MSc in Management

National College of Ireland

MSCMGT FT - Semester 2 – 2014/2015

Dissertation

Title:

Will mandatory audit-firm rotation prove effective in Ireland?

Student's name: **John Lyons**

Student's ID: **X 10203583**

Date: 2nd September 2015

Submission of Thesis to Norma Smurfit Library, National College of Ireland

Student name: John Lyons_____________ Student number: X10203583_____

School: National College of Ireland ___ Course: MSc in Management: Full Time__

Degree to be awarded: MSc in Management____________________________

Title of Thesis: Will mandatory audit-firm rotation prove effective in Ireland?

One hard bound copy of your thesis will be lodged in the Norma Smurfit Library and will be available for consultation. The electronic copy will be accessible in TRAP (http://trap.ncirl.ie/), the National College of Ireland's Institutional Repository. In accordance with normal academic library practice all theses lodged in the National College of Ireland Institutional Repository (TRAP) are made available on open access.

I agree to a hard bound copy of my thesis being available for consultation in the library. I also agree to an electronic copy of my thesis being made publicly available on the National College of Ireland's Institutional Repository TRAP.

Signature of Candidate: ____________________________

For completion by the School:
The aforementioned thesis was received by____________________
Date: ______________

This signed form must be appended to all hard bound and electronic copies of your thesis submitted to your school

Abstract

In order to enhance the independence of auditors, a new European directive governing the mandatory rotation of auditors will become binding in Ireland on the 16th of April 2016. The purpose of the regulations is to improve audit quality by removing any natural danger to the independence of auditors (Council Regulation No 537/2014 EU). There are two main types of auditor rotation: mandatory *audit-firm* rotation as was introduced in Spain, and mandatory *audit-partner* rotation as is practiced in the US, Australia and in other countries. This study will compare the experiences of mandatory rotation in those countries in order to provide an indication as to whether the rotation of auditors will prove effective in Ireland. The research will also explore the different components that impact on auditor independence such as: audit tenure, auditor-client closeness, client-specific knowledge, the provision of non-audit fees, and low-balling. Using these components as a proxy for independence, the study will seek to assess the effects of mandatory rotation on auditor independence. To gauge the attitude of accountants in Ireland and in countries where mandatory auditor rotation was introduced, an online questionnaire was distributed to a sample of 192 accountants. A nonparametric One-Sample Wilcoxon Signed Rank Test was used to analyse the data and the results indicate that the accountants neither agreed nor disagreed with the view that mandatory audit-firm rotation improves audit quality. However, they agreed with the statement that mandatory audit-partner rotation improves audit quality and they also agreed with the statement that client-specific knowledge is lost as a result of audit-firm rotation.

Declaration

Submission of Thesis and Dissertation

National College of Ireland

Research Students Declaration Form

(Thesis/Author Declaration Form)

Name: John Lyons

Student Number: X10203583

Degree for which thesis is submitted: MSc in Management

Material submitted for award

(a) I declare that the work has been composed by myself.

(b) I declare that all verbatim extracts contained in the thesis have been distinguished by quotation marks and the sources of information specifically acknowledged.

(c) My thesis will be included in electronic format in the College Institutional Repository TRAP (thesis reports and projects)

(d) ***Either*** *I declare that no material contained in the thesis has been used in any other submission for an academic award.

Or *I declare that the following material contained in the thesis formed part of a submission for the award of

____

(State the award and the awarding body and list the material below)

Signature of research student: John J Lyons

Date: 2/9/2015

Acknowledgements

I would like to thank my supervisor Dr Philip Hyland for the guidance, advice and in that relaxed style of his, the encouragement he gave me in the preparation of this dissertation.

A special thanks to those wonderfully helpful and obliging members of the library staff especially Keith Brittle, Bryan Whelan and Aoife Kenny.

To Jonathan Lambert, thanks for your help in assisting me understand the SPSS software programme.

Finally, I want to express my sincerest gratitude to the marvellous Sheila Handelman for the thoroughness and patience with which she proof-read this dissertation.

