditor-client compatibility based on the similarity of disclosures between clients in the same industry-clientele of an audit office, I introduce a novel and *direct* compatibility measure between an audit firm and its current and potential clients. My measure captures knowledge in topics relevant to current and future audits. Audit researchers have long defined industry expertise by gauging the auditor's market share within that industry (Ferguson et al., 2003; Francis et al., 2005; Reichelt and Wang, 2010; Minutti-Meza, 2013), where, simply put, a larger market share infers greater industry expertise. I provide a novel concept that focuses on emerging knowledge, rather than past expertise and client portfolio, and a new measure that allows for within auditor variation and permits a finer identification (at the individual client level).

Third, I extend the audit specialization literature. I find that audit topic-specific expertise evolves to meet market demands. My concept and the multifaceted measure of knowledge compatibility synthesize fragmented and growing evidence of auditor expertise development. My findings generalize findings from studies examining auditor-specific expertise and audit outcomes (Commerford et al., 2022; Law and Shen, 2020; Asante-Appiah and Lambert, 2023; Liu, 2024; García-Osma et al., 2024; Hartlieb and Eierle, 2024). Additionally, I add novel evidence on auditor appointment outcomes to this literature.[8]

2 Background and Hypotheses Development

2.1 Auditor expertise signaling: from traditional measures to proactive communication

Audit services are inherently credence goods, making it difficult for clients to evaluate their quality even after consumption (Causholli and Knechel, 2012; DeFond and Zhang, 2014;

[8]Overall, these insights have implications for the discussion of declining accounting program admissions (Buchheit, Dalton, Harp and Hollingsworth, 2016) and skills gap in the profession (Aldredge, Rogers and Smith, 2021), that call for a strategic transformation of accounting education as accounting evolves with technological advancements. Current curricula may fail to align with rapidly evolving competencies required in practice (Aldredge et al., 2021). My evidence supports prior work that argues for the need for educational programs to reflect accounting's multidisciplinary nature and develop essential communication skills (Howieson, Hancock, Segal, Kavanagh, Tempone and Kent, 2014) to better align with industry demands.

Francis, 2011). This creates significant information asymmetry in the audit market, posing challenges for clients attempting to assess audit quality ex-ante and leading to adverse selection problems (Francis, 2011). The unobservable nature of audit quality makes it hard for stakeholders to distinguish between high and low-quality audits, potentially undermining auditing's value in capital markets (DeFond and Zhang, 2014). Knechel, Krishnan, Pevzner, Shefchik and Velury (2013) point out that the opacity of the audit process further complicates this issue, as clients cannot directly access audit working papers and methodologies.

Given these challenges, auditors must rely on various signals to communicate their quality and capabilities to the market (Weber, Willenborg and Zhang, 2008). Larger audit offices, which may signal greater expertise and resources, are associated with higher audit quality and command higher audit fees (Choi, Kim, Kim and Zang, 2010), suggesting that effective signaling can build trust and credibility with stakeholders. In an increasingly competitive market, auditors must differentiate themselves, as clients often struggle to discern quality differences, particularly among firms within the same tier (Bills, Jeter and Stein, 2015). Signaling expertise allows auditors to demonstrate their capacity to address specific client needs, which is increasingly valued in capital markets (Knechel, Naiker and Pacheco, 2007).

However, traditional audit quality signals such as industry specialization and client portfolios, are increasingly recognized as incomplete and backward-looking (Minutti-Meza, 2013). In today's rapidly evolving business landscape, these historical indicators may not adequately capture an auditor's current capabilities or readiness for future challenges. The complex and dynamic nature of modern business environments necessitates that auditors continuously develop new knowledge and skills in emerging areas such as data analytics, cybersecurity, and sustainability reporting (Knechel, 2021). Growing evidence in audit literature suggests auditors must also address issues crossing industry boundaries. For instance, recent studies highlight the importance of auditor expertise in areas such as cybersecurity (Liu, 2024), SEC comment letters (Bills, Cating, Lin and Seidel, 2024), climate-related risks (Hartlieb and Eierle, 2024), ESG risks (Asante-Appiah and Lambert, 2023) and PCAOB

inspection-related issues (Aobdia and Petacchi, 2023). These emerging areas of expertise are crucial across various sectors and reflect the evolving nature of audit challenges. As client needs evolve and become more complex, auditors who effectively signal their specialized expertise in these cross-cutting areas may be better positioned to attract and retain clients.

The gap between market needs and the expertise signaled through auditors' past experience requires a more proactive approach to communication. By effectively communicating their evolving expertise, auditors can position themselves as strategic partners rather than mere compliance checkers, potentially commanding fee premiums (Ferguson et al., 2003). This proactive approach is especially critical as the scope of assurance services expands beyond traditional financial statement audits (Curtis, Humphrey and Turley, 2016). A forward-looking approach to signaling expertise not only helps auditors differentiate themselves in a competitive market but also demonstrates their capacity to add value in an ever-changing assurance landscape, addressing the information asymmetry inherent to audit services.

2.2 Audit firms communication strategy and knowledge compatibility

Audit firms have to maintain high public profiles to signal their quality and commitment. Assurance quality, perceived through reputation (Klein and Leffler, 1981), necessitates investment in brand name capital through public communication and thought leadership. Institutional insights derived from interviews with a leading audit firm's marketing team and analysis of marketing materials reveal that audit firms strategically position themselves as thought leaders who actively respond to market demands and client needs. They employ a multi-faceted communication approach, disseminating content through various channels, including newsletters, guidance documents, professional reports, podcasts, and publications. The scope of this content extends beyond traditional accounting and auditing topics, encompassing a wide range of business issues. While primarily created by the firms' top experts, external voices from clients and regulatory bodies are occasionally incorporated, particularly in formats like podcasts. This comprehensive communication strategy is reflected in audit

teams' regular updates to current and potential clients about auditor dynamic expertise developments. The marketing packages serve as a gateway to in-depth conversations with clients, offering opportunities for the audit team to introduce tailored accounting and business solutions, as well as consulting services.[9]

These communication efforts transcend mere marketing practices. By making materials publicly available on their websites and other online platforms, audit firms contribute to a public knowledge base, reinforcing their position as thought leaders. This approach aligns with evidence suggesting that audit firm public appearance is crucial, as reputation significantly impacts market share and perceived credibility (Skinner and Srinivasan, 2012; Khurana and Raman, 2004). Furthermore, as Francis (2011) suggests, understanding and signaling audit quality is complex, making public visibility a critical differentiating factor.

In response to the imperative for studying auditor communication strategy, I define knowledge compatibility as the congruence between an auditor's signaled expertise and the specific knowledge required to audit a particular client effectively. Simply put, this is the alignment between what an auditor offers and what a client needs in a particular audit. Grounded in signaling theory (Spence, 1973) and the auditor-client fit literature (Brown and Knechel, 2016; Cowle et al., 2022; Liu et al., 2023), this concept underscores an auditor's capacity to address client-specific needs that frequently extend beyond conventional industry demarcations. This concept is particularly salient in the context of cross-industry issues, which have become increasingly critical as organizations navigate interconnected global markets and rapidly evolving technological landscapes. Knowledge compatibility aims to quantify the degree to which an auditor's communicated expertise aligns with clients' dynamic knowledge requirements, thus reflecting the auditor's ability to deliver value in a swiftly changing business environment. In relation to industry expertise valued through auditor portfolios, fitting signals of knowledge might complement such information to provide a more

[9]Although the interactions between audit teams and clients play vital roles in audit contracting with clients, the communication theme set by audit firms aims to provide guidance or complement rather than substitute such interactions.

nuanced approach to demonstrating auditor competence that better reflects the complexities of modern business environments.

2.3 Hypotheses

2.3.1 Knowledge compatibility and audit fees

I conjecture that knowledge compatibility is positively associated with audit fees for current clients, drawing parallels to mechanisms established in industry specialization literature. Evidence suggests that industry specialization leads to better bargaining positions and increased audit efficiency (Huang et al., 2007; Casterella et al., 2004; Ferguson et al., 2003; Francis et al., 2005), I propose that similar benefits may extrapolate to specialized knowledge in emerging matters. Unlike industry expertise, which is built over time through repeated engagements in an industry, knowledge compatibility captures an auditor's ability to acquire and signal knowledge in emerging areas specifically relevant to a client's current challenges. By demonstrating compatible knowledge through the communication channels, auditors signal their expertise to the market, potentially strengthening their bargaining position in fee negotiations. This timely and updated expertise enables auditors to conduct more tailored risk assessments, focusing efforts on areas most critical to the client's evolving business model or regulatory environment. Further, the reduced learning curve associated with pre-existing knowledge of new, complex issues relevant to the client can lead to more efficient and effective audits. In addition, auditors gain a market-based premium due to the scarcity of specific expertise (Numan and Willekens, 2012), suggesting signaling knowledge in emerging matters matching with a client need might help auditors in negotiating audit fees. Higher audit fees charged by auditors with more compatible profiles are also consistent with findings of quality-based marketing and audit pricing (Hay and Knechel, 2010). Therefore, I propose the following hypothesis:

H1: *Knowledge compatibility is positively associated with audit fees for current clients.*

However, cost-saving factors create tension for H1. By having better knowledge fitting

with clients, auditors can improve audit efficiencies by knowledge spillovers in different engagements (Bills et al., 2015). This cost reduction can be attributed to several factors: more focused audit procedures, improved risk assessment, reuse of similar audit procedures, and learning curve effects across similar clients (Low, 2004). Additionally, knowledge spillovers within the same domain can enhance audit efficiency by allowing auditors to apply insights gained from one client to others (Reichelt and Wang, 2010). These efficiency gains may lead to reduced audit hours or lower effort, potentially resulting in cost savings (DeFond and Zhang, 2014). These factors suggest that knowledge compatibility might translate to lower audit fees, in contrast to the high-quality fee premium mechanisms typically associated with specialized knowledge.

2.3.2 Knowledge compatibility and future auditor appointments

In the context of hiring a new auditor, I conjecture a positive association between knowledge compatibility and the likelihood of auditor appointment. This is because firms can use their brand name and reputation to signal quality to potential customers in markets characterized by information asymmetry (Klein and Leffler, 1981), such as audit, where new clients may not have full information about potential auditors' expertise and capabilities (Beattie et al., 2013). Gathering information is crucial as clients aim to balance switching costs and audit quality (Johnson and Lys, 1990). From the supply side, by publicly signaling their specialization, auditors can target specific areas and differentiate themselves from competitors (e.g., as industry leaders Casterella et al. (2004)). The importance of specialized knowledge in auditor selection is further supported by evidence that clients switch to auditors that fit with their demands, such as experience in similar clients (Brown and Knechel, 2016).

From the demand side, clients may rely on public auditor information to reduce information asymmetry when selecting a new auditor. By evaluating an auditor's public profile, including any available communication channels like podcasts, clients can better gauge suitability for their unique needs (Beattie et al., 2013), allowing for a more informed choice during the

selection phase. In the current landscape of market demand, the value of specialized knowledge in emerging areas may become even more pronounced in auditor selection decisions, given that audit clients face increasing complexity in their operations and reporting requirements (Barth, 2022; Knechel, 2021). Consequently, knowledge compatibility in new, complex areas signaled by the auditors not only facilitates the auditor selection process but potentially leads to more favorable appointment outcomes. Therefore, I propose:

H2: *Knowledge compatibility is positively associated with new auditor appointment.*

2.3.3 Knowledge compatibility and audit quality

Finally, I examine and predict that knowledge compatibility is positively associated with audit quality. Prior work finds that auditor industry knowledge improves audit quality (Balsam, Krishnan and Yang, 2003; Gul, Fung and Jaggi, 2009; Reichelt and Wang, 2010). This may extend beyond industry boundaries and spill over to different audit offices as evidenced by studies on supply chain expertise (Johnstone, Li and Luo, 2014), IT-related control issues (Liu, 2024), and goodwill accounting (Bills et al., 2024). These findings suggest that knowledge of specific issues might complement auditor industry expertise in cross-border issues.

In particular, knowledge compatibility may be linked to audit quality through two potential mechanisms: internal knowledge sharing and client interaction. First, since communication targets are professionals, creating content requires careful thought and preparation. To provide insightful content, auditors must reflect on their own experiences, conduct thorough research, engage with experts, and then wisely organize their thoughts. Thus, the insights ready to communicate externally reflect auditor expertise development and sharing within audit firms, crossing offices and teams. This continuous process enables auditors to continually expand their knowledge base, sharpen their expertise, and ultimately enhance their ability to conduct high-quality audits. Insights from interviews with auditors reveal that topics communicated reflect an audit firm's internal knowledge sharing. This includes several aspects, such as review processes, on-the-job training, and informal interpersonal communications. These

communications might inform audit judgment and decision-making by providing practical insights and real-world examples. Additionally, internal knowledge sharing from field experts to staff members further enhances the whole firm's collective knowledge base of the firm and subsequently improves audit quality. This is consistent with the positive effects of audit firm knowledge sharing on audit quality and audit efficiency (Duh et al., 2020).

