Article:
The audit mandatory rotation rule: the state of the art
The audit mandatory rotation rule: the state of the art

Mara Cameran  
Researcher, Accounting Department, Università Luigi Bocconi

Giulia Negri  
Research Fellow, Accounting, Control, Corporate and Real Estate Finance Department,  
SDA Bocconi School of Management

Angela Pettinicchio  
Assistant Professor, Accounting Department, Università Luigi Bocconi

Abstract
Mandatory audit rotation imposes periodical breaks to audit engagements and is intended to avoid excessively long relationships between the auditor and the client. The E.U. has finally introduced mandatory rotation for the audit firm in addition to the already existing audit partner rotation rules. The U.S., however, has for now decided to retain the partner rotation rule without introducing mandatory audit firm rotations. After an overview of the experience of a number of countries, we summarize the pros and cons of a compulsory change in the audit firm. Moreover, we focus on the empirical evidence collected on the benefits and costs of the rule. So far, investigations into the impact of the rule at corporate and market level have not been able to prove that the benefits outweigh the costs.

1 We would like to thank François Langlois, Rauf Rashid and Tan Seng Choon from EY for helping us with some of the information included in Table 1, compiled by Giulia Negri.
1. Introduction

In response to a number of international accounting scandals, as well as the recent financial crisis, regulators around the world started considering ways in which audit quality could be enhanced. Auditors were accused of not being sufficiently competent and/or independent to prevent such scandals and to foresee the recent financial crisis.

Michel Barnier, E.U.’s Internal Market and Services Commissioner, stated that “the financial crisis and more recent inspection reports by national supervisors highlighted major shortcomings in the European audit sector. To address these deficiencies, we made ambitious proposals in November 2011 to clarify the role of statutory auditors, to strengthen their independence and to enhance supervision” [Barnier (2014)].

Perhaps the most questionable outcome of these discussions was the mandatory rotation rule. This rule imposes periodical breaks to audit engagements and is intended to avoid excessively long relationships between the auditor and the client, which is believed to damage the quality of the audit. Mandatory rotations can refer to the firm, in which case the entire audit firm has to rotate after a certain number of years, or to the audit partner, in which case only the leading partner who signs the opinion has to change periodically.

Such a rule, however, comes at a cost. Changing the auditor results in, among other things, organizational disruptions, start-up costs, loss of client-specific knowledge and the ability of the client to negotiate on audit fees, and could impact the quality of the service delivered. This is the reason why the rule has not been applied consistently around the world. As an example, the two most important regulators in the world, namely the European Commission (E.C.) in Europe and the PCAOB in the U.S., have taken very different routes. While the E.U., after having implemented the mandatory rotation rule at the partner level in 2006, recently decided, in 2014, to extend periodical changes to audit firms as well, the U.S. implemented partner mandatory rotation back in 1978, but decided, after long discussions, which also involved academics and public hearings, not to introduce the rule at the audit firm level, at least for now (for more details, please refer to section 2).
The audit mandatory rotation rule: the state of the art

The objective of this paper is to provide an overview of the status of the application of the rule around the world and, most importantly, to summarize the main conclusions on the effectiveness of the rule that the academic literature has reached in recent decades. The main focus is on the audit firm rotation rule; even if, for the sake of completeness, we have also dedicated some space to the partner rotation rule.

The picture that arises from the literature is that there is not a clear path regarding the application of the mandatory rotation rule. First, from a legislative point of view, countries around the world have taken different decisions. While partner mandatory rotations seem to have been better accepted, and therefore are more commonly applied around the world, audit firm mandatory rotations have been implemented in only a few countries, perhaps because of the higher costs associated with doing so. However, the recent decision of the E.U. might change this trend in the future.

With regard to the empirical evidence on the benefits and costs of the rule, the picture is not clear at all. Different studies have investigated different research settings, with only a few of them analyzing proper mandatory rotation environments (most studies have tried to indirectly infer the potential effects of the rule by looking at cases of voluntary rotations). Unfortunately, in general, the evidence collected is far from being conclusive. It is not clear whether the benefits derived from imposing periodical changes to the auditor are greater than the costs incurred, both at the partner and at the audit firm levels.

A clearer picture can be obtained by looking at the case of Italy, which introduced mandatory audit firm rotation back in 1975. Looking at the few studies that investigated the case of mandatory audit rotation in Italy, we find that while it is quite costly, its benefits, in terms of improved audit quality, cannot be confirmed.

The rest of the paper is structured as follows: in the next section, we provide a brief overview of the application of the rule around the world. We then discuss the arguments for and against the application of the mandatory audit rotation rule in section 3. Section 4 describes the empirical evidence gathered by the academic literature and section 5 concludes the paper.
2. The application of the rule around the world

In this section, we review the decisions made by a number of countries about the process of audit rotation. Overall, we find that, while only a few countries are keen to adopt audit firm rotation, many support the idea of partner rotation. After providing an overview of the actions taken by a number of countries in this regard, we will focus specifically on the U.S., which has been debating audit rotation for decades and has, as yet, not introduced it, and the E.U., which finally adopted the audit firm rotation rule in 2014, effectively starting from mid-2016.

In Canada, mandatory firm rotation was introduced much earlier than it was in other countries (shortly after the Home Bank failure of 1923) and was in place until 1991 when it was removed with the revision of the Bank Act (Government Accountability Office (GAO) (2003)), which blamed the switching costs borne by the incoming auditor as not offsetting the benefits. In other countries, such as Spain, audit firm rotation was adopted and shortly after abrogated. The firm rotation was mandatory in Spain every nine years from 1988 to 1995 (Ruiz-Barbadillo et al. (2009)). The first nine-year term of the audit firm tenure had not even expired when the rule was abolished. Singapore also introduced the mandatory rotation in 2002 for banks, only to “temporarily suspend” it in 2008. This was justified on the basis that the regulators did not wish to place further cost burdens on banks during the last financial crisis. Finally, the case of Costa Rica is emblematic: audit firm rotation was introduced in 2005, appealed in 2006, ejected in 2007 and re-implemented in 2010.