Table of Contents

List of Tables

List of Figures

List of Appendices

Number | Page

List of Abbreviations

Chartered Accountants Regulatory Board	CARB
Corporate Law Economic Reform Program Act 2004	CLERP
Irish Auditing and Accounting Supervisory Authority	IAASA
Institute of Chartered Accountants in Ireland	ICAI
Libyan Association of Accountants and Auditors	LAAA
Mandatory audit-firm rotation	MAFR
Mandatory audit-partner rotation	MAPR
Mandatory auditor rotation	MAR
Office of the Director of Corporate Enforcement	ODCE
Prescribed Accountancy Body	PAB
PricewaterhouseCoopers	PwC
Public Company Accounting Oversight Board	PCAOB
Sarbanes-Oxley Act 2002	SOX

Chapter 1 Introduction

By way of providing a context for this dissertation, the opening chapter will review the circumstances that led to mandatory audit-firm rotation being imposed in Ireland. Throughout this document, mandatory auditor rotation (MAR) refers to instances in which both mandatory audit-firm rotation (MAFR) and mandatory audit-partner rotation (MAPR) are being discussed. This section will provide a definition of MAFR, detail the background to the research and outline a justification for the research. A précis of the primary research questions will be given together with details of the design and organisation of the research and finally this chapter will give a guide to possible future research in this area.

1.1 Mandatory audit-firm rotation defined

Section 207(c) of the Sarbanes-Oxley Act of 2002, regularly referred to as SOX, defined MAFR as the imposition of a limit in the number of years during which a registered public accounting firm may act as auditor for a client.

1.2 Background to the research

MAR, as a means to provide increased auditor independence and audit quality, has been a bone of contention for governments, accounting bodies and academics for years (Bates, Waldrup, Jaeger and Shea, 2012; Jenkins and Vermeer, 2013). On the 16th of April 2014, in one of the most fundamental changes in the 180-year history of the recognised auditing profession, the European Parliament approved a new regulation regarding the appointment and mandatory rotation of auditors (Council Regulation No 537/2014 EU). Part of the new legal framework is that the firm of auditors must be rotated by the client every ten years, although this can be extended up to a maximum of twenty years if the engagement is the result of a tender process. A regulation was also approved that limits the amount of non-audit fees, up to a maximum of 70% of the fees for the previous three years, where the statutory auditor or audit-firm has been engaged as an auditor by the same client (Council Regulation No 537/2014 EU). Non-audit services involving corporate strategic decisions relating to the financial structure, or the financing of the client’s company, will no longer be allowed (Council Regulation No 537/2014 EU). The new regulations will ban the practice by some third-party organisations, such as banks and insurance companies, from insisting on 'Big-Four Only' audits of large enterprises (Council Regulation No 537/2014 EU). 'Big-Four', in this instance, refers to the four biggest audit firms, namely: KPMG, PricewaterhouseCoopers (PwC), Ernst & Young, and Deloitte. However, no regulation was announced with regard to compulsory same audit year-end dates for all banks and financial institutions.

1.3 Components of auditor independence and audit quality

The various literary articles reviewed give an indication of the different elements that impact on auditor independence and audit quality, for instance, the client-auditor relationship (Blandȯn and Bosch, 2013a; Jyh-shyan, Hsueh-chang and Yung-I, 2014), client-specific knowledge (Monroe and Hossain, 2013; Anis, 2014), auditor closeness (Jenkins and Vermeer, 2013), expectations of future non-audit fees (Blay and Geiger, 2013), conflict of interest (Blandȯn and Bosch, 2013a), auditor's financial reliance on the audit fee (Ruiz-Barbadillo, Gómez-Aguilar and Carrera, 2009), and low-balling (Dopuch and King, 1996; Patel and Prasad, 2013; Desir, Casterella and Kokina, 2014). A study by Tackett (2004, p.342) identified "undue influence caused by personal auditor-client relationships" as one of the key reasons for audit failure and the new EU regulations on rotation are an attempt to redress this issue.

1.4 Rationale for the study

Arising from these new regulations, which come into effect on the 17th of June 2016 and which are binding on all member states (Council Regulation No 537/2014 EU), this report will seek to clarify, and provide an understanding of, the independence of auditors. Also included is an indication as to whether MAR will prevent a repetition of the questionable practices that led to the collapse in 2001 of HIH Insurance in Australia (Mirshekary, Yaftian and Cross, 2004), the demise, also in 2001, of Enron in the US (Devi, Kumar and Raju, 2012) and the catastrophic financial crises in Ireland in 2008, caused in part by the failure of the audit procedures to identify and report the misleading accounting practises at Anglo Irish Bank and Irish Nationwide Building Society (Healy, 2012).

