

THE IMPACT OF AUDIT REPORTS' CRITICAL AUDIT MATTERS REQUIREMENT ON AUDIT REPORT LAGS AND AUDIT FEES

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ABSTRACT

The impact of the Public Company Accounting Oversight Board's (PCAOB) audit standard that requires the disclosure of Critical Audit Matters (CAM) in the audit report of public filers has not been widely investigated in the literature. We provide empirical evidence on the relationship between CAM disclosures and audit report lags as well as audit fees. We find that a larger number of CAM disclosures reported is associated with longer audit report lags and higher audit fees, which suggests that the auditors may undertake a larger workload when undertaking an audit that results in a larger number of CAM disclosures. We also conduct difference-in-difference analyses with results indicating that the implementation of the CAM disclosure requirement has the effect of shortening audit report lags but has no relationship with audit fees.

Keywords: CAM; critical audit matters; audit report lags; audit fees; key audit matters.