Table 1 provides an overview of audit rotation status in a number of countries. This rule is defined predominantly for public interest entities (PIEs), but the exact identification of the kind of legal entities that are mandated to rotate either the firm or the partner is beyond the scope of this paper. This brief review takes into consideration the Member States of the E.U., those countries that are similar to the E.U. due to their economic conditions and those countries that do not belong to the E.U. but that have taken a peculiar stance vis-à-vis mandatory rotation, for which we were able to find information. Data was retrieved from the sources indicated in the table. The case of the U.S. will then follow.
2.1. The U.S.
The U.S. has always been somewhat different from other countries when it comes to audit firm rotation. On one hand, the U.S. has had a long experience with partner rotation: seven-year audit partner rotation was introduced back in 1978 [AICPA (1978)]. On the other hand, the debate about firm rotation was on the House of Representatives' agenda until 2014.

Typically, the level of interest in partner and audit firm rotation has been influenced by episodes of fraud or bankruptcy. After the major cases of fraud that took place at the beginning of the 2000s, Section 203 of the Sarbanes-Oxley Act of 2002 expressly stated that: “[...] it shall be unlawful for a registered public accounting firm to provide audit services to an issuer if the lead (or coordinating) audit partner […], or the audit partner responsible for reviewing the audit, has performed audit services for that issuer in each of the five previous fiscal years of that issuer.” This policy emphasized the five-year mandatory partner rotation and even reduced the tenure by two years. At the same time, Section 207 of the Act required that the GAO undertakes the “Study of mandatory rotation of registered public accounting firms.” Under Section 207, the Securities Exchange Commission (SEC) also mandates a study on the potential implications of this kind of rotation. After a year of conducting surveys among the accounting firms and the Fortune 1,000 publicly traded companies in the Required study on the potential effects of mandatory audit firm rotation [GAO (2003)], the GAO stated that it “believes that mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the public company’s previous auditor of record.”

Consequently, the topic was dropped for another decade, until the PCAOB suggested in 2011 that firm rotation would have been the best way to grant a high level of professional skepticism.²

² For the purpose of this article, we take “professional skepticism” to mean, as stated in Directive 2014/56/EC, “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.”
Two years later, in July 2013, the U.S. Congress ruled against the possibility of audit firm rotation. In the end, after three years of work, in February 2014 the PCAOB Chairman, James Doty, told the SEC that: “We don’t have an active project or work going on within the Board to move forward on a term limit for auditors (but we) continue to think about what impacts independence” [Doty (2014)], setting aside the mandatory firm rotation. Doty, himself at the SEC Open Meeting on the PCAOB 2015 Budget, eventually reprised this concept when he underlined, among others, the auditors’ independence as a core value an investor expects and deserves in audits without making specific reference to the mandatory rotation [Doty (2015)].

<table>
<thead>
<tr>
<th>Country</th>
<th>Partner rotation</th>
<th>Audit firm rotation</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>5 years</td>
<td>No</td>
<td><a href="http://www.cpaaustralia.com.au">http://www.cpaaustralia.com.au</a></td>
</tr>
<tr>
<td>Austria</td>
<td>5 years</td>
<td>5 years for governmental owned companies</td>
<td>EY Transparency Report 2014 and <a href="https://www.crowehorwath.net">https://www.crowehorwath.net</a></td>
</tr>
<tr>
<td>Belgium</td>
<td>6 years</td>
<td>No (reappointment every 3 years with no limits)</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>Brazil</td>
<td>No</td>
<td>5 years</td>
<td>Harris and Whisenant (2012)</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>5 years</td>
<td>No</td>
<td><a href="http://www.crowehorwath.net">http://www.crowehorwath.net</a></td>
</tr>
<tr>
<td>Canada</td>
<td>7 years</td>
<td>No</td>
<td><a href="http://www.cga-canada.org">http://www.cga-canada.org</a></td>
</tr>
<tr>
<td>China</td>
<td>5 years</td>
<td>5 years for financial institutions and state-owned enterprises (there must be a tender process every 3 years)</td>
<td>Lennox et al. (2014) and <a href="http://economia.icaew.com">http://economia.icaew.com</a></td>
</tr>
<tr>
<td>Croatia</td>
<td>7 years</td>
<td>7 years for banks and 4 years for insurance and leasing companies</td>
<td><a href="http://anale.feaa.uaic.ro/">http://anale.feaa.uaic.ro/</a> and Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>Cyprus</td>
<td>7 years</td>
<td>No</td>
<td>EY Transparency Report 2013</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>7 years</td>
<td>No</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>Denmark</td>
<td>7 years</td>
<td>No</td>
<td>EY Transparency Report 2014</td>
</tr>
<tr>
<td>Estonia</td>
<td>7 years</td>
<td>No</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>Finland</td>
<td>7 years</td>
<td>No</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>France</td>
<td>6 years</td>
<td>No (6 years with joint audit but may be renewed)</td>
<td>André et al. (2015) and Francis et al. (2009)</td>
</tr>
<tr>
<td>Germany</td>
<td>7 years</td>
<td>No</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>Greece</td>
<td>7 years</td>
<td>No</td>
<td>EY Transparency Report 2013</td>
</tr>
<tr>
<td>Hungary</td>
<td>7 years</td>
<td>No</td>
<td>Information retrieved directly via the EY network</td>
</tr>
<tr>
<td>Ireland</td>
<td>5 years</td>
<td>No</td>
<td><a href="http://www.cpaireland.ie">http://www.cpaireland.ie</a></td>
</tr>
</tbody>
</table>
The audit mandatory rotation rule: the state of the art