Despite these and other expensive audit failures, successive attempts at improved self-regulation by the accounting profession appear to have failed and have resulted in the need for stricter regulatory intervention. This research will seek to establish if MAFR is the most effective course of action in the circumstances.

There is a perception that the new regulations will solve the issue of auditor independence, restore investor confidence and provide comfort to shareholders who will ultimately benefit if the new regulations prove successful, but who will suffer the costs if the regulations merely give the impression of improved audit quality whilst the underlying issues of auditor independence remain unresolved.

1.5 Objectives of the current research

The overriding objective of this study is to establish whether or not the proposed MAFR will lead to increased auditor independence and consequently result in an improvement in the quality of audits in Ireland. Audit quality implies a situation where an auditor has the ability and is willing “to detect, and report on, the existing material misstatements” (Mostafa Mohamed and Hussien Habib, 2013, p.1). The expectation is that the objective of the research will be achieved by analysing four overlapping general themes, as follows:

1.5.1 Appearance of auditor independence

A key objective of the research will be to establish if there is a need to be concerned that MAFR may give the appearance of increased auditor independence but may not, in fact, result in any discernible improvement in auditor independence and might even undermine the professional level of auditor scepticism and objectivity, and possibly lead to inferior audit quality. MAFR may even impact negatively on the role of the internal audit committee. The audit committee of all Irish-registered public limited companies is obligated to ”determine if the annual accounts reviewed by the committee comply with legislation and whether they give a ‘true and fair’ view of a company’s state of affairs at the end of the financial year” (Heneghan and O'Donnell, 2007, p.58).

1.5.2 Audit-partner rotation versus audit-firm rotation

The study will seek to establish if *audit-partner* rotation as opposed to *audit-firm* rotation would be more beneficial in terms of audit quality and provide greater flexibility to shareholders/directors in the appointment of auditors. A further aspect of the research will be to scrutinise the experiences in jurisdictions where MAFR was introduced and to contrast those experiences with the evidence from jurisdictions where MAPR was implemented. Also reviewed will be alternative methods of appointing auditors.

1.5.3 The connect between auditor independence and audit quality

A further objective of the study will be to explore all available research on whether increased auditor independence results in improved audit quality; in particular the idea will be to research the reported experiences in countries where either MAFR or MAPR was introduced and then abandoned, and to compare the quality of audit before and following abandonment. An examination of the research will be made of the countries where the introduction of MAFR was considered but rejected.

1.5.4 A cost benefit analysis of mandatory audit-firm rotation

The research will also seek to establish if the proposed introduction of MAFR will prove to be unnecessarily burdensome and costly. Costs in this instance are not restricted to monetary expenses but include the loss of the cumulative knowledge and experience of unrestricted audit tenure. Arising from this, the study will assess if the extra costs involved with MAFR are justified in the form of actual increased audit quality.

The four themes outlined above will form the basis of the actual survey questions, which are detailed in chapter 3.

1.6 Design and organisation of the research

The impetus for this research is to establish the impressions of academics and accountants on the ramifications of MAFR, both positive and negative, on auditor independence and on audit quality. Particular attention will be given to the different components that influence auditor independence and audit quality.

The study is organised as follows:

> Chapter 1 will provide a definition of MAFR and map out the background of the research. The motivation to undertake the research will be outlined and this section will also allude to the basis on which the survey questions were constructed. It will also indicate a possible gap in the literature on MAR.

Chapter 2 will present a rounded view of the current academic research on the various relevant aspects of MAFR and MAPR. The research is directed mainly at peer reviewed academic papers published in the last ten years, however occasionally, to illustrate particular theories or concepts; research from prior years and from other sources is included. The chapter begins with an introduction which will steer the reader through the literary review as the various aspects that impact on the auditing profession are studied and discussed.

Chapter 3 outlines the main research questions together with a list of the sub-questions. These questions are closely linked to the topics assessed in the literary review.

Chapter 4 deals with the research methodology and contains a summary of the approach adopted and in addition, the limitations and strengths of that approach will be noted. The chapter is divided into four sections: the survey participants, the data collection procedure, the instrument used, and finally, the findings.