Second, fitting the auditors' expertise with client needs might demonstrate the auditor's responsiveness and readiness to address specific reporting and business issues. Higher knowledge compatibility would capture more insights and best practices featured that might fit each client. A better understanding and preparation for clients' specific needs can facilitate collaboration between auditors and clients during the audit process, leading to more effective risk assessment, planning, and execution of audit procedures, thereby contributing to overall audit quality. Taken together, I propose the third hypothesis:

H3: *Knowledge compatibility is positively associated with audit quality.*

3 Research methodology

3.1 Knowledge compatibility measurement

3.1.1 Measure development ideas

I quantify knowledge compatibility by the similarity scores between auditor communication content and client disclosures. I use auditor podcasts issued by audit firms because they offer several unique features that capture communication strategy and provide convenience in database development. Interviews with auditors reveal that podcast series reflect an audit firm's communication strategy, being more prominent but generally consistent with other marketing materials like newsletters, guidance, and professional reports. Audit teams often bundle podcasts with other materials to share with clients, potentially initiating topical conversations. Each podcast episode description typically includes links to related materials

such as reports, analyses, and guidance.[10] The podcast content showcases auditor knowledge on various topics, from accounting and auditing to emerging issues and economic trends. This breadth captures the most prominent expertise auditors cultivate and aim to share.

The podcast database offers unique features that are convenient for data collection and measurement construction. While scraping auditor public content in real-time can be challenging due to different website structures and data mining restrictions, Google Podcast provides access to most audit firm podcasts. This platform allows for the development of a time-series database that captures long-term communication engagement and enables comparisons between auditors.[11] These characteristics make podcasts suitable for tracking auditor communication over time. Lastly, podcast communication is less formal than other channels, offering timely business topics with more subjective viewpoints from speakers. Overall, podcasts provide a novel and comprehensive database to capture auditor market-oriented knowledge communication strategy.

I use Item 1A and Item 7 as clients' forward-looking disclosures to capture broader information about client business environments relevant to current and future audits. Recent research demonstrates the informational advantages of these disclosures compared to backward-looking ones. MD&A sections reflect changing firm circumstances (Brown and Tucker, 2011), predict future returns (Loughran and Mcdonald, 2011), and affect information asymmetry (Bushee, Gow and Taylor, 2018). Similarly, Items 1A predict negative outcomes (Campbell, Chen, Dhaliwal, Lu and Steele, 2014), are associated with stock returns and information asymmetry (Hope, Hu and Lu, 2016), and provide valuable information to credit markets (Chiu, Guan and Kim, 2018). These forward-looking disclosures offer insights into the client's business environment and potential challenges in future audits. Such nature can better assess the complexities and evolving nature of client operations, which are crucial factors affecting audit quality in dynamic business environments (Knechel et al., 2013).

[10]See https://www.pwc.com/us/en/library/podcasts/pulse-series/digital-assets-and-crypto.html

[11]From June 2024, Google shut down Podcast and migrated it to YouTube Music.

3.1.2 Data collection and topics of communication

I download all available podcast audio on the Google Podcast platform, which covers the historical podcast series of the Big 4 and the four second-tier accounting firms (Grant Thornton LLP, BDO USA LLP, RSM US LLP, and Baker Tilly LLP). To do that, I first extract metadata From podcast webpages, including podcast series and episode titles, issue times, names of auditors, and links to download. I download all available audio files and then use the OpenAI Whisper package to transcribe audio to get transcriptions.[12]

I use Gemini with a chain of thoughts guidance to extract speaker details (names, titles, and organizations) from the introduction part of each transcription podcast (the first 300 words), where speakers introduce themselves and manually audit the parsed output. Figure 1 provides an overview of podcast participants. Most podcast hosts and guests are internal high-level staff, mostly national partners and directors in a field (e.g., tax, technology, ESG) who come from the US or even international offices. Notably, sometimes they also have external speakers who often are regulatory officers (IFRS board members), executives of listed companies (Google, Microsoft), or even researchers (university professors).

I use Gemini assistance to develop topic-related keyword lists based on a podcast database. I use only podcast databases in this step because podcast content is topic-focused (Bottomley, 2015), offering cleaner classification and keyword detection comparing 10-K items that audit clients often discuss various financial and operational issues. In addition, having clean topic dictionaries from podcasts allows me to score the whole disclosure data without using the computationally costly Gemini and avoid inconsistencies in AI-generated results. After reviewing podcast titles and descriptions, I define six topics: *(1) accounting and auditing practices, (2) COVID-19 and other pandemics, (3) ESG and sustainability, (4) industry and business trends, (5) tax, and (6) technology and digital transformations*. I then input Gemini

[12]Podcasts can be distributed through websites, newsletters, and various platforms such as Apple Podcasts, Spotify, and Google Podcast. I choose Google Podcasts because it allows podcast data scraping without requiring a subscription or login. To minimize the effects of potential incomplete coverage, I search for all channels offered by our auditors of interest. I use the Whisper package available at `https://github.com/openai/whisper` as the speech-to-text algorithm.

topic themes and suggested keywords to prompt topic classification for a training set of 200 random podcasts. For each podcast, Gemini returns the most relevant topic and related keywords. I repeatedly check and adjust topic themes before prompting Gemini classification for the entire dataset by comparing podcast titles defined by auditors and podcast topics classified by Gemini and saving prompt outputs. From these, I select the most relevant Gemini-generated keywords after removing those broadly referring to multiple topics to have validated topic keyword lists. Details are described in Appendix B.

Figure 2 provides an overview of podcast trends and distribution across various dimensions. Panel (a) shows the number of podcasts increasing gradually from 2007 to 2018, then rising sharply from 2018 before becoming more stable from 2020 to 2023. Panel (b) highlights heterogeneity among audit firm strategic communications, suggesting that auditors differentiate their public profiles from competitors. While Deloitte strongly focuses on *Technology and digital transformation*, nearly half of EY's podcasts are contributed by *Tax*. PwC emphasizes accounting and auditing practices more strongly than others, while KPMG allocates a large proportion to ESG and sustainability. Panel (c) emphasizes the relative importance of different topics over time, with a notable rise in tax-related podcasts from 2014 to 2016, likely reflecting increased interest in tax issues or regulatory changes during that period.[13] The emergence and rapid growth of COVID-19-related podcasts in 2020 is clearly visible, demonstrating the auditors' quick response to this global crisis. More recently, there has been a marked increase in ESG and sustainability podcasts, mirroring the growing importance of these topics in the business world. The weekly distribution in Panel (d) shows most podcasts being released on working days, suggesting that the target audience consists of professionals.

[13]e.g., Affordable Care Act (ACA), OECD's Base Erosion and Profit Shifting (BEPS), Tax Cuts and Jobs Act (TCJA), debates on taxation of the digital economy.

3.2 Empirical models

To examine the association between knowledge compatibility and audit pricing for current clients (H1), I estimate the following ordinary least squares (OLS) regression model:

$$AuditFees = \beta_0 + \beta_1 \cdot Compatibility + \beta_2 \cdot NExpert + \beta \cdot Z + \text{industry} + \text{year} + \epsilon \quad (1)$$

where *AuditFees* is the natural logarithm of audit fees of client i in year t (*AuditFees (ln)*). *Compatibility* is alternatively the similarity between the text of either (i) Item 1A or (ii) Item 7 in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. I standardize knowledge compatibility variables to have a mean equal to zero and standard deviations equal to one. If auditors charge higher fees for current clients whose knowledge is more aligned with the knowledge communicated through their strategy, then β_1 will be positive. Z is the set of control variables previously found to affect audit fees (Simunic, 1980; Francis et al., 2005; Hay, Knechel and Wong, 2006). Particularly, I control for client, auditor, and engagement attributes. In addition, I control for national industry auditor specialists *NExpert* and audit market competition. These controls are necessary to separate the association between knowledge compatibility and audit pricing from that driven by an auditor's industry expertise and competitive market dynamics. I also control for potential market powers due to supplier concentration (*CompMSA*, *CompMSAInd*). I include two-digit SIC industry and year-fixed effects to control for unobserved factors that differ across industries and unobserved common factors that vary over time. I cluster standard errors at the client level.

H2 suggests that when a client hires a new auditor, it will choose the more compatible audit firms from the pool of available non-incumbents. As the decision to switch an auditor has already been made, the new auditor is expected to be, on average, the most compatible among the non-incumbent options. I create all potential auditor-client pairs from the other seven auditors for each switching observation. For example, if a client switches its auditor

(e.g., Deloitte) in year t, there will be seven options to appoint in the year $t+1$ from EY, KPMG, PwC, Grant Thornton, BDO, RSM, and Baker Tilly. I calculate the compatibility scores of these possible pairs as independent variables. To test (H2), I estimate the following logistic regression model:

$$AuditorAppointment = \beta_0 + \beta_1 \cdot Compatibility + \beta_2 \cdot NExpert + \beta \cdot Z + \text{industry} + \text{year} + \epsilon \quad (2)$$

the dependent variable, *AuditorAppointment*, takes the value of one if an auditor is subsequently appointed in the next year $t+1$ (*AuditorAppointment_t1*), and zero otherwise. I also control for Z, as defined in Eq.(1). β_1 is expected to be positive, suggesting that an auditor with higher knowledge compatibility with the client is more likely to be selected. Further, I also control for national industry auditor specialists *NExpertPossible* of all possible auditors.

To examine the audit quality of current clients (H3), I estimate two models using different dependent variables that capture audit quality: (i) an OLS regression for the absolute value of discretionary accruals and (ii) a logistic regression model for the probability of receiving a going-concern opinion. The control variables are the same as those included in Eq.(1). β_1 is expected to be negative, suggesting that the higher the knowledge compatibility with the client, the higher the audit quality.

4 Empirical findings

4.1 Summary statistics

Table 2 Panel A presents the descriptive statistics for the variables. The average values of *Compatibility_MD&A* and *Compatibility_RF* are 0.081 and 0.103. This suggests that the alignment between the knowledge signaled by auditors through their communication strategy and the knowledge required by clients is 8.1% and 10.3%, respectively. *Compatibility_MD&A* is smaller than *Compatibility_RF*, ($t = -25.98, p < 0.01$). This suggests that auditors' podcasts focus more on broader business challenges than specific financial issues, despite

both sections containing forward-looking information (Li, 2010; Campbell et al., 2014). The higher score of *Compatibility_RF* implies auditors are strategically demonstrating expertise in assessing complex business risks beyond financial statements, consistent with their evolving role in risk assessments beyond financial information (Causholli and Knechel, 2012; Cohen, Krishnamoorthy and Wright, 2017). These findings suggest auditors prioritize broader business acumen over knowledge related to client financial perspectives in their public communications. This potentially reflects a change in the perceived value proposition of audit firms in broader business contexts discussed in previous literature (DeFond and Zhang, 2014; Knechel, 2021).

Table 2 Panel B compares knowledge compatibility scores between auditors in decreasing order, where most of the Big 4 firms are ranked at the top, demonstrating their superior ability to align their knowledge signals with client needs through a communication strategy. When comparing the two proxy scores, the scores based on item 1A are higher than those based on item 7 in all auditors, consistent with the mean values shown in panel A (0.103 and 0.081). This comparison reflects the distinct nature of these two text sources. Item 1A focuses mainly on risk factors for future operational perspectives (Hope et al., 2016), with more standardized discussions of possible negative events and uncertainties (Campbell et al., 2014). In contrast, Item 7 provides a mixed managerial view covering both past performance and future prospects across various operational and financial aspects (Loughran and Mcdonald, 2016). Conversely, the broader scope of Item 7 may result in more diverse discussions and lower compatibility scores, given podcast content focuses on current future business issues.

Table 2 Panel C shows that the two knowledge compatibility scores are positively correlated, with a correlation coefficient of 0.89, indicating that they measure related constructs. The distributions of the remaining variables are generally skewed toward larger companies and high audit complexity. Table 2 Panel C provides correlations between main variables. Big 4 firms (*Big4*, 0.27* and 0.29*), industry experts (*NExpert*, 0.13* for both), and long-tenure auditors (*Tenure*, 0.28* and 0.29*) show higher compatibility scores with their clients. In addition, knowledge compatibility scores are also positively associated with *AuditFees (ln)*

(0.23* and 0.27*) and *Size* (0.20* and 0.22*), indicating a tendency for higher compatibility with larger clients. The statistics provide a slightly positive correlation with *Growth* (0.04* and 0.05*) and a negative correlation with *BTM* (-0.10* and -0.12*), suggesting a relationship between compatibility and firms' growth characteristics in clients with fast-changing business environments, where clients might need more compatible auditors to address specific and complex needs.