Table 1: Audit rotation around the world

<table>
<thead>
<tr>
<th>Country</th>
<th>Partner rotation</th>
<th>Audit firm rotation</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>7 years</td>
<td>9 years</td>
<td>Cameran et al. (2015a)</td>
</tr>
<tr>
<td>Latvia</td>
<td>7 years</td>
<td>No</td>
<td>EY Transparency Report 2014</td>
</tr>
<tr>
<td>Lithuania</td>
<td>5 years for PIEs</td>
<td>No</td>
<td><a href="http://www3.lrs.lt/">http://www3.lrs.lt/</a></td>
</tr>
<tr>
<td></td>
<td>7 years for some other legal entities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>7 years</td>
<td>No</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>Malta</td>
<td>7 years</td>
<td>No</td>
<td>EY Transparency Report 2013</td>
</tr>
<tr>
<td>Poland</td>
<td>5 years</td>
<td>No</td>
<td>Information retrieved directly via the EY network</td>
</tr>
<tr>
<td>Portugal</td>
<td>7 years</td>
<td>No (8-9 years for listed companies on a “comply or explain” rule)</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>Romania</td>
<td>7 years</td>
<td>No</td>
<td><a href="http://www.crowehorwath.net">http://www.crowehorwath.net</a></td>
</tr>
<tr>
<td>Singapore</td>
<td>5 years for listed companies; 7 years for other PIEs</td>
<td>No</td>
<td>Information retrieved directly via the EY network</td>
</tr>
<tr>
<td>Slovakia</td>
<td>5 years</td>
<td>5 years</td>
<td><a href="http://www.crowehorwath.net">http://www.crowehorwath.net</a></td>
</tr>
<tr>
<td>Slovenia</td>
<td>7 years</td>
<td>5 years for the banking and insurance industry, only</td>
<td>Ewelt-Knauer et al. (2012)</td>
</tr>
<tr>
<td>South Korea</td>
<td>No</td>
<td>No</td>
<td>Kwon et al. (2014)</td>
</tr>
<tr>
<td>Spain</td>
<td>7 years</td>
<td>No</td>
<td>Ruiz-Barbadillo et al. (2009)</td>
</tr>
<tr>
<td>Sweden</td>
<td>7 years</td>
<td>No</td>
<td><a href="http://lup.lub.lu.se/search/">http://lup.lub.lu.se/search/</a></td>
</tr>
<tr>
<td>The Netherlands</td>
<td>7 years</td>
<td>No</td>
<td><a href="http://ey.com/Publications">http://ey.com/Publications</a></td>
</tr>
<tr>
<td>Turkey</td>
<td>5 years</td>
<td>7 years</td>
<td>Information retrieved directly via the EY network</td>
</tr>
<tr>
<td>U.K.</td>
<td>5 years</td>
<td>10 years starting 1 January 2015</td>
<td><a href="https://www.gov.uk/">https://www.gov.uk/</a></td>
</tr>
<tr>
<td>U.S.</td>
<td>5 years</td>
<td>No</td>
<td>See below</td>
</tr>
</tbody>
</table>

Data is updated as of February 2015

2.2. The E.U.

We treat the E.U. as a unique area because, during the last decade, the E.C. has issued a number of different guidelines that concern all Member States. Under the E.U. guidelines, the key audit partner rotation is mandated after seven years in PIEs, as E.C. Directive 2006/43/EC states, and the key audit partner shall not be able to participate in the audit of the same entity for at least two years.
Member States were given two years to implement the directive (until mid-2008) and, in case they thought it might be necessary, were allowed to impose more stringent requirements. After the recent financial crisis, the E.C. issued, in October 2010, a Green Paper entitled: *Audit policy: lessons from the crisis* [E.C. (2010)]. In particular, it was stated that, while a lot of attention was devoted to the role that banks, hedge funds, rating agencies, supervisors and central banks played in the run-up to the crisis, no attention was directed at the role that auditors of public companies might have played. One of the key points expressed in the Green Paper was that nowadays an even larger number of companies are under the audit responsibility of a smaller number of big audit companies after the demise of Arthur Andersen and the merger of Price Waterhouse and Coopers & Lybrand.

In 2012, the European Parliament proposed audit firm rotation as mandatory at 25 years. However, after Germany and Austria voted strongly against such a long tenure, it was to be reduced to 21 years [Ewelt-Knauer et al. (2012)].

With Directive 2014/56/EU and Regulation 537/2014, a new statutory audit framework was introduced. The objective of this reform was the enhancement of audit reports' quality. The audit firm tenure for PIEs will be limited to 10 years and the same audit firm can be reappointed for another 14 years in case of joint audits (the company is being audited by more than one audit firm) or for another 10 years in the case of a public tender. After the expiry of the maximum tenure, the PIE may reappoint the audit firm for a further two years, leading to a “10+14+2” rule in case there is a joint audit during the second period or to a “10+10+2” rule in case a single firm provides the audit service. The partner rotation remains mandatory after the seventh engagement year; both firm and partner rotation period can be shortened by Member States. These specific requirements will automatically apply on 17 June 2016.

---

Between 17 June 2014 and 17 June 2016, Member States are permitted to adopt the audit firm mandatory rotation rule earlier and may even shorten the tenure of audit term. At the time of writing, some countries have already implemented the audit firm rotation rule. In the U.K., firm mandatory rotation rule was introduced on the 1 January 2015 and the Netherlands made it effective from 1 January 2016.

3. The pros and cons of mandatory rotation
Regulators, accountants, academics and the public in general have been debating the need for mandatory audit firm rotation for decades but, after the recent major financial scandals, the topic became the subject of discussion also among a broader number of national governments and institutions. From a theoretical point of view, the rule could have both positive and negative implications on audit quality. Below, we summarize the most important arguments in favor and against the application of the rule, drawing from both academic and regulatory literature. Please note that most of the arguments may apply to rotation of both the audit firm and partner even if this article is focused on the former.

3.1. The pros of mandatory audit firm rotation
Generally speaking, mandatory audit firm rotation is considered as a way to increase and enhance audit quality. Here we list the major benefits that supporters of mandatory auditor rotations have highlighted.

1. Enhancing audit client independence: one of the main benefits that should accrue from imposing periodical audit firm changes is the increase in audit independence, which is closely linked to audit quality (this is further discussed in section 4). Audit independence may be defined as being made up of two components: independence in appearance and in fact. The former indicates that the auditor only appears to be independent, whereas the latter indicates that the auditor has an independent mindset when planning and executing an audit [Dopuch et al. (2003)]. These two different components may be affected by the long-lasting relationship existing between the auditors and the clients.
Many scholars [e.g., Brody and Moscove (1998) and Mautz and Sharaf (1961)] believe that, as time passes, members of the audit team begin to unconsciously feel themselves as part of the client management team and that this might impede the auditors from impartially assessing the transparency and reliability of the clients’ accounts, thus influencing independence in fact. Moreover, a long-term relationship between a single audit firm and an auditee may cause a reasonable investor to conclude that the auditor would not be capable of acting without bias, thus impacting on independence in appearance. As Turner, one of the former Chief Accountants of the SEC, explained: “auditor independence is really about only one thing – investors’ confidence in the numbers” [Turner (2000)]. A long-term relationship between auditor and auditee may decrease investors’ confidence in the numbers stated within the financial statements.

2. **The “fresh look” benefit:** another major benefit of imposing periodical changes of the audit firm emanates from what has been described as the “new fresh look” or “new fresh eyes” [Shockley (1981)]. When the same audit firm carries out its services for a long period of time, it may fall into a sort of professional routine. The auditor may be tempted, for example, to rely increasingly on previous audit tests and may overlook certain accounting areas that had been considered as “correct” in previous audits, thus potentially missing material errors and mistakes. Instead, when a new audit firm comes in, it approaches the financial statements of the client with a “new” pair of critical eyes, thus paying greater attention to all areas of the annual report.