Chapter 5 provides a review of the results of the descriptive and inferential statistics analysis performed in order to answer the research questions.

Chapter 6 will consist of a detailed discussion on the relevance and importance of the findings. The meaning of the research results will be explained. Contrast will be made with the prevailing academic thinking and the thoughts of the accounting community and an indication will be given as to how the research contributes to the literature scrutinised in the literary review section.

Chapter 7 will include the final conclusions, giving a brief reprise of the objects of the research, the main research questions and how those questions were answered. In addition, chapter 7 will detail the outcome of the research, its importance, and will indicate areas for further research.

Chapter 2 Literary Review

2.1 Introduction

Before considering the merits or otherwise of the proposed MAFR it is important to have an understanding of why the new regulations are being introduced. According to the European Commission the reason for the introduction of the new regulations governing MAFR is to provide a basis whereby any natural danger to the independence of auditors is removed and audit quality is improved (Council Regulation No 537/2014 EU).

The main purpose of the literary review is to establish whether MAFR will prove effective in Ireland and this conclusion will be based primarily on the experiences from other jurisdictions as outlined in the peer-reviewed articles studied. An important sub-objective of the review will be to establish if MAFR will lead to an improvement in auditor independence and audit quality. The review will take the following structure:

Section 2.2 will summarise the results of an examination of the effects of MAR on auditor independence based on evidence from the US, New Zealand, Taiwan, Brazil, Jordan, and Indonesia.

Section 2.3 will outline the effects of MAR on low-balling and on non-audit fees. This section will also consider the bond created between auditor and client when non-audit fees are involved.

Section 2.4 will compare the appearance of audit quality improvement with actual improvement in audit quality as a result of MAR.

Section 2.5 will examine the costs involved in adopting MAFR. The costs involved in this instance refer not only to monetary costs but also to the opportunity costs of lost client-specific knowledge.

Section 2.6 will analyse the experiences of MAR in other countries.

Section 2.7 will briefly outline the background to the introduction of MAFR in Ireland and the attempts at self-regulation by the accounting profession in Ireland.

2.2 The effect of mandatory auditor rotation on auditor Independence.

By way of introduction, the objective of this section is to establish the impact of MAR (both audit-firm and audit-partner) on the independence of an auditor. A key concern of the European Commission is how the conduct of an audit is affected by the independence of the auditor. “Independence implies one's ability to act with integrity and to exercise objectivity and professional scepticism. Therefore, independence is critical to promote ethical behaviour and reliable financial reporting” (American Institute of Certified Public Accountants, cited in Romero, 2010, p.301). To justify the existence of external auditors there is a fundamental imperative that they must be independent; it is that independence which distinguishes the external auditor from the internal auditor and without autarchy, the role of the external auditor would be redundant and meaningless (Romero, 2010; Ye, Carson and Simnett, 2011; Blay and Geiger, 2013; Antonio and Bassetti, 2014; Arya and Glover, 2014). However, Blandȯn and Bosch (2013a) note that any company’s corporate governance is dependent, to a large extent, on the critical role played by the external auditors and on the quality of the financial statements and reports that they produce.

Blandȯn and Bosch (2013a) discovered from their research in Spain that while the duration of the tenure of an auditor with the same client may give rise to concerns in relation to the auditor’s independence when evaluating the strategic decisions made by management, they found no connection between the duration of the client-auditor relationship and the sentiment expressed in the audit report, and that the client-auditor relationship does not impact on the level of auditor independence. In agreeing with Blandȯn and Bosch (2013a), research in New Zealand by Wang and Hay (2013), in Taiwan by Jyh-shyan et al. (2014) and by Antonio and Bassetti (2014) in Brazil, all arrived at similar conclusions. Blay and Geiger (2013) point out that in the US, apart from audit tenure, non-audit fees also impact on the auditor independence. Although they are not inferring ‘causality’, their research indicated a strong correlation between the expectations of future non-audit fees with favourable auditor judgements (Blay and Geiger, 2013).That said, a study by Al-Khoury, Ali, Al-Sharif, Hanania, Al-Malki and Jallad (2015) in Jordan did discover a positive relationship between auditor independence and mandatory rotation. In contrast, a study in Indonesia conducted by Junaidi, Miharjo and Hartadi (2012, p.303) indicates that the duration of audit tenure does indeed impact adversely on “the propensity of auditors to issue a going concern opinion” and consequently the independence of auditors is compromised, therefore highlighting the need to restrict an auditor’s period of tenure.