The two compatibility proxies also are positively correlated with better audit quality as shown by negative correlations with both unclean audit opinion (*GoingConcern*, -0.02* for both) and absolute discretionary accruals ($|DACC|$, -0.04* and -0.03*). Moreover, the correlation between compatibility scores and clients' financial and operational performance varies in different aspects. While weakly positively correlated with *Leverage* (0.08* and 0.13*), the two proxies are negatively correlated with *CashFlow* (-0.02* and -0.04*) or even negligibly correlated with *ROA* (-0.00 and -0.02*). *Loss* (0.01 and 0.04*) and *Restruct* (0.06* for both) demonstrate slight positive correlations with one or both compatibility measures. Overall, knowledge compatibility is higher for leading auditors and more important clients. In addition, it is positively correlated with audit complexities and higher audit quality.

4.2 Empirical results

Audit pricing

Table 3 reports the results of the OLS models relating audit pricing to knowledge compatibility for the current clients. The coefficient of *AuditFees (ln)* in columns (1-2) for *Compatibility_MD&A* and *Compatibility_RF* are positive and significant (all $p < 0.01$), suggesting that knowledge compatibility is associated with higher audit fees. Specifically, a one-standard-deviation increase in the knowledge compatibility *Compatibility_MD&A* (*Compatibility_RF*) corresponds to a 2.5 percent (3.7 percent) increase in the audit fees charged by an auditor, supporting H1. In economic terms, for an average client, this translates to an increase of $72,250 ($106,930) in audit fees. Coefficients for the control variables are consistent with prior

work (Simunic, 1980; Francis et al., 2005; Hay et al., 2006). Clients tend to pay higher audit fees when they are larger (*Size*), have greater audit complexity(*BusSegments, GeoSegments*), have greater audit risks (*Loss, ROA, Growth, BTM, Arinv*), and receive going-concern audit opinions (*GoingConcern*). Moreover, clients with peak December 31st fiscal-year end (*Busy*) and audited by Big 4 accounting firms (*Big4*) are more likely to have higher audit fees. Inferences for the knowledge compatibility measures are unaffected by the inclusion of the national industry auditor specialist variables (*NExpert*) as well as (*Big4*) suggest that compatibility benefits auditors beyond expertise signaled through industry specialization or the size of audit firms, supporting the distinct nature new knowledge from traditional auditor expertise measures.

The evidence of knowledge compatibility facilitates audit pricing negotiation, consistent with higher audit fees in better industry-fit audit engagements (Numan and Willekens, 2012) due to the scarcity of novel knowledge. Higher audit fees charged by more compatible auditors suggest that these firms leverage on differentiating themselves from other competitors with unique knowledge. They are more likely to pass the cost of such expertise development to clients rather than reducing audit fees driven by cost-saving factors driven by knowledge spillovers (e.g., Ferguson et al. (2003)). Moreover, evidence that clients are willing to pay higher audit fees for knowledge-compatible auditors suggests a sophisticated view of audit quality beyond traditional metrics, where knowledge is a strategic asset in the audit market.

Subsequent auditor appointment

The results for the subsequent auditor appointment are reported in Table 4. The coefficients of *Compatibility_MD&A* and *Compatibility_RF* in columns (2-3) are both positive and significant (all $p < 0.01$), supporting H2. That is, auditors with higher knowledge compatibility among possible competitors are more likely to be selected. Economically, an increase in one-standard-deviation in *Compatibility_MD&A* (*Compatibility_RF*) is associated with an approximately 15% (25%) increase in the odds of the subsequent auditor being selected, corresponding to approximately a 1.84 (2.96) percentage point increase in the likelihood of auditor appointment

from the unconditional rate of 14.3% when all variables are at their means.[14] Notably, the coefficients of possible auditor industry expertise (*NExpertPossible*) are positive in and significant in columns (2-3), suggesting that clients value the industry expertise of the incoming auditors. However, the coefficients of knowledge compatibility remain robust after controlling for *NExpertPossible*, suggesting that knowledge compatibility is independently valued when hiring new auditors.

These findings suggest clients value expertise that transcends industry boundaries, beyond the traditional emphasis on industry-specific experience documented by Brown and Knechel (2016). As business environments grow more complex, clients increasingly seek auditors capable of addressing diverse needs through adaptable audit services (Knechel, 2021). This preference for comprehensive expertise reflects a long-term strategic view since clients benefit from more versatile audit services as their business needs evolve.

Audit quality

Table 5 reports the relationship between knowledge compatibility and audit quality of current clients. The coefficients presented for the absolute value of discretionary accruals ($|DACC|$) in columns (1-2) for *Compatibility_MD&A* ($p < 0.05$) and *Compatibility_RF* ($p < 0.1$) are negative and significant, suggesting that knowledge compatibility is associated with lower absolute value of discretionary accruals. As accruals proxy for audit quality, implying that more knowledge compatibility is related to higher audit quality within a sample of current clients. Regarding *GoingConcern*, I find insignificant coefficients in both compatibility proxies for the subset of distressed clients. This echoes observations on the complexity of going concern judgment (Carson, Fargher, Geiger, Lennox, Raghunandan and Willekens, 2013) where going concern opinions involve processes influenced by various factors beyond auditor expertise. Overall, I find increased audit quality with higher knowledge compatibility on

[14]The calculation for the percentage point increase is as follows. For *Compatibility_MD&A*, $exp(0.142) = 1.1526$, new odds $= 0.1669 * 1.1526 = 0.1924$, new probability $= 0.1924/(1 + 0.1924) = 0.1613$, increase $= 0.1613 - 0.143 = 0.0184$ or 1.84 percentage points. For *Compatibility_RF*, $exp(0.223) = 1.2498$, new odds $= 0.1669 * 1.2498 = 0.2086$, new probability $= 0.2086/(1 + 0.2086) = 0.1726$, increase $= 0.1726 - 0.143 = 0.0296$ or 2.96 percentage points. The baseline odds (0.1669) are derived from the unconditional probability of 14.3%.

average, but not in extreme scenarios.

My findings extend extant evidence on auditor expertise and audit quality (e.g., industry specialists (Reichelt and Wang, 2010) by demonstrating that broader knowledge compatibility enhances audit quality. The positive association suggests auditors with broader and novel expertise are better equipped to detect and constrain earnings management practices due to their comprehensive understanding of business operations and financial reporting complexities. Given the difficulty in accessing the quality of professional services, clients rely on indirect quality signals (Klein and Leffler, 1981). My evidence suggests that auditor communication serves as a credible signal, leading to a win-win situation where clients pay higher audit fees but benefit from higher-quality audits.

Heterogeneity in knowledge compatibility

Table 6 summarizes the coefficients and their t-statistic from audit pricing model (columns 1 and 2) and auditor appointment model (columns 3 and 4) for different knowledge compatibility topics. Panel A presents coefficients estimated based on Item 7, while Panel B presents those estimated based on Item 1A. While the main measure captures general compatibility between an auditor and its client, clients may have varying needs for specific knowledge. I extend the main text analysis for six topics and report the results in Table 6.

There are two topics, including *ESG and sustainability* (*Compatibility_MD&A_ESS*, *Compatibility_RF_ESS*) and *Technology and digital transition* (*Compatibility_MD&A_TDT*, *Compatibility_RF_TDT*) are consistently significant across various text sources and models. These findings align with the current business landscape, where ESG considerations and technological advancements are recognized as major drivers of change.The coefficients for *Accounting and auditing practices* (*Compatibility_MD&A_AAP* and *Compatibility_RF_AAP*) are significant in column (3) for new auditor hiring but not in the audit pricing model. In contrast, *Industry and business trends* and *Covid-19 and other pandemics* are the most crucial knowledge in hiring new auditors but not pricing current audit engagements. *Tax* coefficients are all

significant in Panel B (based on Item 1A), but only one is significant in Panel A (based on Item 7), suggesting that clients still pay higher audit fees and seek new auditors with tax expertise for their future business rather than past experience.

While compatibility is significantly associated with audit pricing and auditor selection, its relation varies across topics. This heterogeneity suggests that the value placed on different knowledge areas may depend on the specific context of the auditor-client interaction. For instance, broader business understanding might be prioritized in auditor selection, while technical accounting expertise could be more critical in determining audit fees.

4.3 Robustness and additional analyses

Knowledge compatibility and non-audit services

Auditor communication of knowledge of broad business topics may attract consulting opportunities, thus, I examine effects over non-audit services (NAS). I do not examine NAS in the main tests due to the significant reduction in sample size, as I can observe only non-audit fees by main auditors. In Table 7, I find that more knowledge compatibility is related to increased non-audit fees. In particular, a one-standard-deviation increase in *Compatibility_MD&A* (*Compatibility_RF*) corresponds to a 3.7 percent (6.2 percent) increase in the non-audit fees charged by an auditor. It is worth noting that the coefficient for audit fees is smaller, at 2.5 percent (3.7 percent), suggesting that while knowledge compatibility influences both audit and NAS, its impact is more significant for NAS.

Credibility of communication - external guest speaker attendance

I next consider the credibility of auditor communication, which can vary with the presence of podcasts featuring high-profile external speakers. Around ten percent of sample podcasts feature a high-profile speaker. To identify them, I define a dummy variable, *HighExternal*, which equals one if the podcasts of the audit firm feature more than the average annual percentage of external speakers during the client's fiscal year and zero otherwise. I interact *Compatibility* with *HighExternal* in Eq. (1) and Eq. (2), where the coefficients estimate how

audit outcomes improve due to the increased validity and peer recognition.

The results for audit pricing are presented in Table 8, columns (1-2). The coefficients of knowledge compatibility scores remain positive and significant (at least $p < 0.05$). The interaction term between knowledge compatibility scores and *HighExternal* are positive and significant ($p < 0.05$), suggesting that having more frequent guest speakers in podcasts is positively related to audit fees. Columns (3-4) present the results from the estimations of subsequent auditor appointments. The main effects of compatibility scores are positive and significant ($p < 0.10$). However, the interactions of *HighExternal* with both *Compatibility_MD&A*and *Compatibility_RF* yield negative and insignificant results. Collectively, these findings suggest that the presence of guest speakers may enhance the credibility of knowledge signaled through auditors' communication strategies. This increased credibility appears to strengthen the association between knowledge compatibility and audit pricing. The differential significance across interaction terms indicates potential variations in the association of external expertise across different decisions in auditor-client relationships.

Communicated knowledge and hiring efforts

One concern with the podcast proxy is that it may capture marketing efforts rather than knowledge. Knowledge resides in the audit team (as well as in the institution, i.e., audit papers, software, etc.) We expect that to improve their knowledge base, audit firms do it through internal knowledge sharing (e.g., training) or by hiring new staff. In Table 9, we provide evidence of audit firm hiring and link it to their communicated knowledge at the audit firm-quarter-knowledge topic level.[15]

Panel A, column (1) shows that specific knowledge is significantly associated with audit

[15]To do so, I collect 1,584,362 job postings from Lightcast between the calendar years from 2010 to 2023 for eight auditors in the sample, further categorized into 603,529 senior and 883,999 non-senior vacancies based on postings title name following Cao, Cheng, Tucker and Wan (2023). The "chicken and egg" problem in this setting questions whether communication efforts to attract talent forego hiring or if past hiring decisions explain future communication topics. Untabulated table suggests that knowledge communication is more likely to come first, as it plays a critical role in attracting the candidates and establishing the firm's knowledge reputation.

firm hiring efforts across all staff levels, supporting the notion that the communication of knowledge is associated with *actual knowledge acquisition*, rather than merely serving as a marketing tool. This finding aligns with the main results, indicating improved audit quality. To examine variations in hiring decisions by staff level and specific skills, Panel A, columns (2) and (3) present results for senior and non-senior vacancies separately. While both groups show significant associations, the effect is more pronounced for senior positions.[16]

Topic-specific analysis in Panel B shows the strongest hiring relationship with *Technology and digital transition* (positive and significant at 1% level) and *ESG and sustainability* (positive but insignificant). This emphasis is consistent with positive market valuations in higher audit pricing and the subsequent auditor appointments in the main results. The negative coefficient for *Accounting and auditing practices* might be explained by the internal knowledge sharing that audit firms leverage in existing staff, potentially reducing the demand for external hiring needs for this traditional expertise.