3. **Reduction in economic dependence:** mandatory auditor rotation would also reduce the period of “economic dependence” on the client, which would in turn decrease the potential incentives for supporting the accounting policies of the client. As audit technology is characterized by significant start-up costs, incumbent auditors can earn client-specific “quasi-rents” [DeAngelo (1981)]. Since an incumbent auditor possesses cost advantages over potential competitors, it is able to set future audit fees above the costs of producing audits, thus allowing it to earn client-specific quasi-rents. If the relationship is terminated, the incumbent auditor will lose the wealth equivalent of the client-specific quasi-rent stream. In order to avoid the loss of client-specific quasi-rent, the auditor has the incentive to act opportunistically, e.g., to soften audit controls, if this permits the incumbent auditor to retain the client in the future.
4. **Embarrassment effect:** during the final years of an engagement, as the auditor knows that a new audit firm (a competitor) will come in to replace it and examine its working practices, it will be incented to incentivized audit quality in order to protect its reputation. This could eventually turn into a virtuous circle that would eventually enhance audit quality.

5. **Increase in competition:** one of the major concerns of regulators around the world is the potential lack of competition arising from the oligopoly structure of most audit markets, where the Big Four (Deloitte, EY, KPMG and PwC) audit the great majority of clients. Introducing mandatory periodical auditor changes could reduce this phenomenon and increase competition; especially if this rule is combined with the choice of non-big audit firms as a substitute for one of the big auditors.

### 3.2. The cons of mandatory audit firm rotation

Here, the potential negative effects of introducing the mandatory audit firm rotation rule are described.

1. **Switching costs:** changing of an audit firm introduces certain costs that may be borne by both parties, the audit firm and the client. As highlighted by DeAngelo (1981), if the relationship between auditor and client ends, the incumbent auditor loses the wealth equivalent of the client-specific quasi-rent stream. The client is also forced to bear the costs of switching and the costs associated with “training” a new auditor.

2. **Loss of specific knowledge:** imposing periodical auditor changes results in the loss of client-specific knowledge possessed by the audit firm. That is, a certain amount of time needs to pass before the new auditor becomes familiar with the accounting systems, internal controls, etc., of the client (the “learning curve”). During this period, therefore, the auditor could potentially miss material errors and mistakes, with a consequent negative impact on audit quality. The more complex and industry-specific the business of the client is, the deeper and longer this learning curve will be.
3. **The information cost:** to provide a more holistic picture, the perspectives of the stakeholders also need to be taken into consideration [Ewelt-Knauer et al. (2012)]. In fact, in the context of voluntary auditor rotation, market players can easily find out whether a new audit firm has been appointed and thus determine whether there is a risk of “opinion shopping” (i.e., when a company replaces an audit company with another one in order to obtain a more favorable opinion). In a mandatory rotation environment, such information is more expensive since the stakeholders cannot easily determine whether the decision made was based on a voluntary or mandatory basis.

4. **Audit quality**
   According to GAO (2003): “mandatory audit firm rotation (setting a limit on the period of years a public accounting firm may audit a particular company’s financial statements) was considered as a reform to enhance auditor independence and audit quality.” However, before discussing the studies that have attempted to understand the actual implications of the mandatory rotation rule, it is necessary to clarify the relationship between auditor independence and audit quality and how they have been measured by academic researchers.

   According to DeAngelo (1981): “the quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client’s accounting system, and (b) report the breach. The probability that a given auditor will discover a breach depends on the auditor’s technological capabilities, the audit procedures employed on a given audit, the extent of sampling, etc. The conditional probability of reporting a discovered breach is a measure of an auditor’s independence from a given client.” As this definition clearly illustrates, audit quality and auditor independence are strongly linked.

   As far as the empirical measurement of audit quality is concerned, we should note that this implies the assessment of three types of judgments [Moizer (1997)]: “(i) whether the amount and nature of audit work undertaken is appropriate for that particular client company; (ii) how technically competent the audit staff are to undertake the work properly; and (iii) how independent the audit firm is and hence how likely it is to report any unadjusted errors or omissions that it finds.”
Making such a judgment implies having access to the audit working papers and interviewing the key personnel involved in the audit. This is not possible for an external observer, hence making it necessary to use some proxies to judge the audit quality of a given engagement. The main proxies used in the academic literature may be grouped into two categories:

- Measures based on the type of opinion issued by the auditor
- Measures based on the earnings quality of the auditee

### 4.1 The opinion
One of the ways in which audit quality could be measured is related to the ultimate output of the audit work, i.e., the opinion as expressed in the independent auditor reports. Many studies have used audit opinions in order to identify what is considered to be a “failure” in the audit work carried out. This refers to those episodes in which the stakeholders’ decisions might be misled by an inaccurate audit firm opinion. In particular, researches have focused on episodes of “false positive” and “false negative” opinions. A “false positive” opinion is issued in situations where a going concern report is provided for a company that eventually does not go bankrupt. On the other hand, a “false negative” opinion is issued in case a clean report is issued for a company that in the end, fails [Francis (2004)].

### 4.2 Earnings quality
Perhaps one of the most widely used measures of audit quality is clients’ earnings quality. The assumption behind this proxy is that audits of higher quality should lead to higher levels of quality of the accounting numbers published by the client. The great majority of the studies measure earnings quality by looking at the levels of “discretionary accruals” in the earnings figure.

---

4 There are, in fact, other factors that may be considered as measures of audit quality. For example, DeAngelo (1981) suggests that size could be an indicator of audit quality as, the larger the size, the more independent an audit firm is from one specific client.

5 For the purpose of this article, we are using the definition of earnings quality to mean that a higher level of earnings quality is associated with the earnings’ capacity in reliably reflecting the corporate performance and the medium- to long-term profitability.
As the name itself suggests, these models aim to determine the accruals that are supposed to be “discretionary” or “abnormal,” deriving from accounting manipulations. In particular, these models estimate the discretionary component of the “working capital accruals” (abnormal working capital accruals – AWCA) as the difference between the expected value of working capital and the actual value. Other measures traditionally used by academic research to measure earnings quality (and therefore, in turn, audit quality) are the frequency of “small positive earnings” (based on the asymmetry that earnings distributions show around zero)⁶ and earnings conservatism (based on the assumption – not always accepted – that higher levels of conservatism in the accounting numbers are a sign of higher earnings quality).⁷ Other measures of earnings quality involve market perception. For example, earnings response coefficients measure the way changes in stock prices reflect changes in accounting numbers: higher levels of association signal stronger belief in accounting numbers by market players, suggesting, in turn, higher levels of earnings quality.