It might be too easy to suggest that this disparity in the findings from the different countries with regard to the effects of mandatory rotation on auditor independence may be because of cultural differences. Perhaps the different elements that impact on auditors may be at play to a greater or lesser extent in the different countries studied. For example, Blay and Geiger (2013) and Wang and Hay (2013) based their studies on the effect of the provision of non-audit fees on auditor independence whereas Al-Khoury et al. (2015) based their finding on the effects of four independent factors (audit fees, audit tenure, auditor-client relationship, and MAR). However, the research conducted by Junaidi et al. (2012), and by Antonio and Bassetti (2014), used audit tenure as a single variable. While the findings give an indication of the effect of MAR in different countries they are not comparable, as different variables were used to arrive at the conclusions. An area for further research might be to use similar variables in different countries to provide comparable data.

Staying with the subject of auditor independence, Jenkins and Vermeer (2013) point out that in the US there is divided opinion on the need to introduce MAFR. On the one hand investors see rotation as giving greater independence to the auditor, thereby reducing the likelihood of acquiescence with management. On the other hand they say that there is general business belief that apart from the increased costs, there is the possibility that rotation will weaken the role of the audit committee and could lead to ‘opinion shopping’ (Jenkins and Vermeer, 2013). Banimahd and Beigi (2012) define opinion shopping as arising when one auditor is replaced by another who gives a more favourable audit opinion. The audit committee of all Irish-registered public limited companies is obligated by the Companies (Auditing & Accounting) Act 2003, to ”determine if the annual accounts reviewed by the committee comply with legislation and whether they give a ‘true and fair’ view of a company’s state of affairs at the end of the financial year” (Heneghan and O'Donnell, 2007, p.58). Large private companies with revenues in excess of €50m or balance sheet valuations greater than €25m were also included in the new regulations regarding audit committees (Government of Ireland, Companies (Auditing and Accounting) Act, 2003).

Whilst it is recognised that the directors of a company are obliged to act in the best interests of the company, the legal authority and obligations bestowed on an audit committee ensures that they act independently of the directors in the best interest of the shareholders (Heneghan and O'Donnell, 2007).

Kandemir and Akbulut (2013) outlined the advantages and functions of an audit committee by noting that the operation of effective internal audit and control systems is the direct responsibility of the audit committee. The audit committee is independent of the board, and operates as an intermediary between the internal auditor, the external auditor and the board of directors. The advantage of the audit committee is that they empower the external auditors, thereby making them more effective and the committee itself acts as an early warning system of potential risks to the company (Kandemir and Akbulut (2013). Whilst Jenkins and Vermeer (2013) noted a business belief that MAFR could weaken the role of the audit committee, there are questions as to the effectiveness of audit committees. For instance, Contessotto and Moroney (2014) noted that some of the most publicised corporate failures have demonstrated that having legal regulations governing audit committees does not always result in audit committee effectiveness. They make the point that Enron, prior to its collapse, was well regarded as being compliant with all statutory and Stock Exchange regulations (Contessotto and Moroney, 2014)

It was with concerns regarding auditor independence and conflicts of interest, as alluded to by Blandȯn and Bosch (2013a), that SOX authorised the United States government to establish the Public Company Accounting Oversight Board (PCAOB), whose role it is "to oversee the audit of public companies in order to protect the interests of investors" (King and Case, 2014, p.11). King and Case (2014, p.16) report that the PCAOB have adopted various standards over the years since 2002, including Standard No.4 in 2005, in which it gives direction on the subsequent reporting where "a previously reported material weakness continues to exist at a later date". In 2009 Auditing Standard No.7 was adopted. This dealt with "Engagement Quality Review" which demands that "an engagement quality review and concurring approval of issuance must be completed for each audit engagement" (King and Case, 2014, p.17). SOX decreed that the services offered by auditors to a company must in future be sanctioned by the audit committee and the auditors must, from then on, report directly to and be supervised by the audit committee, as opposed to the directors (King and Case, 2014).