To understand hiring activities more deeply, Panel C provides evidence on job posting characteristics (duration and salary) and skill requirements at the job posting level. The findings reveal a significant distinction in hiring practices between traditional and non-traditional audit skills, as reflected in job posting characteristics. Particularly, the coefficients are mostly positive and significant in *ESG and sustainability*, *Technology and digital transition*, and *Industry and Business trends*. This implies that to attract candidates with non-traditional skills, audit firms have to make longer hiring processes and offer better salaries. Interestingly, the coefficients for accounting and auditing skills are even negative, which might driven by lower demand for external hiring as audit firms might train their staff for those skills internally or their bargaining power in the accounting labor market. In addition, these higher compensation requirements align with audit pricing evidence, where firms charge higher fees for their ESG and sustainability knowledge and technology expertise in the main analyses.

[16]I conduct Granger causality test to examine the effects of *SpecificKnowledge* in quarter $q-1, q-2, q-3$, and $q-4$. The untabulated results indicate that communicated knowledge over the past four quarters is positively related to audit firm hiring ($p < 0.05$) for samples of all job postings and senior vacancies.

Alternative knowledge compatibility measures

Figure OA.2 provides the comparison of coefficients based on different text sources and methods for the audit fees model in Panel A and the audit appointment model in Panel B. In addition to the main analysis, where I use Item 1A, Item 7, and cosine similarity to capture knowledge compatibility, I replicate the estimates with different other non-audited and audited items from 10-K filings, such as "Item 1 Business Descriptions" and "Item 8 Footnotes." Moreover, I explore the FinBERT model to measure the similarity between client disclosures and auditor podcasts. While both cosine similarity and FinBERT effectively gauge textual alignment, FinBERT's deep learning approach provides a more nuanced understanding of financial context, addressing the limitations of simple vector-based comparison inherent in cosine similarity (Huang, Wang and Yang, 2023).

The coefficients derived from Item 1A and Item 7 are consistently significant across both methods, indicating that forward-looking information is robust to variations in data and computational approaches. In contrast, scores based on Item 8, which primarily focuses on past performance and reporting-related issues, exhibit the lowest coefficients. The higher coefficients associated with other items, which discuss a broader range of topics, suggest that both current and potential clients prioritize auditors with a wider scope of expertise. The detailed results are provided in Tables OA.1 and OA.2.

Knowledge compatibility and auditor switching

Prior literature provides mixed evidence on auditor-client alignment and auditor switching, depending on whether the alignment is related to audit or consulting engagements (Brown and Knechel, 2016; Cowle et al., 2022). Table OA.3 presents the results of logistic models regressing auditor switching on knowledge compatibility with interactions for client size, audit fees, and audit quality. Columns (1) and (2) suggest that subsequent auditor switching increases with knowledge compatibility but only for small clients and those with lower audit fees ($p < 0.01$). In column (3), the coefficient for knowledge compatibility is insignificant after

controlling for proxy of audit quality, though the joint test for low-quality audits remains significant ($p < 0.01$). Taken together, switching is absent in large clients and those with high audit fees or high audit quality and occurs only in small clients with low audit fees and low audit quality. These findings suggest that while greater knowledge compatibility might prompt auditor switching due to consulting opportunities, this association is limited to smaller clients and is attenuated by the need for high audit quality in larger, high-fee clients.

5 Conclusion

As a knowledge-intensive profession, auditors must continuously develop expertise beyond industry specialization to address evolving business challenges. While client portfolios reflect past industry-specific knowledge, they incompletely signal dynamic and forward-looking expertise development. This study examines how auditor communication helps bridge this information gap, which is crucial in both audit literature and professional practices.

I quantify knowledge compatibility as the matching between what an auditor offers through communication and what a client needs for current and future audits and examine its relationship with market outcomes and audit quality. I measure this concept by the similarity of audit firm podcasts and client disclosures by exploiting the Google Podcast database, where auditors showcase the current and prominent expertise development in diverse business topics. Using Gemini assistance, I also measure the compatibility in six specific knowledge topics, including *Accounting and auditing practices*, *COVID-19 and other pandemics*, *Technology and Digital transition*, *ESG and Sustainability*, *Tax* and *Industry and Business trends*.

I find that knowledge compatibility is positively associated with more favorable market outcomes through higher audit fees from current clients and a higher likelihood of new auditor appointments. Especially, a standard deviation increase in knowledge compatibility is approximately associated with a 2.5% - 3.7% increase in audit fees and 1.84-2.96 percentage points in the probability of future auditor appointment from the unconditional rate where all variables measured at their means. I also find lower discretionary accruals in clients

audited by higher compatible auditors. All main results are consistent after controlling for auditor industry expertise at both national and office levels and other audit-related variables, supporting that specific knowledge complements industry expertise, sharpens auditor judgment to improve audit quality, and is valued by both current and future clients. Additional tests also provide evidence of how auditors increase the credibility of their communication.

Leveraging the multifaceted measures, I examine heterogeneity among knowledge topics. Regarding client evaluation, *Technology and Digital transition* and *ESG and Sustainability* are essential factors in both audit pricing and future auditor hiring. However, the roles of other topics vary. While knowledge compatibility in *Tax* and *Accounting and auditing practices* are significant in audit fees, opposite results shown in *Industry and business trends* and *Covid-19 and other pandemics* which they play essential roles only in future auditor appointments. In addition, audit quality, proxied by discretionary accruals, increases with *ESG and Sustainability* and *Accounting and auditing practices*.

I extend the analysis to non-audit fees charged by the main auditors and find an increase of 3.7-6.2% in non-audit fees following one standard deviation increase in knowledge compatibility. I also examine the role of peer recognition by analyzing whether having high-profile experts in podcasts improves communication credibility. I find higher audit fees but not the likelihood of audit hiring for auditors that have more frequent external guest speakers.

Besides contributing to the literature on the role of communication in audit firms, the measure of knowledge compatibility with a focus on auditor expertise development in several business topics generalizes growing but fragmented current evidence on auditor-specific issues and complements the literature on auditor expertise with the main focus on auditor industry experience. I also add evidence to the literature on auditor and client alignment. The results should be of interest to a range of stakeholders, including not only audit firms and their clients but also academic institutions.

Appendix A Variable Definition

Variable	Definition
Age	Natural log of the number of years for which total assets are reported in Compustat.
Arinv	The ratio of inventories and accounts receivable to total assets in year t ((INVT +RECT)/AT).
AuditFees (ln)	The natural logarithm of total audit fees of a company in year t.
AuditFees (ln)_t1	The natural logarithm of total audit fees of a company in year t+1.
AuditFees (mil)	The audit fees for the current year t (in millions USD).
AuditLag (days)	The number of days between the auditor signature date and fiscal year-end.
AuditLag (ln)	The natural logarithm of the number of days between the auditor signature date and fiscal year-end.
AuditorAppointment_t1	Indicator variable that equals one if the auditor is appointed in year t+1, and zero otherwise.
Big4	Indicator variable that equals one if the auditor is a Big4 auditor in year t, and zero otherwise.
Big4_t1	Indicator variable that equals one if the auditor is a Big4 auditor in year t+1, and zero otherwise.
BTM	Book value of equity divided by market value of equity in year t (CEQ/(PRCC_F x CSHO).
BusSegments	The number of business segments.
Busy	Indicator variable that equals one if the client's fiscal year ends in December and zero otherwise.
CashFlow	The ratio of cash flows from operation to total assets in year t (OANCF/AT).
CExpert	Indicator variable that equals one if an auditor has the largest market share in a given industry and year at the U.S. city level, where the city is defined as a Metropolitan Statistical Area (MSA) following the 2023 U.S. Census Bureau MSA definitions, and has more than 10% market share than their closest competitor, and zero otherwise.
Compatibility_Bus	The cosine similarity between the text of "Item 1" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end
Compatibility_MD&A	The cosine similarity between the text of "Item 7" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end.
Compatibility_Note	The cosine similarity between the text of "Item 8" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end.
Compatibility_RF	The cosine similarity between the text of "Item 1A" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end.

Variable	Definition
CompMSA	Audit market competition at the MSA-level; calculated as the Herfindahl-Hirschman index using total audit fees.
CompMSAInd	Audit market competition at the MSA-industry-level; calculated as the Herfindahl-Hirschman index using total audit fees.
$\|DACC\|$	The absolute discretionary accruals from the cross-sectional modified Jones model based on Hribar and Nichols (JAR, 2007).
Duration (ln)	The natural logarithm of the duration (in days) of a job posting.
FinBERT_Compatibility_Bus	The similarity between the text of "Item 1" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end using FinBERT model.
FinBERT_Compatibility_MD&A	The similarity between the text of "Item 7" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end using FinBERT model.
FinBERT_Compatibility_Note	The similarity between the text of "Item 8" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end using the FinBERT model.
FinBERT_Compatibility_RF	The similarity between the text of "Item 1A" in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end using FinBERT model.
GeoSegments	The number of geographic segments.
GoingConcern	Indicator variable that equals one if a company receives going-concern audit opinion in year t, and zero otherwise.
Growth	The percentage of changes in sales from the current year to last year.
HighExternal	Indicator variable that equals one if the proportion of external guest speakers in all available podcasts to a client is greater than the average proportion.
Leverage	The ratio of total debts to total assets in year t ((DLTT + DLC)/AT).
Loss	Indicator variable that equals one if income before extraordinary items is less than zero in year t, and zero otherwise.
NExpert	Indicator variable that equals one if an auditor has the largest market share in a given industry and year at the U.S. national level and has more than 10% market share than their closest competitor, and zero otherwise.
NExpertPossible	Indicator variable that equals one if a possible auditor has the largest market share in a given industry and year at the U.S. national level and has more than 10% market share than their closest competitor, and zero otherwise.
NonAuditFees (ln)	The natural logarithm of total non-audit fees of a company in year t.
NonAuditFees (ln)_t1	The natural logarithm of total non-audit fees of a company in year t+1.
NonAuditFees (mil)	The non-audit fees for the current year t (in millions USD).
Restatement	Indicator variable that equals one if the company's current fiscal year financial statements are subsequently restated in an 8-K Item 4.02 filing, and zero otherwise.

Variable	Definition
Restruct	Indicator variable that equals one if the company is undergoing restructuring, as indicated by the disclosure of restructuring costs (RCA, RCP, RCEPS, RCD) in year t, and zero otherwise.
ROA	The ratio of net income to average total assets in year t.
Salary_max (ln)	The natural logarithm of the maximum salary offered in a job posting.
Salary_min (ln)	The natural logarithm of the minimum salary offered in a job posting.
Size	The natural logarithm of total assets in year t (AT).
Sox404	Indicator variable that equals one if the client received a SOX 404 opinion, and zero otherwise.
SpecificKnowledge	The ratio of podcasts focused on each topic t for auditor i in quarter q.
SpecificSkill	The ratio of keywords related to each topic t in the job postings of auditor i during quarter q. It is standardized to have a mean of zero and a standard deviation of one.
Switch	Indicator variable that equals one if the client switches an auditor in year t, and zero otherwise.
Switch_t1	Indicator variable that equals one if the client switches an auditor in year t+1, and zero otherwise.
Tenure	Natural log of the number of years of audit firm-client relationship.