5. Empirical evidence
5.1 Literature review
From a theoretical point of view, as mentioned earlier, it is not clear whether the mandatory rotation rule can be considered as an effective means of enhancing audit quality: that is, whether potential benefits deriving from imposing periodical changes might counterbalance the expected negative effects. It, therefore, becomes crucial to examine the empirical evidence that has been gathered in the past in different research settings.

The majority of studies examining the implications of mandatory audit firm rotation have used data from situations where the rotation was voluntary, and hence were mainly studying how audit firm tenure affects audit quality.

---

⁶ In particular, this measure is based on the assumption that higher than expected (i.e., compared with the normal distribution of earnings) of small positive earnings (i.e., earnings scaled by total assets of between 0% and 2%) is a sign of earnings manipulation carried out by the management to avoid reporting losses.

⁷ The most used measure of earnings conservatism looks at the (higher) speed with which losses are incorporated into earnings as compared with gains.
Results are mixed. For example, considering audit failure\(^8\) as an audit quality measure, Geiger and Raghunandan (2002) document that U.S. firms going into bankruptcy are less likely to have received a going concern audit opinion from audit firms with shorter tenure. Carcello and Nagy (2004), who also use a U.S. database of companies, find that fraudulent financial reporting is more likely when audit firm tenure is short, i.e., three years or less. On the other hand, using a sample of Belgian private companies, Knechel and Vanstraelen (2007) show that the decision of the auditor to issue a going concern opinion is not affected by the audit firm tenure in their bankrupt sample. In the non-bankrupt sample, they document some evidence of a negative association between auditor tenure and the issuance of a going concern opinion. Using earnings quality as a measure for audit quality, Chung and Kallapur (2003) and Myers et al. (2003) find that discretionary accruals are negatively related to audit firm tenure in U.S. companies. Similarly, Johnson et al. (2002), and Gul et al. (2007) find evidence of higher discretionary accruals in the early years of the audit firm's tenure. Jenkins and Velury (2008) document a positive association between conservatism in reported earnings and the length of the auditor-client relationship, and an increase in conservatism between short and medium audit firm tenure that does not deteriorate over long tenure. Other studies, using Taiwanese [Chi and Huang (2005)] and U.S. data [Davis et al. (2009)], find that earnings quality increases in the early years of audit firm tenure, and later deteriorates. Comparing different audit firm engagement lengths in Belgium, Vanstraelen (2000) suggests that long-term audit firm engagements significantly increase the probability of issuance of an unqualified audit report. Finally, there are studies that suggest that the relationship between audit quality and audit firm tenure is not homogeneous for all firms in the U.S. [e.g., Li (2010), Gul et al. (2009)].

\(^8\) As defined in 4.1., an episode of audit failure refers to the situations in which stakeholders may be misled by “false positive” and “false negative” opinions.
As the auditor incentives are different, conclusions drawn from voluntary replacement environments cannot be easily extended to mandatory rotation settings [see also Casterella and Johnston (2013)]. In fact, the number of potential future reappointments from the existing client is ideally (theoretically) equal to infinity in a voluntary setting, which implies different auditor incentives in comparison with a mandatory rotation setting (where the maximum term is fixed). In an attempt to overcome this limitation, some papers have tried to model a mandatory rotation setting on a theoretical basis, with conflicting conclusions.

For example, in a multiperiod model, Elitzur and Falk (1996) show that planned audit quality level diminishes over time and the level of the last period is the lowest, concluding that planned audit quality is negatively affected by the policy of audit firm mandatory rotation. Arruñada and Paz-Ares (1997) focus on the expected financial consequences of the auditor’s reporting decision. They conclude that the rotation rule does not modify the transaction costs of collusion and reduces both the probability of detecting “non-reporting auditors” (i.e., auditors that do not report irregularities after detecting them) and the level of sanctions associated with such detection. Gietzmann and Sen (2002) find that mandatory rotation should only be imposed in thin markets where a few clients are very important to the auditor, as in these markets the resulting improved incentives for independence outweigh the associated costs.

Some empirical evidence on the audit firm rotation rule was collected in settings where researchers can find forced auditor change, but not a proper mandatory rotation rule such as the Arthur Andersen (AA) collapse in 2002. Also, the results from these studies are conflicting. For example, while some studies find that forced audit firm rotation following the AA collapse is associated with better audit quality [Cahan and Zhang (2006), Krishnan (2007), Nagy (2005)], others document the opposite [Blouin et al. (2007), Krishnan et al. (2007)]. Despite the fact that such change was in fact compulsory, this specific episode has at least two differences with an actual mandatory rotation setting. The tenure allowed was not established at the moment in which the audit firm was appointed. Second, the level of control of the new auditor is presumably much greater than normal.
Actually, the new audit firm is motivated to audit the new auditee with greater care, because the reputation of the previous auditor was severely damaged. For example, Cahan and Zhang (2006) show that the succeeding auditors viewed an AA audit as a unique source of litigation risk. In Korea, from 1991 to the early 2000s, an auditor change was to be imposed by a financial supervisory commission on companies deemed to have a high potential to manipulate accounting results. In this setting, Kim and Yi (2009) find lower levels of earnings management following a regulator-imposed audit firm change. However, Kim and Yi (2009) recognize the uniqueness of the Korean auditor replacement rule and note that their conclusions cannot be generalized to a mandatory rotation setting.

There are very few studies that consider real audit firm mandatory rotation settings. One of the reasons for this is the mere fact that audit firm rotation is mandatory only in a small number of countries (see section 2), thus making it very difficult to collect sound empirical evidence.