In an unexpected statement, the PCAOB announced in 2014 that it was no longer considering the introduction of MAFR (James, 2015). This decision caused surprise given that the PCAOB reported in 2009 that three of the Big-Four audit firms, namely Deloitte, Ernst & Young, and PwC, had audit deficiencies when inspected by PCAOB officials (King and Case, 2014).

In considering the concept of a 'going-concern' business the European Commission has decreed that, in accordance with International Accounting Standards No.1, "An entity shall prepare financial statements on a going-concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so" (European Commission, 2011, p.5). The normal practice is that the financial statements of a company are prepared internally on behalf of management, with the directors deciding on the going-concern status of the business; the accounts and other financial statements are then audited by external auditors who assess the veracity of the going-concern perspective (Kandemir, 2013). If the external auditors develop a 'significant doubt' with regard to the likelihood that the company can continue to function for at least one more financial year then the auditors are impelled to issue a going-concern qualification (Kandemir, 2013).

Barnes and Renart (2013) describe two categories of audit error that are directly related to the degree of auditor independence. The first category [Type A] is where there is "no qualification but corporate failure" and the second category [Type B] where there is "a qualification but no corporate failure" (Barnes and Renart, 2013, p.265). Barnes and Renart (2013) note a lack of going-concern qualifications [Type A] in the accounts of some of the most publicised cases of UK and US companies that collapsed in the period immediately prior to the international financial crises in 2008. On the other hand, Barnes and Renart (2013) also observe that during the same period it was not unusual for small-scale businesses to be issued with a qualified going-concern report [Type B] even though most of these companies did not fail. This dichotomy is explained by the degree of independence and bargaining power of the auditors vis-à-vie the client (Barnes and Renart, 2013).

Overall these studies indicate mixed views on the effects of auditor rotation on auditor independence and do not give a definitive guide as to whether MAFR will prove effective in Ireland. Nevertheless, there are other factors to consider when assessing audit independence, for instance, low-balling and non-audit fees.

2.3 Will mandatory auditor rotation affect low-balling and non-audit fees?

The goal of this segment will be to identify the impact of MAR on low-balling, which is the practice of offering audit fee discounts to new clients. The impact of MAR on non-audit fees, such as consulting for example, will also be reviewed.

Low-balling involves levying clients with introductory prices below marginal costs for the first year or two in anticipation that they will recover the shortfall from fees in subsequent years (Dopuch and King, 1996; Desir et al., 2014). A study by Patel and Prasad (2013) found that audit firms in Fiji tended to use non-audit fees to compensate for the costs of low-balling the audit fees. According to Patel and Prasad (2013) this practice raises the possibility of loss of audit quality on the basis that if the auditors are not compliant with the wishes of the client then they may lose not only the audit fee but the non-audit fees as well. However, in Germany, research conducted by Köhler and Ratzinger-Sakel (2012) revealed that the conduct of audits and the independence of auditors are in no way impacted upon when dual audit and non-audit fees are involved. Further research in Germany by Krauss and Zülch (2013,p.305) examined the relationship between the furnishing of non-audit services and audit quality and found that "an economic bond between the auditor and its client" is created when both non-audit services and audit related services are provided by the same auditor, resulting in a negative impact on audit quality. Interestingly, Krauss and Zülch (2013) also report that there is no evidence of any material advantage in uncovering improper management practices that could lead to improved audit quality, when non-audit services are performed by the same auditor. In contrast, research in Sweden by Svanström (2013) suggests that the provision of non-audit services has a beneficial impact on audit quality and that there is also a beneficial 'spill over' of information when non-audit services are carried out.

Exploring further the question of low-balling and non-audit fees, there are two opposing views as to who exactly an auditor is obligated (Romero, 2010). One view is that the client is the only one to whom the auditors are obligated to and another view is that the auditors should act with probity and integrity on behalf of all stakeholders and society in general (Romero, 2010). American research appears to confirm this concern, as Fatemi (2013) points out in his analysis. Fatemi (2013) reveals that as auditors are employed by the client, as opposed to the investor, there is a higher propensity to issue opinions and asset valuations favourable to the client, especially in situations where low-balling prevails. According to Desir et al. (2014), the evidence in the US suggests that in the years prior to the introduction of the SOX, low-balling was practiced extensively; however, the indications are that post SOX, the practice of low-balling has been discontinued by both Big 4 and non-Big 4 firms with some audit firms even charging new clients a premium.