Appendix B Topic themes and Validated keywords

1. ESG and Sustainability	
Description: This topic focuses on the growing importance of environmental, social, and governance factors in business decisions and investments. It explores how companies are incorporating ESG principles into their operations, supply chains, and reporting and the impact of these initiatives on financial performance and stakeholder engagement. This topic doesn't cover ESG issues reported in regulatory filings.	**Keywords:** ESG, sustainability, environmental, social, governance, climate change, biodiversity, natural capital, impact investing, responsible investment, sustainable finance, green energy, social responsibility, corporate governance, stakeholder engagement, reporting frameworks, net zero, carbon emissions, water usage, waste management, ethical sourcing, human rights, diversity, inclusion, board diversity, supply chain sustainability, greenwashing, impact measurement, TNFD, TCFD, SASB, GRI.
2. Technology and Digital Transformation	
Description: This topic explores the rapid advancements in technology and their impact on the business world, particularly in the areas of cloud computing, artificial intelligence, data analytics, and automation. It discusses how companies are leveraging these technologies to drive efficiency, innovation, and growth, as well as the challenges and opportunities associated with digital transformation.	**Keywords:** digital transformation, cloud computing, artificial intelligence, AI, machine learning, data analytics, automation, robotics, blockchain, metaverse, digital assets, cybersecurity, cloud migration, cloud native, serverless, containers, Kubernetes, DevOps, SRE, API, data management, data governance, data privacy, business process management, digital strategy, innovation, technology adoption, cost optimization, talent management, digital skills, full stack, hybrid cloud, multi-cloud, edge computing, data visualization, predictive modeling, business intelligence.
3. Tax	
Description: This topic covers a wide range of tax-related issues, including U.S. tax reform, international tax developments, transfer pricing, and the taxation of digital assets. It discusses the implications of these changes for businesses, investors, and advisors and the challenges and opportunities associated with navigating the complex and ever-changing tax landscape.	**Keywords:** tax, tax reform, international tax, transfer pricing, digital assets, cryptocurrency, tax policy, tax legislation, tax compliance, tax controversy, tax planning, tax authorities, IRS, OECD, BEPS, Pillar 1, Pillar 2, income inclusion rule, under-taxed payment rule, global minimum tax, foreign tax credit, Subpart F, GILTI, BEAT, FDII, tax treaties, tax havens, tax avoidance, tax evasion, tax incentives, tax credits, tax deductions, tax reporting, tax returns, tax audits, tax disputes, tax litigation, tax technology, tax automation, tax data, tax analytics, tax strategy, tax risk, tax governance, tax transparency.
4. Industry and Business Trends	
Description: This topic explores the broader economic and business trends shaping the global marketplace, including globalization, next-generation workforce, and geopolitical shifts. It discusses the impact of these trends on different industries and sectors, as well as the challenges and opportunities associated with adapting to the changing business environment. This topic does not include issues covered by other topics like COVID-19 and other pandemics, Technology and Digital Transformation, changes in corporate reporting systems, and tax issues.	**Keywords:** industry trends, business trends, globalization, geopolitics, economic outlook, market volatility, consumer behavior, supply chain disruption, inflation, interest rates, labor market, talent management, innovation, disruption, competitive advantage, business models, operating models, strategic planning, risk management, corporate governance, stakeholder engagement, impact investing, social responsibility, corporate citizenship, diversity, inclusion, equity, global trade, cross-border transactions, M&A activity, private equity, venture capital, real estate, consumer products, retail, manufacturing, media, telecommunications, healthcare, energy, financial services.

5. COVID-19 and other pandemics	
Description: This topic focuses on the impact of the COVID-19 pandemic on businesses and organizations, including the operational, financial, employee, and legal challenges associated with navigating the crisis and preparing for the recovery. It discusses the role of government intervention, the importance of resilience and adaptability, and the long-term implications of the pandemic for the global economy and society.	**Keywords:** COVID-19, pandemic, business impact, economic impact, social impact, health crisis, lockdown, travel restrictions, supply chain disruption, labor shortages, remote work, virtual teams, business continuity, crisis management, financial resilience, liquidity management, government assistance, stimulus packages, regulatory changes, health and safety, employee well-being, mental health, social distancing, vaccination, testing, contact tracing, telehealth, remote monitoring, digital health, pandemic recovery, new normal, long-term implications, global economy, societal change.
6. Accounting and Auditing Practices	
Description: This topic covers the latest developments in accounting and auditing standards, including new pronouncements, interpretive guidance, and enforcement activity in regulatory reporting systems, mainly focusing on financial statements. It discusses the implications of these changes for companies, auditors, audit committees, and investors, as well as the challenges and opportunities associated with navigating the complex and ever-changing accounting and reporting landscape. However, to differentiate from other topic, this topic does not focus on tax and sustainability reporting.	**Keywords:** accounting, auditing, financial reporting, accounting standards, auditing standards, GAAP, IFRS, SEC, FASB, PCAOB, IASB, financial statements, balance sheet, income statement, cash flow statement, revenue recognition, lease accounting, impairment, goodwill, intangible assets, inventory, debt, equity, consolidation, VIE, stock compensation, fair value, hedge accounting, derivatives, internal control, risk management, corporate governance, audit committee, financial reporting quality, audit quality, restatements, revisions, materiality, disclosure, transparency, accountability.

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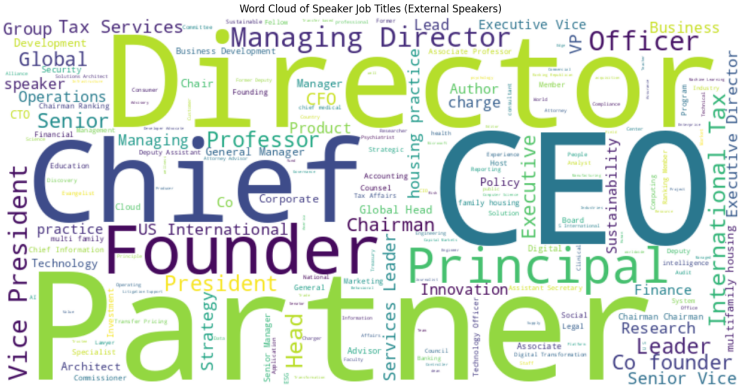
Figure 1: Podcast participants

(a) Internal speakers' job titles

(b) Internal speakers' organizations

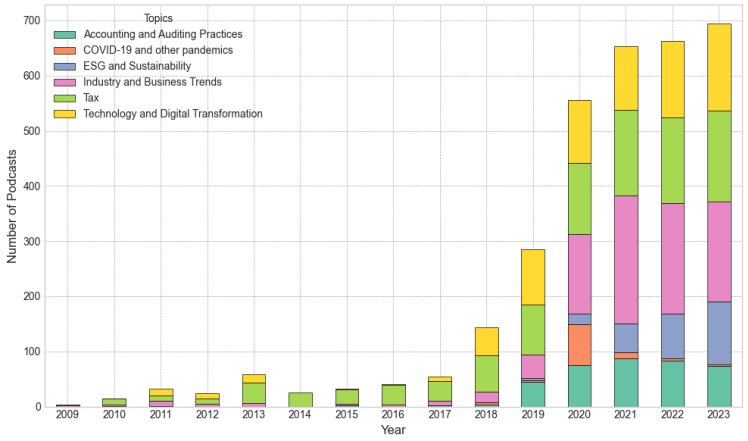


(c) External speakers' job titles

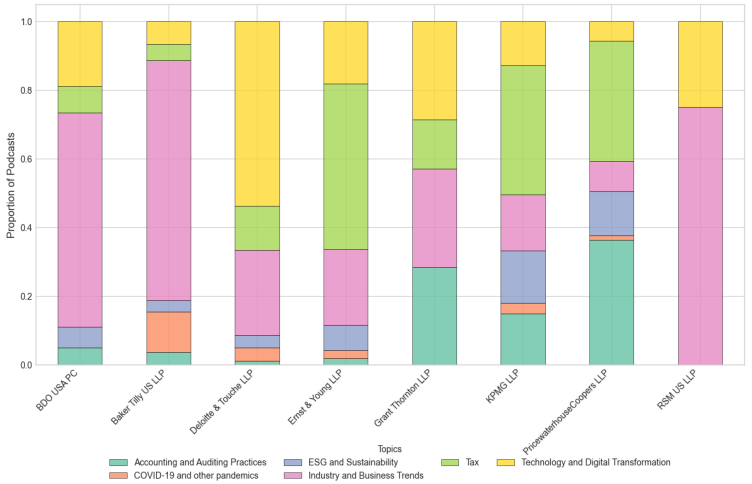
(d) External speakers' organizations

This figure provides world clouds of podcast speaker details parsed by Gemini from audit firm podcast transcription. Panels (a) and (b) show job titles and organizations of internal speakers. Panels (c) and (d) shows job titles and organizations of internal speakers.

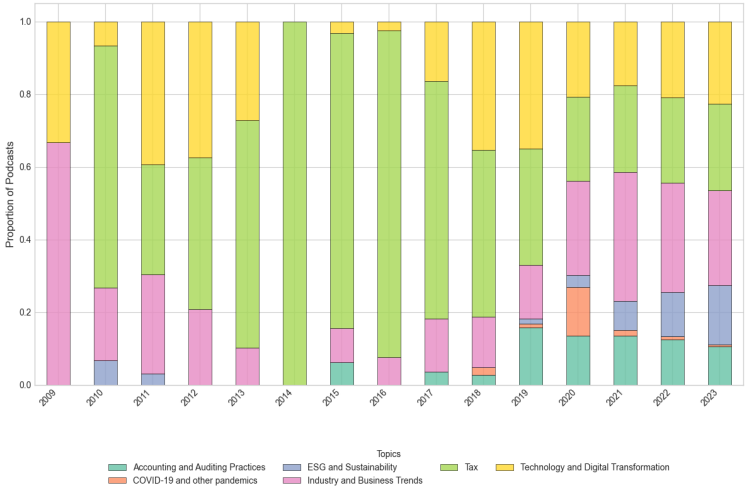
Figure 2: Trends and distribution of podcast topics



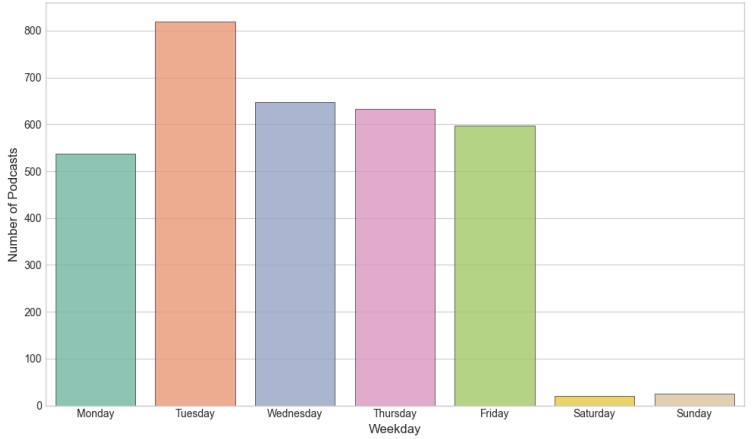
(a) Annual count of podcasts by topic



(b) Podcast topics by auditors



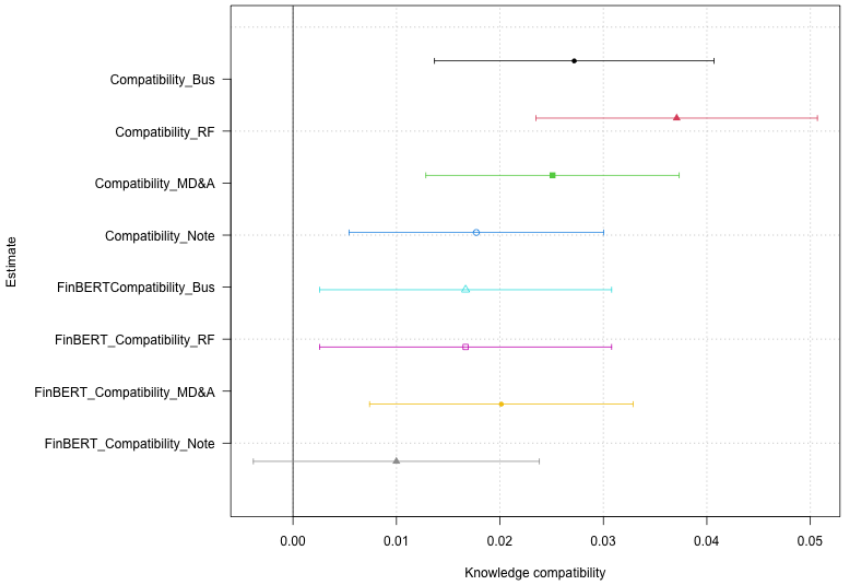
(c) Yearly proportion of podcast topics



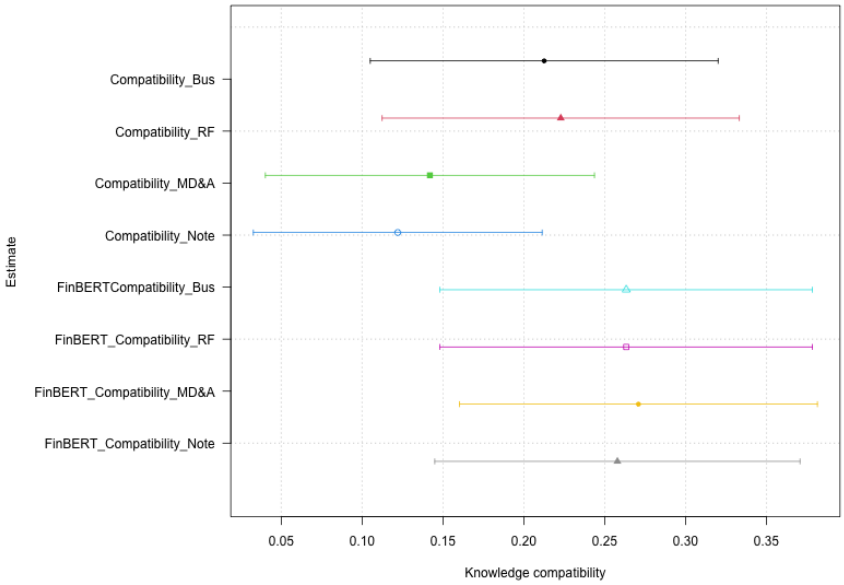
(d) Podcast topics across weekdays

This figure provides a detailed analysis of the evolution and distribution of podcast topics. Panel (a) presents the distribution of podcast topics by year, indicating the annual frequency of each topic and showing temporal trends in the content of podcast production. Panel (b) exhibits podcast topics by eight auditors. Panel (c) shows the proportion of each podcast topic by year, suggesting the topic's prevalence over time. Panel (d) displays the distribution of podcast topics by day of the week, showing patterns in the timing of content release.