Ruiz-Barbadillo et al. (2009) analyze the Spanish setting, comparing a period where the mandatory audit firm rotation rule was effective (1991-1994) with a voluntary rotation period (1995-2000). Their findings do not show any significant change in audit quality between the two periods. However, in the Spanish setting, the rule was never actually implemented because it was dropped before the first rotations imposed by law could take place. In Korea, audit firm rotation was required every six years starting in 2006 up to 2010 [Kwon et al. (2014)]. Kwon et al. (2014) showed that the post-regulation period audit fees were much higher than those preceding the rule and there was no impact on financial reporting quality. Again, in this case, as in the case of Spain, the rule seems to have never been actually implemented. Studying the audit framework in China, Firth et al. (2012) focused on a setting where different kinds of rotation (i.e., audit firm and audit partner) are mandatory. Using modified audit opinions, the authors find a positive effect from mandatory audit partner rotation on audit quality for firms located in regions with weak legal institutions.
On the other hand, mandatory audit firm rotation does not seem to have clear benefits. Firth et al. (2012: p.118) explain that they “classify an audit firm rotation as mandatory if the preceding audit firm changes because of its inability to provide audit services for the client.” Hence, most rotation cases used in their study are not comparable with the typical mandatory audit firm rotations that operate on a periodic basis. Consequently, the Firth et al. (2012) results cannot easily be extended to a typical audit firm mandatory rotation setting.

The aforementioned studies suggest that the literature fails to provide sound and consistent empirical evidence about the audit firm mandatory rotation rule.

Another stream of the literature tried to determine the actual effects of the mandatory rotation rule by looking at cases of audit partner changes, both mandatory and voluntary. Even if the main focus of this article is mandatory audit firm rotation, for the sake of completeness, we summarize below the main evidence gathered from partner rotation studies. It should be stated that in this case also, the results do not univocally support a rotation requirement.

Until now, the implications of partner rotation has not been empirically tested widely as audit partner names are not always publicly disclosed in the independent auditors’ opinion around the world, making it difficult for an external researcher to understand when the change occurs. So the major part of the empirical evidence on the topic was collected for countries where partner identity is disclosed or using proprietary data. An exception being Litt et al. (2014), where the authors used Sarbanes-Oxley (SOX) partner rotation requirements to infer partner rotation using the years of tenure with the same audit firm. Their study focused on U.S. companies, where the name of the signing partner is also not made public. They find evidence of lower financial reporting quality following an audit partner change, especially for larger clients. For non-Big Four partners, city-level non-industry specialist auditors and smaller audit offices, this effect is even more pronounced. As the same authors recognized, they cannot directly observe audit partner identities, and so their results are limited by the use of an approach that indirectly tries to ascertain the occurrence of audit partner rotation.

Using Australian data and a voluntary partner rotation regime, Carey and Simnett (2006)
do not find evidence of deterioration in reporting quality (measured by abnormal working capital accruals) for long partner tenure. However, for long partner tenure, they find a lower propensity to issue a going concern opinion and some evidence of higher likelihood of just beating earnings benchmarks.\footnote{The probability of just meeting/beating earnings benchmarks as the “zero earnings” or analysts’ forecasts is a widely used measure of earning quality (in particular, it is a measure of earnings quality that involves market perception, similar to those briefly mentioned in section 3). Assuming normal distribution of earnings numbers, a higher-than-expected likelihood of just meeting/beating such benchmark is considered a signal of earnings manipulation.} Fargher et al. (2008), however, who also use Australian data, find results that are consistent with a positive effect of partner rotations.

In Taiwan, Chi and Huang (2005) document that discretionary accruals are initially negatively associated with audit partner tenure and audit firm tenure, meaning a positive impact on audit quality. However, the associations become positive (and thus have a negative impact on audit quality) when tenure exceeds five years. The dataset used in this study covers a period when partner rotation was voluntary. Chen et al. (2008) find a positive relationship between reporting quality and partner tenure (once again, in a period where audit partner change was voluntary). Chi et al. (2009) address this issue following the implementation of mandatory partner rotation in Taiwan (while previous cited studies on the Taiwanese setting use data referring to the period before the implementation of the rule) and find results consistent with Chen et al. (2008).

In order to eliminate the limitations associated with the use of voluntary partner rotations, some researchers have used proprietary data. Using a small sample of U.S. proprietary data, Manry et al. (2008) show that audit quality increases with partner tenure, but only for certain types of auditees (relatively small clients having a fairly lengthy partner tenure). Finally, Bedard and Johnstone (2010), also using proprietary data on U.S. companies, find that the level of planned effort (as a proxy for audit quality: the higher the audit effort, the better the quality of financial statements) does not differ for clients having longer versus shorter tenured partners.
5.2 The Italian case
As stated earlier, Italy is one of the few countries in which both kinds of rotations (partner and firm) have coexisted for a number of years. Moreover, as the audit firm mandatory rotation rule has been in effect for more than 30 years, different studies were conducted with a specific focus on this setting.

5.2.1 The audit legal framework in Italy
The Presidential Decree D.P.R. 136/1975 introduced mandatory audit firm rotation for listed companies in Italy in 1975. The rule stated that audit firm engagement should last three years as a maximum, and that they may be reappointed for two further three-year periods, with a cooling-off period of five years (this was in fact defined as the 3+3+3 rule). This rule does not impose audit partner rotation. A second audit reform in 1998 (Legislative decree 58/1998) stated that the audit firm engagement should last three years as a maximum and that this can be renewed for an extra two three-year periods (leading again to the 3+3+3 rule). This rule, however, made no references to the cooling-off period, thus giving rise to many issues with interpretation. These were addressed by CONSOB (the Italian equivalent of U.S. SEC), which stated that the cooling-off period should last three years. There was still no mention of the issue of partner rotation.

In the years following 1998, many financial frauds occurred all over the world and in Italy, too: the most famous being the Parmalat case. This led the legislator to strengthen the audit legal framework in 2005 (Law 262/2005) and mandate a six-year tenure, renewable once with a cooling-off period of three years. For the first time, an audit partner rotation rule was also introduced in Italy, where audit partners were required to be changed every six years.

Because of the many interpretation issues arising from Law 262/2005, the following year, another legislative decree (No. 303/2006) was issued that clearly limited the maximum length of audit firm engagement to nine years and set a three years’ cooling-off period. Concerning the partner rotation, the rules remain unchanged: the partner must rotate every six years with a cooling-off period of three years.
The audit mandatory rotation rule: the state of the art

The last reform was introduced in 2010, in which the maximum audit firm tenure was confirmed to be nine years with a cooling-off period of three years. As for the partner rotation, this was set at seven years with a cooling-off period of three years.