The conclusion to be drawn is that following the introduction of MAFR, neither auditor independence, nor audit quality will be affected by offering non-audit services; however, it does appear that MAFR would have a positive effect in reducing the incidence of low-balling.

Apart from low-balling, concerns have been raised over the *appearance* of improved audit quality versus *actual* audit quality improvement following the introduction of MAFR. These concerns will be addressed in the following section.

2.4 Appearance of improvement in audit quality as a result of rotation

Audit quality is another primary concern of the EU so therefore, there is a need to examine the effect of MAR on audit quality. In order to do so, this segment will provide an interpretation of the experiences from other jurisdictions. Audit quality implies a situation where an auditor has the ability and is willing “to detect and report on the existing material misstatements” (Mostafa Mohamed and Hussien Habib, 2013, p.1).

DeFond and Francis (2005) point out that, in percentage terms, the total level of proven audit failures in the US is small, even allowing for the number of high-cost publicised cases like Enron. In agreeing with this statement, a study by Chan, Farrell and Healy (2014) found a notable level of quality in the audit work of the major firms and that the bulk of audit adjustments are made by the auditing firms themselves, which shows a high degree of audit quality. It was found in a study of all available empirical evidence on the benefits to investors of MAFR that there is no real gain to be had when the extra costs involved are taken into account (Daugherty, Dickins, Higgs and Tatum, 2013). They make the point that as there is no change in the duties or skills required to undertake the audit, there is unlikely to be any improvement in the audit quality as a result of MAFR (Daugherty et al., 2013). In agreeing with this view, Lennox, Wu and Zhang (2014) report that some countries, for example, Australia, Germany, the UK, the US and the Netherlands do not operate a MAFR policy, although they do operate MAPR. This raises the question that if only the audit partner is rotated but all the other audit tests and practices remain the same, how could audit quality be improved? (Lennox et al., 2014). King, Davis and Mintchik (2012), report that it is the view of the PCAOB that the publication of the name of the audit partner will result in improved audit quality.

Arising from this assertion, King et al. (2012) considered the distinction between the appearance of audit quality and actual audit quality and raised the question as to whether the publication of the lead auditor's name would improve the quality of the audit. From their research, they proclaim that the evidence suggests that disclosure of the lead auditor's name will ensure greater endeavour but that there was no evidence that quality of the audit would be improved (King et al., 2012). Earlier evidence discovered in the US by Gates, Jordan Lowe and Reckers (2007) found that in situations in which there are strong corporate governance controls in place, the confidence of the public is strengthened in circumstances where there is MAFR but that public confidence is not increased with MAPR. This is an interesting observation and might be explained by the public's perception of government controls on corporations being more effective than on individuals.

King et al. (2012) point to the difficulty of assessing audit quality in situations where there is no external independent evaluation of the audit. However, Lennox et al. (2014) suggest that the results of their research indicate higher quality audits before and immediately following mandatory audit rotation. This higher quality, during the rotation change-over period, is explained by Lennox et al.(2014) as resulting from the existing auditor not wishing the incoming auditor to discover any mistakes made by the existing auditor and s/he will therefore be more careful and will tend to be more cautious in making accrual estimates. According to research conducted by Blandȯn and Bosch (2013b), the longer the client-auditor relationship, the lower the probability of a qualified report being issued and therefore the lower the quality of the audit. Blandȯn and Bosch (2013b) give two conflicting interpretations as to the reason for this. On the one hand this could be because of the apathetic attitude of the auditor towards audit practices and management decisions as a result of long-term familiarity (Blandȯn and Bosch, 2013b). On the other hand it may be because of the accumulated experience of the auditor due to his/her long-term relationship with the same client (Blandȯn and Bosch, 2013b).

One of the reasons for the current debate on MAFR in the US is the possible loss of objectivity due to long-term relationships and familiarity between auditors and their clients (Bates et al., 2012). Bates et al. (2012) report that six of the largest corporations in the US have had the same audit firm for more than a hundred years and that in Germany more than 50% of the firms have not changed auditors in over twenty years. In Ireland, the ESB announced in 2015 that they have retained KPMG as company auditors for the 89th year in succession (Flanagan, 2015).