Figure 3: Knowledge compatibility scores by different 10-K items



(a) Knowledge compatibility and audit pricing



(b) Knowledge compatibility and future auditor appointments

These figures compare knowledge compatibility proxies coefficients based on 10-K items. Panel (a) provides estimates from ordinary least squares (OLS) estimation relating audit pricing to knowledge compatibility as shown in Eq.(1). Panel (b) provides results from logistic regression models relating audit pricing to knowledge compatibility as shown in Eq.(2). I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by two-digit SIC.

TABLES

Table 1: Sample selection

	N
Intersection of firm-year observations from Audit Analytics, Compustat for fiscal years 2006-2023 with available SIC code, Compustat assets and sales >0, Audit Analytics audit fees >0	79,300
Less: observations with missing audit firm podcast series	(21,507)
Less: observations in financial and utilities industry (SIC 6000-6999, 4000-4999)	(17,886)
Less: observations with missing data to construct model variables	(2,793)
Total observations available fiscal years 2007-2023 (A)	26,317
Less: observations with missing data on the first year of an audit engagement (B)	(866)
Less: observations in the first year of an audit engagement (C)	(673)
Sample 1: Audit pricing sample (A - B - C)	**24,778**
Firm-year observations switch auditors in the subsequent year (D)	670
Number of possible auditors if switch (E)	7
Less: observations with missing data to construct model variables (F)	(793)
Sample 2: Subsequent auditor choice sample (D x E - F)	**3,897**

Table 2: Summary statistics

Panel A: Descriptive statistics						
Variables	**N**	**Mean**	**Std. dev.**	**25 %**	**Median**	**75 %**
Compatibility_MD&A	26,317	0.081	0.089	0.000	0.055	0.155
Compatibility_RF	26,317	0.103	0.103	0.000	0.111	0.198
AuditFees (ln)	26,317	14.310	1.023	13.618	14.282	14.969
NonAuditFees (ln)	26,317	12.019	1.838	10.873	12.151	13.298
Switch_t1	24,108	0.028	0.164	0.000	0.000	0.000
Size	26,317	6.925	1.834	5.666	6.946	8.164
Leverage	26,317	0.252	0.230	0.048	0.218	0.379
CashFlow	26,317	0.046	0.173	0.026	0.080	0.129
ROA	26,317	-0.023	0.200	-0.045	0.033	0.077
Growth	26,317	0.152	0.505	-0.028	0.068	0.198
BTM	26,317	0.465	0.542	0.190	0.380	0.659
Loss	26,317	0.349	0.477	0.000	0.000	1.000
Restruct	26,317	0.426	0.494	0.000	0.000	1.000
Arinv	26,317	0.241	0.169	0.108	0.215	0.340
$\|DACC\|$	26,317	0.081	0.091	0.024	0.054	0.102
Sox404	26,317	0.848	0.359	1.000	1.000	1.000
GoingConcern	26,317	0.028	0.166	0.000	0.000	0.000
AuditLag (ln)	26,317	4.089	0.207	3.970	4.060	4.234
BusSegments	26,317	1.777	1.307	1.000	1.000	2.000
GeoSegments	26,317	2.692	2.453	1.000	2.000	4.000
NExpert	26,317	0.150	0.357	0.000	0.000	0.000
CompMSA	26,317	0.311	0.122	0.247	0.279	0.315
CompMSAInd	26,317	0.585	0.273	0.355	0.503	0.875
Busy	26,317	0.698	0.459	0.000	1.000	1.000
Tenure	26,317	1.627	0.746	1.099	1.609	2.197

Panel B: Knowledge compatibility by auditors		
Auditor	*Compatibility_MD&A*	*Compatibility_RF*
EY	0.153	0.170
Deloitte	0.071	0.116
PwC	0.065	0.083
Baker Tilly	0.045	0.061
KPMG	0.038	0.055
BDO	0.034	0.048
Grant Thornton	0.010	0.016
RSM	0.008	0.013
t-stat	100.39	79.18
p-value	0.000	0.000

Panel C: Correlation table

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Compatibility_MD&A	1																	
Compatibility_RF	0.89*	1																
AuditFees (ln)	0.23*	0.27*	1															
Size	0.20*	0.22*	0.86*	1														
Leverage	0.08*	0.13*	0.23*	0.26*	1													
CashFlow	-0.02*	-0.04*	0.26*	0.41*	-0.04*	1												
ROA	-0.00	-0.02*	0.27*	0.43*	-0.08*	0.82*	1											
Growth	0.04*	0.05*	-0.09*	-0.09*	-0.03*	-0.14*	-0.12*	1										
BTM	-0.10*	-0.12*	-0.10*	-0.05*	-0.28*	0.03*	0.04*	-0.09*	1									
Loss	0.01	0.04*	-0.23*	-0.37*	0.06*	-0.52*	-0.68*	0.07*	0.05*	1								
Restruct	0.06*	0.06*	0.35*	0.26*	0.14*	0.06*	0.05*	-0.15*	0.02*	-0.01*	1							
Arinv	-0.10*	-0.12*	-0.01*	-0.07*	-0.10*	0.13*	0.20*	-0.14*	0.15*	-0.16*	0.06*	1						
$\|DACC\|$	-0.04*	-0.03*	-0.18*	-0.25*	-0.02*	-0.22*	-0.30*	0.19*	-0.05*	0.20*	-0.07*	-0.05*	1					
Sox404	0.06*	0.04*	0.40*	0.47*	0.06*	0.31*	0.33*	-0.11*	-0.03*	-0.28*	0.16*	0.00	-0.22*	1				
Big4	0.27*	0.29*	0.41*	0.38*	0.09*	0.09*	0.08*	-0.01	-0.09*	-0.09*	0.12*	-0.11*	-0.11*	0.28*	1			
GoingConcern	-0.02*	-0.02*	-0.16*	-0.23*	0.11*	-0.42*	-0.42*	0.04*	-0.11*	0.22*	-0.04*	-0.05*	0.16*	-0.23*	-0.09*	1		
NExpert	0.13*	0.13*	0.16*	0.17*	0.06*	0.08*	0.08*	-0.03*	-0.01*	-0.06*	0.03*	0.00	-0.05*	0.08*	0.17*	-0.04*	1	
Tenure	0.28*	0.29*	0.27*	0.32*	0.10*	0.15*	0.19*	-0.13*	-0.05*	-0.19*	0.13*	0.05*	-0.14*	0.33*	0.13*	-0.07*	0.05*	1

This table provides summary statistics for the sample variables (Panel A) and the average knowledge compatibility scores for each auditor (Panel B). The *t-stat* tests whether auditors with higher scores differ in knowledge compatibility from those with the lowest scores. Panel C displays the Pearson correlations for the variables, with significant correlations at the 5% level marked with an asterisk (*). All financial variables are winsorized at 1% and 99% levels. All variables are described in Appendix A.

Table 3: Knowledge compatibility and audit pricing

	AuditFees (ln)	
	(1)	(2)
Compatibility_MD&A	0.025***	
	(4.017)	
Compatibility_RF		0.037***
		(5.346)
Size	0.501***	0.501***
	(75.468)	(75.419)
Leverage	-0.040	-0.042
	(-1.172)	(-1.236)
CashFlow	-0.215***	-0.213***
	(-5.001)	(-4.952)
ROA	-0.281***	-0.280***
	(-7.235)	(-7.233)
Growth	-0.030***	-0.031***
	(-4.404)	(-4.468)
BTM	-0.077***	-0.077***
	(-6.187)	(-6.170)
Loss	0.076***	0.075***
	(5.976)	(5.922)
Restruct	0.146***	0.146***
	(13.561)	(13.582)
Arinv	0.610***	0.611***
	(10.849)	(10.837)
$\|DACC\|$	0.136***	0.137***
	(3.210)	(3.234)
Sox404	0.076***	0.076***
	(4.320)	(4.332)
GoingConcern	0.044*	0.045*
	(1.817)	(1.902)
AuditLag (ln)	0.370***	0.370***
	(9.304)	(9.307)
BusSegments	0.032***	0.032***
	(5.504)	(5.509)
GeoSegments	0.033***	0.033***
	(9.143)	(9.150)
NExpert	0.031*	0.030*
	(1.943)	(1.883)
CompMSA	-0.325***	-0.323***
	(-5.541)	(-5.508)
CompMSAInd	-0.039	-0.039
	(-1.351)	(-1.366)
Big4	0.259***	0.248***
	(12.556)	(11.893)
Busy	0.038**	0.038**
	(2.178)	(2.213)
Tenure	-0.045***	-0.043***
	(-4.137)	(-3.958)
Adj. R2	0.836	0.836
Observations	24,778	24,778
Industry FE	Yes	Yes
Year FE	Yes	Yes

This table reports the results from ordinary least squares (OLS) estimations relating audit pricing to knowledge compatibility as shown in Eq.(1). The outcome variable is the natural logarithm of audit fees of client i in year t (*AuditFees (ln)*). *Compatibility* is alternatively the similarity between the text of either (i) Item 7 (*Compatibility_MD&A*) or (ii) Item 1A (*Compatibility_RF*) in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table 4: Knowledge compatibility and subsequent auditor choice

	AuditorAppointment_t1		
	(1)	(2)	(3)
Compatibility_MD&A		0.142***	
		(2.734)	
Compatibility_RF			0.223***
			(3.955)
Size	0.047***	0.047***	0.047***
	(3.256)	(3.173)	(3.200)
Leverage	-0.032	-0.040	-0.030
	(-0.570)	(-0.713)	(-0.534)
CashFlow	0.030	0.032	0.028
	(0.352)	(0.364)	(0.333)
ROA	-0.111	-0.094	-0.096
	(-1.418)	(-1.168)	(-1.225)
Growth	0.004	0.001	0.006
	(0.374)	(0.053)	(0.477)
BTM	-0.040*	-0.040*	-0.041*
	(-1.745)	(-1.766)	(-1.774)
Loss	-0.018	-0.021	-0.020
	(-0.671)	(-0.778)	(-0.750)
Restruct	0.013	0.008	0.010
	(0.623)	(0.367)	(0.484)
Arinv	-0.047	-0.047	-0.059
	(-0.494)	(-0.500)	(-0.621)
$\|DACC\|$	0.036	0.051	0.061
	(0.349)	(0.471)	(0.584)
Sox404	-0.038	-0.028	-0.033
	(-1.187)	(-0.847)	(-1.011)
GoingConcern	0.047	0.048	0.042
	(0.883)	(0.862)	(0.782)
AuditLag (ln)	0.031	0.041	0.034
	(0.511)	(0.650)	(0.540)
BusSegments	-0.013	-0.015	-0.014
	(-1.117)	(-1.269)	(-1.188)
GeoSegments	0.006	0.005	0.006
	(1.507)	(1.369)	(1.573)
NExpert	-0.006	-0.013	-0.011
	(-0.157)	(-0.338)	(-0.276)
CompMSA	-0.055	-0.038	-0.052
	(-0.492)	(-0.333)	(-0.458)
CompMSAInd	0.007	-0.009	-0.001
	(0.118)	(-0.157)	(-0.022)
AuditFees (ln)	-0.013	-0.020	-0.015
	(-0.626)	(-0.915)	(-0.709)
Big4	-0.019	0.006	0.000
	(-0.695)	(0.211)	(-0.009)
NExpertPossible	0.441**	0.292	0.317*
	(2.476)	(1.570)	(1.682)
Busy	0.005	0.009	0.009
	(0.198)	(0.365)	(0.350)
Tenure	-0.005	0.007	-0.002
	(-0.246)	(0.346)	(-0.098)
Observations	3,888	3,888	3,888
Pseudo R2	0.009	0.014	0.011
Singleton observations	9	9	9
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes

This table reports the results from logistic regression models relating audit pricing to knowledge compatibility as shown in Eq.(2). The outcome variable is the indicator variable that equals one if the auditor is appointed in year t+1, and zero otherwise (*AuditAppointment_t1*). *Compatibility* is alternatively the similarity between the text of either (i) Item 7 (*Compatibility_MD&A*) or (ii) Item 1A (*Compatibility_RF*) in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table 5: Knowledge compatibility and audit quality

	|DACC|		**GoingConcern**	
	(1)	(2)	(3)	(4)
Compatibility_MD&A	-0.001**		-0.012	
	(-2.080)		(-0.103)	
Compatibility_RF		-0.002*		-0.069
		(-1.889)		(-0.578)
Size	-0.007***	-0.007***	-0.665***	-0.667***
	(-6.452)	(-6.473)	(-5.010)	(-5.030)
Leverage	-0.001	-0.001	1.196***	1.193***
	(-0.333)	(-0.309)	(4.154)	(4.120)
CashFlow	0.051***	0.051***	-2.254***	-2.258***
	(3.407)	(3.405)	(-5.050)	(-5.051)
ROA	-0.110***	-0.110***	-1.659***	-1.653***
	(-6.501)	(-6.506)	(-4.336)	(-4.313)
Growth	0.023***	0.023***	0.047	0.048
	(10.900)	(10.901)	(0.804)	(0.816)
BTM	-0.005***	-0.005***	-0.205	-0.203
	(-3.026)	(-3.027)	(-1.618)	(-1.608)
Loss	-0.007***	-0.007***		
	(-3.103)	(-3.100)		
Restruct	0.001	0.001	0.279*	0.280*
	(1.034)	(1.024)	(1.801)	(1.799)
Arinv	0.024***	0.024***	0.652	0.643
	(3.927)	(3.937)	(1.039)	(1.021)
Sox404	-0.014***	-0.014***	-0.398*	-0.397*
	(-5.043)	(-5.036)	(-1.936)	(-1.930)
GoingConcern	0.023***	0.023***		
	(3.400)	(3.390)		
AuditLag (ln)	0.018***	0.018***	3.483***	3.480***
	(3.870)	(3.874)	(6.085)	(6.088)
BusSegments	-0.001	-0.001	0.152	0.153
	(-1.401)	(-1.390)	(1.177)	(1.186)
GeoSegments	-0.001**	-0.001**	0.070*	0.069*
	(-2.032)	(-2.035)	(1.789)	(1.763)
NExpert	0.002	0.002	-0.265	-0.266
	(1.076)	(1.038)	(-0.833)	(-0.839)
CompMSA	-0.007	-0.007	0.770	0.726
	(-1.220)	(-1.224)	(0.686)	(0.651)
CompMSAInd	0.001	0.001	-0.156	-0.144
	(0.204)	(0.206)	(-0.375)	(-0.348)
AuditFees (ln)	0.005***	0.005***	0.445**	0.456**
	(3.206)	(3.229)	(2.437)	(2.484)
Big4	-0.009***	-0.009***	0.127	0.164
	(-3.185)	(-3.135)	(0.465)	(0.606)
Busy	0.002	0.002	-0.242	-0.242
	(1.383)	(1.362)	(-0.938)	(-0.938)
Tenure	0.001	0.001	0.249*	0.243*
	(0.431)	(0.354)	(1.762)	(1.715)
Observations	24,778	24,778	3,838	3,838
Adj. R2/Pseudo R2	0.149	0.149	0.374	0.374
Singleton observations	0	0	89	89
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes

This table reports the results from ordinary least squares (OLS) models (columns 1-2) and logistic regression models (columns 3-4) relating audit quality to knowledge compatibility. The outcome variable is the absolute discretionary accruals ($|DACC|$) and an indicator variable that equals one if a company receives a going-concern audit opinion of client i in year t (*GoingConcern*). *Compatibility* is alternatively the similarity between the text of either (i) Item 7 (*Compatibility_MD&A*) or (ii) Item 1A (*Compatibility_RF*) in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table 6: Knowledge compatibility topic, audit pricing, and subsequent auditor appointment

	AuditFees (ln)		**AuditorAppointment_t1**		**|DACC|**		**GoingConcern**	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: Compatibility based on Item 7 MD&A								
ESG and sustainability	0.012**	(2.335)	0.105***	(2.940)	−0.002***	(−3.120)	0.220**	(2.418)
Technology and digital transition	0.019***	(3.964)	0.068**	(2.182)	−0.001	(−1.066)	0.006	(0.061)
Tax	0.016***	(2.742)	0.066	(1.354)	−0.001	(−0.818)	−0.083	(−0.641)
Industry and business trends	0.007	(1.054)	0.153***	(3.051)	−0.001	(−0.985)	0.071	(0.711)
Covid-19 and other pandemics	0.000	(−0.070)	0.135**	(2.086)	−0.001	(−0.661)	−0.217*	(−1.890)
Accounting and auditing practices	0.018***	(4.582)	0.011	(0.190)	−0.001**	(−2.421)	0.045	(0.542)
Panel B: Compatibility based on Item 1A Risk factors								
ESG and sustainability	0.012*	(1.906)	0.086*	(1.846)	−0.002**	(−2.258)	0.145	(1.061)
Technology and digital transition	0.015***	(2.672)	0.114**	(2.527)	0.114**	(−1.016)	−0.321**	(−2.077)
Tax	0.026***	(4.047)	0.132***	(3.157)	−0.001	(−1.445)	−0.128	(−0.699)
Industry and business trends	0.002	(0.257)	0.174***	(3.365)	−0.002**	(−2.180)	0.007	(0.074)
Covid-19 and other pandemics	−0.007	(−0.978)	0.201***	(2.877)	0.002	(1.575)	−0.070	(−0.519)
Accounting and auditing practices	0.026***	(6.045)	0.027	(0.447)	−0.002***	(−2.747)	0.084	(0.880)

This table reports the results from ordinary least squares (OLS) and logistic regression models, relating audit fees and subsequent auditor appointments to knowledge compatibility. The outcome variable is either (i) the natural logarithm of audit fees of client i in year t (*AuditFees (ln)*), (ii) the indicator variable that equals one if the auditor is appointed in year t+1, and zero otherwise (*AuditAppointment_t1*), (iii) the absolute discretionary accruals (|*DACC*|), or (iv) an indicator variable that equals one if a company receives a going-concern audit opinion of client i in year t (*GoingConcern*). *Compatibility* is alternatively the similarity between the text of either (i) Item 7 (*Compatibility_MD&A*) or (ii) Item 1A (*Compatibility_RF*) in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. Columns (1, 3, 5, and 7) show the coefficients for variables of interest, while columns (2, 4, 6, and 8) represent the t-statistic. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Keywords for each topic are shown in Appendix B. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table 7: Knowledge compatibility and non-audit fees

	NonAuditFees (ln)	
	(1)	(2)
Compatibility_MD&A	0.037*	
	(1.899)	
Compatibility_RF		0.062***
		(2.861)
Size	0.663***	0.662***
	(38.906)	(38.874)
Leverage	-0.026	-0.030
	(-0.293)	(-0.332)
CashFlow	0.258*	0.261*
	(1.849)	(1.875)
ROA	-0.392***	-0.390***
	(-3.075)	(-3.062)
Growth	-0.055**	-0.055**
	(-2.270)	(-2.301)
BTM	-0.141***	-0.141***
	(-4.337)	(-4.330)
Loss	-0.133***	-0.135***
	(-3.259)	(-3.300)
Restruct	0.239***	0.240***
	(7.339)	(7.362)
Arinv	0.265*	0.267*
	(1.788)	(1.805)
$\|DACC\|$	0.283**	0.285**
	(2.054)	(2.063)
Sox404	-0.367***	-0.367***
	(-6.668)	(-6.664)
GoingConcern	0.175**	0.178**
	(1.997)	(2.034)
AuditLag (ln)	0.502***	0.502***
	(4.297)	(4.299)
BusSegments	0.031**	0.031**
	(2.001)	(2.012)
GeoSegments	0.029***	0.029***
	(2.848)	(2.852)
NExpert	-0.004	-0.007
	(-0.077)	(-0.133)
CompMSA	-0.072	-0.068
	(-0.392)	(-0.372)
CompMSAInd	0.001	0.000
	(0.011)	(0.002)
Big4	0.107*	0.086
	(1.785)	(1.427)
Busy	-0.010	-0.009
	(-0.208)	(-0.191)
Tenure	0.063*	0.067*
	(1.759)	(1.854)
Observations	24,778	24,778
Adj. R2	0.403	0.404
Industry FE	Yes	Yes
Year FE	Yes	Yes

This table reports the results from ordinary least squares (OLS) models relating auditor-provided non-audit fees to the knowledge compatibility. The outcome variable is the natural logarithm of non-audit fees of client i in year t (*Non_AuditFees (ln)*). *Compatibility* is alternatively the similarity between the text of either (i) Item 7 (*Compatibility_MD&A*) or (ii) Item 1A (*Compatibility_RF*) in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table 8: Knowledge compatibility, audit pricing, and subsequent auditor appointment with external guest speakers

	AuditFees (ln)		**AuditorAppointment_t1**	
	(1)	(2)	(3)	(4)
Compatibility_MD&A	0.016**		0.152*	
	(2.489)		(1.930)	
Compatibility_MD&A x HighExternal	0.030***		-0.020	
	(3.936)		(-0.180)	
Compatibility_RF		0.030***		0.153*
		(3.987)		(1.722)
Compatibility_RF x HighExternal		0.024***		0.133
		(2.715)		(1.112)
Control variables	Yes	Yes	Yes	Yes
Observations	24,778	24,778	3,888	3,888
Adj. R2	0.836	0.836	0.011	0.014
Singleton observations	0	0	9	9
Model	OLS	OLS	Logit	Logit
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes

This table reports the results from ordinary least squares (OLS) and logistic regression models, relating audit fees and subsequent auditor appointments to knowledge compatibility. The outcome variable is either the natural logarithm of audit fees of client i in year t (*AuditFees (ln)*) or the indicator variable that equals one if the auditor is appointed in year t+1, and zero otherwise (*AuditAppointment_t1*). *Compatibility* is alternatively the similarity between the text of either (i) Item 7 (*Compatibility_MD&A*) or (ii) Item 1A (*Compatibility_RF*) in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. All financial variables are winsorized at 1% and 99% levels. *HighExternal* is an indicator variable that equals one if the proportion of external guest speakers in all available podcasts to a client is greater than the average proportion. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table 9: Communicated knowledge and hiring efforts

Panel A: Hiring efforts by staff levels

	SpecificSkill		
	(1)	(2)	(3)
Sample:	All job postings	Senior vacancies	Non-senior vacancies
SpecificKnowledge	0.742***	0.793***	0.224***
	(6.004)	(6.452)	(2.963)
Observations	2,688	2,688	2,688
Adj. R2	0.013	0.019	-0.010
Big4 FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes

Panel B: Hiring efforts by specific skills

	SpecificSkill					
	(1)	(2)	(3)	(4)	(5)	(6)
Sample:	ESG and sustainability	Technology and digital transition	Tax	Industry and business trends	Covid-19 and other pandemics	Accounting and auditing practices
SpecificKnowledge	0.156	0.203***	0.098	-0.014	-0.014	-0.898***
	(1.495)	(4.020)	(0.612)	(-0.189)	(-0.155)	(-3.854)
Observations	448	448	448	448	448	448
Adj. R2	0.140	0.322	0.101	0.085	0.179	0.227
Big4 FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes

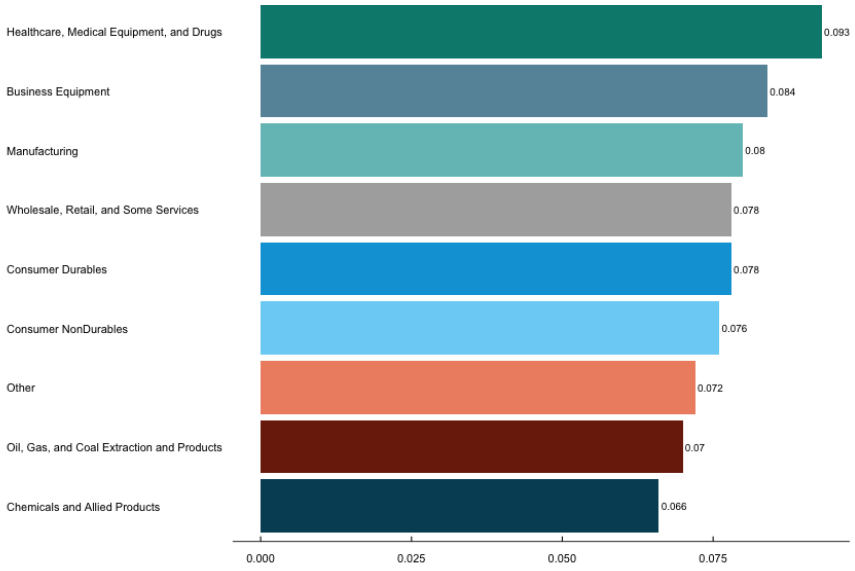
Panel C: Hiring efforts at job-posting level