5.2.2 The implications of the mandatory rotation rule: evidence from the Italian case
Cameran et al. (2015b) examined a sample of non-financial Italian firms in the period 1985–2004 (i.e., the period of the 3+3+3 rule) and assumed that a better audit quality is associated with a higher level of accounting conservatism. The study found that the auditor becomes more conservative in the last three-year period, i.e., the one preceding the mandatory rotation. Since the auditor has incentives to be reappointed at the end of the first and the second three-year periods, the audit quality is lower in these periods, as compared with the third (i.e., the last) term. So, after a mandatory audit firm rotation, audit quality decreases.

Cameran et al. (2015a) focus their research on the effects of the mandatory rotation rule in a sample of listed companies in the period 2006–2009. The authors found that outgoing auditors do not reduce their effort (nor their quality), but final year fees are on average 7% higher than normal, which may hide opportunistic pricing. The fees of incoming auditors are on average lower by 16%, even though they show unusually higher engagement hours in the first year (17%), which could imply low balling behavior. However, subsequent fees are abnormally higher and exceed the initial fee discount. Overall, the evidence provided by this paper shows that the costs resulting from mandatory rotation are not that irrelevant. Moreover, the study shows that these higher costs are not associated with higher audit quality. On the contrary, the authors show that earnings quality is lower in the first three years of the nine-year engagement than in the last years of the period.

Looking at the impact of the audit firm mandatory rotation rule on audit market competition, Cameran and Pettinicchio (2011) document a steady increase over time in the market share in Italy held by big audit firms, with an even stronger effect in the Italian market segments subject to mandatory rotation, suggesting that the rule per se does not necessarily increase audit market competition. The effects of the mandatory rotation rule on audit quality are also assessed, examining the types of audit opinions issued and the number of partner suspensions.
Results show that the number of partner suspensions for poor-quality work is significantly higher in the first year of engagement compared with all other years, providing some evidence that audit quality may initially suffer as a result of auditor rotation.

On the basis of what has been stated earlier, we can conclude that the empirical evidence collected in Italy seems not to support the idea of audit firm rotation; not only is it expensive and leads to opportunistic pricing, but it also does not enhance earnings quality.

5.3 Is the audit firm rotation rule perceived as effective?
Given the high level of uncertainty associated with the actual costs and benefits of the mandatory rotation rule, it is worth examining another stream of literature. The studies mentioned so far have, in fact, generally not provided a clear-cut relationship between audit firm rotation and audit quality. The rotation rule may, however, be effective in contributing to the perceived quality. Specifically, this stream of research analyzes the ways in which long audit tenures and auditor switches are perceived by the market and it is conducted using both archival data and surveys with the aim of assessing the perception of the respondents on the effectiveness of the rule. The empirical evidence gathered from these studies is, in fact, useful to understand the implications that the introduction of the rule might have in terms of market effects. On the other hand, however, these studies suffer from the same limitations previously mentioned with regard to the evidence gathered on the impact on audit quality (i.e., evidence drawn from settings where the auditor change is voluntary and conflicting results).

For example, Ghosh and Moon (2005) document a positive association between perceived earnings quality and audit firm tenure, using earnings response coefficients\(^\text{10}\) as a proxy for investor perceptions of earnings quality. Thus, their results are consistent with the notion that, for investors and information intermediaries, auditor tenure improves audit quality. The same conclusion is supported by Mansi et al. (2004), who find a negative relationship between cost of debt and audit firm tenure.

\(^{10}\) Earnings response coefficients measure the association between earnings and stock prices. The higher the association between the two figures, the more reliable the accounting numbers are considered by the market (see also section 4.2).
However, Boone et al. (2008) find that the equity risk premium decreases in the early years of tenure but increases with additional years of tenure for the then Big Five auditors. This contradicts the conclusion of the previously cited studies, as the relationship between perceived audit quality and tenure becomes negative for long audit firm tenure. In addition, the findings of Mai et al. (2008) demonstrate that shareholders view long auditor tenure as adversely affecting audit quality. All of the previously cited studies used U.S. databases. Cameran et al. (2015b) explore investor perception of audit quality in a real audit firm mandatory rotation setting (Italy) and find an increase in audit quality perception in the last engagement period.

Carcello and Reid (2014) conducted an empirical research on the perception that the news regarding audit rotation may have on the financial markets in the U.S. Specifically, they analyzed the stream of news occurring from 2011 to 2012, the time at which PCAOB was considering whether to introduce the mandatory rotation rule. Each of these events\textsuperscript{11} was linked to an increasing or decreasing likelihood of the implementation of the rule. The results indicated that the market seemed to react negatively to the possibility of introducing audit firm rotation. They also showed that the negative reaction was more pronounced for those companies with higher audit quality and for companies with a longer audit tenure.

Another part of the literature tried to assess perceptions of the rule through surveys. SDA Bocconi School of Management (2001) surveyed internal auditors, managers and the then Big Five auditors of Italian-listed companies, and reports that the first-year audit engagement requires more time by both the auditor and the client. However, the rule is judged positively by a large majority of internal auditors and managers, even though there is no evidence that the stock market reacts to news of audit firm changes [SDA Bocconi School of Management (2001, 2004)].

\textsuperscript{11} The events Carcello and Reid (2014) analyzed included, among others, the PCAOB Chairman Doty’s announcement to formally explore mandatory rotation and the announcement of the amendment by the U.S. House of Representatives that would prohibit rotation.
6. Conclusion
A crucial issue in audit regulation is whether to mandate audit firm rotation. Different countries operate different choices. For example, in Canada, mandatory firm rotation was introduced much earlier than it was in other countries (shortly after the Home Bank failure of 1923) and was in place until 1991, when it was removed. In other countries, like Spain, audit firm rotation was adopted and shortly after abrogated. One of the most peculiar evolutions of the rule was experienced in Costa Rica, where the audit firm rotation was introduced in 2005, appealed in 2006, ejected in 2007 and re-implemented in 2010. In recent years, the E.U. and the U.S. have been operating completely different choices in this regard. E.U. Regulation No. 537/2014 introduced an audit firm rotation rule, whereas after 10 years of debate, in 2013, the U.S. Congress ruled against the possibility of audit firm rotation.

From a theoretical point of view, mandatory audit firm rotation could have both positive and negative implications on audit quality. On one hand, it is considered a way to increase and enhance audit quality, while on the other, it is deemed costly and may cause, among other things, the loss of client-specific knowledge possessed by the audit firms.

One of the main benefits suggested by the supporters of the mandatory rotation rule is that it increases audit independence. They suggest that as time passes, members of the audit team may begin to unconsciously consider themselves as being part of the client management team and that this might impede the auditors from impartially assessing the transparency and reliability of clients’ accounts. Moreover, long-term relationship between a single audit firm and an auditee may cause external stakeholders (e.g., investors) to conclude that the auditor would not be capable of acting without bias. Apart from the independence of the auditor, another major benefit of imposing periodical changes of the audit firm emanates from what has been defined as the “new fresh look.” When the same audit firm carries out its services for a long period of time, it may fall into a sort of professional routine, whereas, when a new audit firm comes in, it approaches the financial statement of the client with “new critical eyes.” Mandatory auditor rotation would also reduce the period of the “economic dependence” on the client and this would, in turn, decrease the incentives of favoring the accounting policy of the auditee.
In fact, an incumbent auditor possesses cost advantages over potential competitors, enabling it to earn client-specific quasi-rents. In order to avoid the loss of client-specific quasi-rent, the auditor has the incentive to act opportunistically, e.g., to soften audit controls, if this permits the incumbent auditor to retain the client in the future. Other benefits of imposing audit firm changes are linked to the “embarrassment effect” and the potential increase in audit market competition. Concerning the former, as the auditor knows that a new audit firm (a competitor) will come in to replace it and examine its workings, it will be incentivized to increase its effort and improve audit quality in order to protect its reputation. Concerning the latter, as most audit markets present an oligopoly structure, imposing a mandatory periodical-auditor change could reduce this phenomenon, especially if the change is from a big to a smaller auditor.

Concerning the potential negative effects of introducing the mandatory audit firm rotation rule, the most cited is the switching costs. Switching an audit firm will introduce costs that may be borne by the audit firm (e.g., familiarization with new client accounting systems) and the client (time for selecting and “training” the new auditor). Moreover, the rule causes the loss of client-specific knowledge possessed by the audit firms, since becoming familiar with a new auditee requires time. During this period of familiarization, the auditor could potentially miss material errors and mistakes, with a consequent negative impact on audit quality. Finally, in a setting where the rule is not implemented, market players may infer some kind of information (e.g., the opinion shopping attitude of the client) observing voluntary audit firm change: this is more difficult/expensive in a mandatory rotation setting where mandatory audit firm rotations also take place.

Despite the hypotheses above, however, the empirical evidence has not been so conclusive.

Even though many studies have been undertaken on this topic, at this stage, the implications of mandatory rotation are still unclear. One of the reasons for this is the mere fact that audit firm rotation is mandatory only within a small number of countries, thus making it very difficult to collect sound empirical evidence. The majority of studies conducted have focused on situations where audit rotations were undertaken voluntarily.
As the auditor incentives are different, conclusions drawn from voluntary replacement environments cannot be easily extended to mandatory rotation settings. In fact, the number of potential future reappointments by the existing client is ideally equal to infinity in a voluntary setting, which implies different auditor incentives in comparison with a mandatory rotation setting, where the maximum term is fixed. In addition, the scarce literature that does consider situations where the rule is effective is not able to demonstrate that the benefits outweigh the costs.

A number of studies have also tried to determine the implications of the mandatory audit firm rotation rule by looking at partner changes. The empirical studies focused on the partner rotation rule are once more mainly conducted in voluntary rotation settings and were unable to reach sound and univocal results.

The audit firm mandatory rotation rule seems to be an attractive solution to a very complicated issue: trust in audit activity. The well-known corporate scandals call for immediate action to restore public trust in corporate reporting. The idea of rotation has intuitive appeal, and the case for rotation is supported by anecdotal assertions like the following: “Situations where a company has appointed the same audit firm for decades seems incompatible with desirable standards of independence” [E.C. (2010)] or “Key to concern of independence was the level of ‘coziness’ the firm had with management of the company being audited... Many of the auditors of large companies... had long-running audit relationships with those companies” [PCAOB (2011)]. People contacted through a questionnaire-based survey generally agreed that the mandatory audit rotation rule constitutes a mechanism to guarantee auditor independence. From the point of view of the regulator, the enforcement in trust of audit activity is of utmost importance. But, so far, investigations into the impact of the rule at corporate and market level have not been able to prove that the benefits outweigh the costs.
The audit mandatory rotation rule: the state of the art

References

AICPA, 1978, Commission on auditors responsibilities (Cohen Commission), report, conclusions, and recommendations, American Institute of Certified Public Accountants

André, P., G. Broye, C. Pong, and A. Schatt, 2015, “Are joint audits associated with higher audit fees?” European Accounting Review (forthcoming)


The audit mandatory rotation rule: the state of the art

Doty J. R., 2015, Statement at the SEC Open Meeting on the PCAOB 2015 Budget, speech held on the PCAOB 2015 Budget in Washington D. C., 4 February
The audit mandatory rotation rule: the state of the art


SDA, 2001, “The impact of mandatory audit rotation on audit quality and on audit pricing: the case of Italy,” SDA Bocconi School of Management, Milan, Italy

SDA, 2004, “Mandatory audit rotation, audit quality and financial markets equilibrium: the case of Italy,” SDA Bocconi School of Management, Milan, Italy


The EY Global Financial Services Institute brings together world-renowned thought leaders and practitioners from top-tier academic institutions, global financial services firms, public policy organizations and regulators to develop solutions to the most pertinent issues facing the financial services industry.

The Journal of Financial Perspectives aims to become the medium of choice for senior financial services executives from banking and capital markets, wealth and asset management and insurance, as well as academics and policymakers who wish to keep abreast of the latest ideas from some of the world’s foremost thought leaders in financial services. To achieve this objective, a board comprising leading academic scholars and respected financial executives has been established to solicit articles that not only make genuine contributions to the most important topics, but are also practical in their focus. The Journal will be published three times a year.

gfsi.ey.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited.
All Rights Reserved.
EYG No. CQ0244
ey.com

The articles, information and reports (the articles) contained within The Journal are generic and represent the views and opinions of their authors. The articles produced by authors external to EY do not necessarily represent the views or opinions of EYGM Limited nor any other member of the global EY organization. The articles produced by EY contain general commentary and do not contain tailored specific advice and should not be regarded as comprehensive or sufficient for making decisions, nor should be used in place of professional advice. Accordingly, neither EYGM Limited nor any other member of the global EY organization accepts responsibility for loss arising from any action taken or not taken by those receiving The Journal. The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

Accredited by the American Economic Association
ISSN 2049-8640