	Duration (ln)	Salary_min (ln)	Salary_max (ln)
	(1)	(2)	(3)
ESG and sustainability	0.015***	0.012***	0.026***
	(6.331)	(5.513)	(8.686)
Technology and digital transition	0.004***	0.026***	0.037***
	(3.043)	(8.932)	(8.909)
Tax	-0.005*	-0.001	0.008***
	(-1.819)	(-0.554)	(2.939)
Industry and business trends	0.015***	0.032***	0.030***
	(5.029)	(10.788)	(7.977)
Covid-19 and other pandemics	0.007***	0.018***	0.000
	(5.016)	(5.527)	(0.012)
Accounting and auditing practices	-0.014***	-0.022***	-0.031***
	(-5.762)	(-4.943)	(-5.293)
Observations	492,106	111,486	111,486
Adj. R2	0.116	0.443	0.539
MSA FE	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes

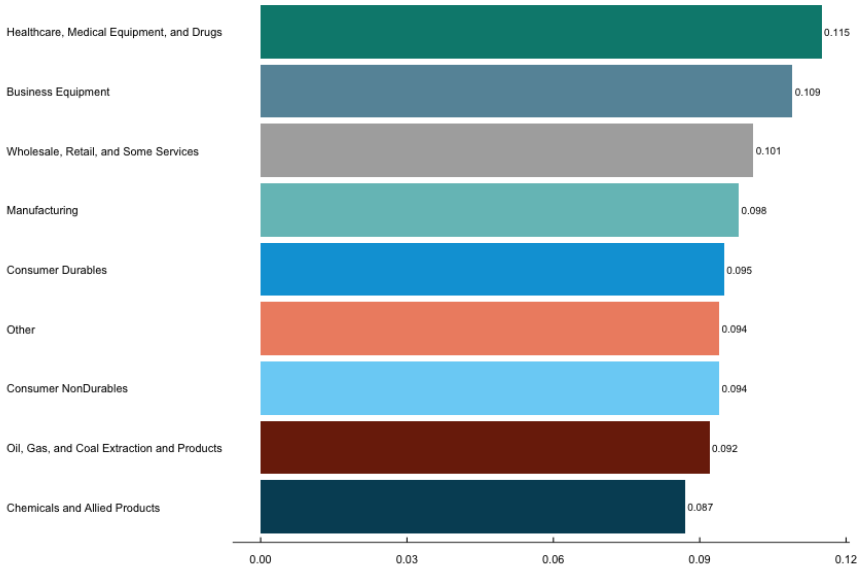
This table reports the results from ordinary least squares (OLS) relating hiring efforts and communicated knowledge at both the audit firm level (Panel A and Panel B) and the job-posting level (Panel C). In Panel A and Panel B, the outcome variable is the ratio of keywords related to each topic t in the job postings of auditor i during quarter q (*SpecificSkill*). *SpecificKnowledge* is the ratio of podcasts focused on each topic t for auditor i in quarter q. Panel A displays results by job posting staff level, using data from job postings from 2010 to 2023 for eight auditors in the sample, further categorized into senior and non-senior vacancies Cao et al. (2023). Panel B presents the results across sub-samples of specific skills, using keyword lists for each topic as detailed in Appendix B. Panel C reports results regressing job posting characteristics (natural logarithm of duration days and salary range) on skill requirements. Specific skill requirements are measured as the proportion of topic-related keywords relative to the total length of job requirements, with keywords provided in Appendix B. All financial variables are winsorized at 1% and 99% levels. I standardize *SpecificSkill* with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by year-quarter. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Online Appendix

Figure OA.1: Knowledge compatibility scores by industry



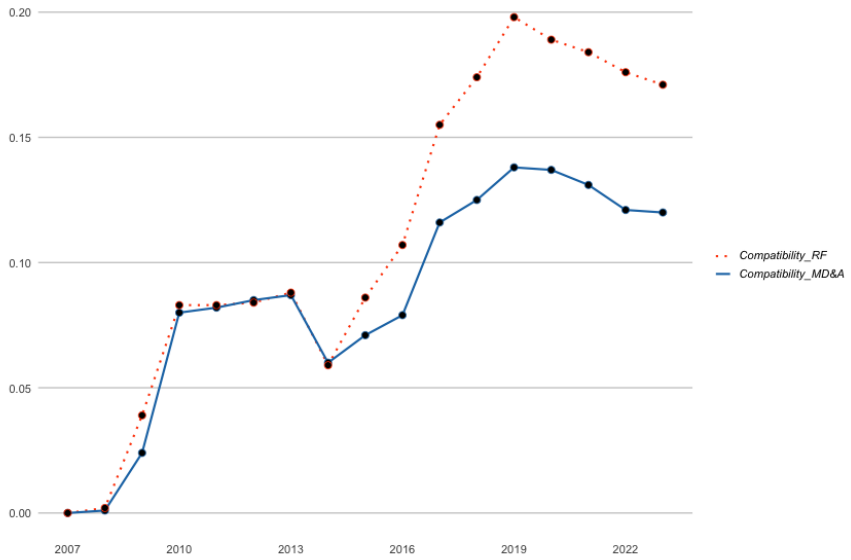
(a) *Compatibility_MD&A*



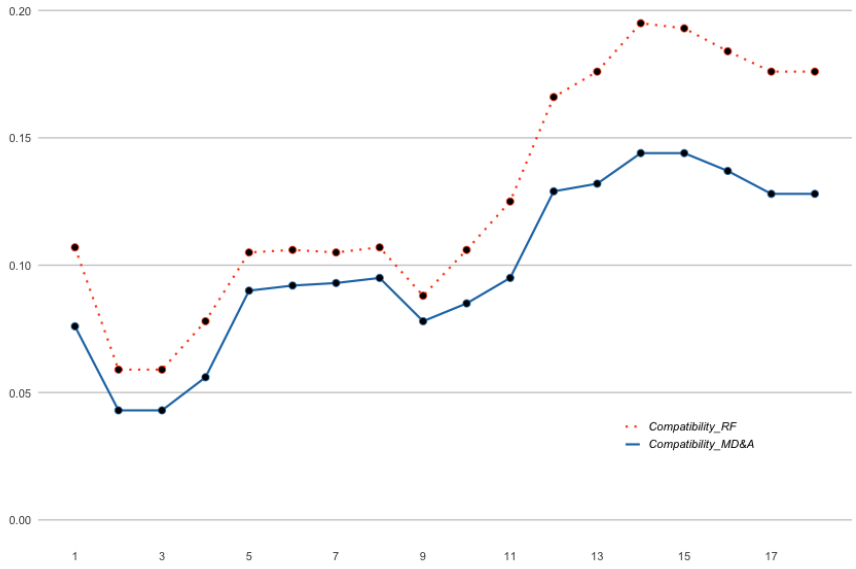
(b) *Compatibility_RF*

These figures compare knowledge compatibility scores by the Fama-French 12 industry. All variables are described in Appendix A.

Figure OA.2: Knowledge compatibility scores over time



(a) *Knowledge compatibility by years*



(b) *Knowledge compatibility by auditor tenure*

These figures compare the evolution of knowledge compatibility scores over time (Panel (a)) and by auditor tenure (Panel (b)). All variables are described in Appendix A.

Table OA.1: Alternative measures of knowledge compatibility and audit pricing

	AuditFees (ln)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Compatibility_Bus	0.027***							
	(3.947)							
Compatibility_RF		0.037***						
		(5.346)						
Compatibility_MD&A			0.025***					
			(4.017)					
Compatibility_Note				0.018***				
				(2.822)				
FinBERT_Compatibility_Bus					0.017**			
					(2.317)			
FinBERT_Compatibility_RF						0.017**		
						(2.317)		
FinBERT_Compatibility_MD&A							0.020***	
							(3.100)	
FinBERT_Compatibility_Note								0.010
								(1.417)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	24,778	24,778	24,778	24,778	24,778	24,778	24,778	24,778
Adj. R2	0.836	0.836	0.836	0.836	0.836	0.836	0.836	0.836
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

This table reports the results from ordinary least squares (OLS) models relating audit pricing to knowledge compatibility as shown in Eq.(1). The outcome variable is the natural logarithm of audit fees of client i in year t (*AuditFees (ln)*). The variable *Compatibility* is measured in two ways: using cosine similarity or the FinBERT model. It compares the text from one of four sections in the client's 10-K filing—(i) Item 1 (*Compatibility_Bus*), (ii) Item 1A (*Compatibility_RF*), (iii) Item 7 (*Compatibility_MD&A*), or (iv) Item 8 (*Compatibility_Note*) and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table OA.2: Alternative measures of knowledge compatibility and auditor choice

	AuditorAppointment_t1							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Compatibility_Bus	0.213***							
	(3.874)							
Compatibility_RF		0.223***						
		(3.955)						
Compatibility_MD&A			0.142***					
			(2.734)					
Compatibility_Note				0.122***				
				(2.679)				
FinBERT_Compatibility_Bus					0.263***			
					(4.481)			
FinBERT_Compatibility_RF						0.263***		
						(4.481)		
FinBERT_Compatibility_MD&A							0.271***	
							(4.798)	
FinBERT_Compatibility_Note								0.258***
								(4.476)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,888	3,888	3,888	3,888	3,888	3,888	3,888	3,888
Pseudo R2	0.013	0.014	0.011	0.011	0.015	0.015	0.016	0.015
Singleton observations	9	9	9	9	9	9	9	9
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

This table reports the results from logistic regression models relating audit pricing to knowledge compatibility as shown in Eq.(2). The outcome variable is the indicator variable that equals one if the auditor is appointed in year t+1, and zero otherwise (*AuditAppointment_t1*). The variable *Compatibility* is measured in two ways: using cosine similarity or the FinBERT model. It compares the text from one of four sections in the client's 10-K filing—(i) Item 1 (*Compatibility_Bus*), (ii) Item 1A (*Compatibility_RF*), (iii) Item 7 (*Compatibility_MD&A*), or (iv) Item 8 (*Compatibility_Note*) and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.

Table OA.3: Auditor switching cross-sectional analyses

	Switch_t1		
	(1)	(2)	(3)
Compatibility_MD&A	0.138***	1.131**	0.082
	(2.903)	(2.010)	(1.387)
Size	-0.413***		
	(-6.639)		
Compatibility_MD&A x Size	-0.076***		
	(-3.401)		
AuditFees (ln)		0.328***	
		(3.504)	
Compatibility_MD&A x AuditFees (ln)		-0.070*	
		(-1.774)	
$\|DACC\|$			0.545
			(1.280)
Compatibility_MD&A x $\|DACC\|$			0.661*
			(1.793)
Observations	23,903	23,903	23,903
Pseudo R2	0.064	0.064	0.064
Control variables	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Joint effects:			
Compatibility_MD&A+ Compatibility_MD&A x Size (small)	0.209***		
	(3.20)		
Compatibility_MD&A+ Compatibility_MD&A x Size (middle)	0.163**		
	(2.21)		
Compatibility_MD&A+ Compatibility_MD&A x Size (high)	-0.041		
	(-0.45)		
Compatibility_MD&A+ Compatibility_MD&A x AuditFees (low)		0.170**	
		(2.33)	
Compatibility_MD&A+ Compatibility_MD&A x AuditFees (middle)		0.120	
		(1.64)	
Compatibility_MD&A+ Compatibility_MD&A x AuditFees (high)		0.123	
		(1.64)	
Compatibility_MD&A+ Compatibility_MD&A x $\|DACC\|$ *(high)*			0.170**
			(2.41)
Compatibility_MD&A+ Compatibility_MD&A x $\|DACC\|$ *(middle)*			0.124*
			(1.70)
Compatibility_MD&A+ Compatibility_MD&A x $\|DACC\|$ *(low)*			0.116
			(1.56)

This table reports the results from logistic regression models of the cross-sectional analyses of the auditor switch in a subsequent year. The outcome variable is the indicator variable that equals one if the client switches an auditor in year t+1, and zero otherwise (*Switch_t1*). *Compatibility* is alternatively the similarity between the text Item 7 (*Compatibility_MD&A*) in the client's 10-K filing and the content of all available podcasts published by the client's auditor within 365 days prior to the client's fiscal year-end. If I use Item 1A (*Compatibility_RF*), the results are statistically unchanged. All financial variables are winsorized at 1% and 99% levels. I standardize compatibility variables with a mean of zero and standard deviations equal to one. All variables are described in Appendix A. Standard errors are clustered by client. ***, ** and * indicate significance at the 1%, 5% and 10% levels in a two-tailed test.