The evidence reviewed in this section suggests that the only real consequences for audit quality as a result of MAFR occurs in the period immediately before and following change-over when audit quality improves, and secondly that public confidence is increased in situations where MAFR is adopted but does not improve following the imposition of MAPR. Turning now to the costs involved with MAFR, which the following section will indicate includes not only financial costs, but opportunity costs as well.

2.5 The costs of mandatory audit-firm rotation

It is important to consider the costs involved in adopting MAFR, as consideration has to be given to the extra costs involved when performing a cost benefit analysis. MAFR may well result in the various clients of auditors, and ultimately the shareholders, bearing the additional costs without gaining any worthwhile benefits, or worse, they might perceive extra benefits in the form of an improvement in auditor independence and audit quality, which may not exist.

Apart from the costs of changing auditors, estimated to be 20% of audit costs, there is also the loss of choice when switching firms (Bates et al., 2012). Bates et al. (2012) believe that, from a public perception point of view, audit firms ought to be rotated every 12, 15, or 20 years, though this should not be done for any perceived benefits of increased quality. In an interview in the Irish Independent, Shaun Murphy, the chief executive of Irish auditing firm KPMG, whilst not being specific, is quoted as saying that MAFR will “cost a fortune” and "there are estimates that run into the billions" as a result of the new regulation (Murphy cited in McCabe, 2014,p.1). Aside from monetary costs and the reduction in choice there is the cost of the loss of client-specific knowledge. Professor Mervyn King, a leading authority on corporate governance (cited in Accountancy SA, 2014, p.19) strongly disagrees with MAFR, saying that "it takes years for an auditor to understand a business" and the auditor-rotating tendering process takes time, with further time lost while management educate the new auditors. Monroe and Hossain (2013, p.264) agree with King, stating that "increased client-specific knowledge provides a comparative advantage in detecting material misstatements in financial reports" but, on the other hand, they say that experience or "learned confidence" can lead to complacency as regards the conduct of an audit, with a possible reduction in audit quality.

Jenkins and Vermeer (2013) identified two distinct characteristics in the client-auditor relationship, the 'auditor learning' aspect and the 'auditor closeness' aspect. According to Stringer (2011, p.2), auditor closeness "contributes to knowledge-sharing and is critical to the audit process". Stringer (2011) elaborated by stating that auditor closeness created an environment in which the client would feel comfortably free to divulge information and to discuss the prevailing issues and problems. Earlier research conducted by Boone, Khurana and Raman (2008, p.138) concluded that the relationship between "audit firm tenure and audit quality is potentially nonlinear"; however, they found no conclusive indication of the optimum period of audit tenure after which the auditor/client "closeness" begins to impact negatively on the audit quality.

Research in the US by Lim and Tan (2010) indicated that there are advantages to MAR but those advantages are dependent on the auditor's industry-specific experience and on the auditor's dependence on the fee. Auditors engaged in specific industries would tend to increase their skill levels by rotating within the industry and an auditor with a large industry-specific client base will not want to jeopardise his/her reputation in the industry by being compromised by any individual client and will therefore be more independent (Lim and Tan, 2010). However, a later study in the US conducted by Minutti-Meza (2013) found that an auditor's industry-specific experience is not necessarily a dependable guide to audit quality and that there is no evidence that industry-specific experience improves audit quality. In contrast, a study by Harandi and Khanagha (2013) found that the level of the quality of disclosure had a linear relationship with industry-specific auditor experience when they examined the levels of disclosure of listed companies on the Tehran Stock Exchange.

From the articles reviewed, there appears to be a majority view that following the introduction of MAFR, the loss of client-specific knowledge will have a major negative impact on audit quality and will add to the cost of an audit without any appreciable gain. Some countries have adopted MAFR whereas other countries have adopted MAPR and as a guide to deciding on whether MAFR will prove effective in Ireland, the following section will examine the academic reviews of the experiences of MAR in those countries.

2.6 The experiences of mandatory auditor rotation in other countries

Countries like the US and Australia have adopted MAPR whereas MAFR was ratified in Spain and this section will provide a study of the different experiences prevailing in those countries following adoption. The purpose of this section will be to decide if MAPR would be a more effective choice for Ireland.

During the period 1988-1995 audit-firm rotation every nine years was mandatory in Spain (Carrera, Gómez-Aguilar, Humphrey and Ruiz-Barbadillo, 2007; Ruiz-Barbadillo et al., 2009). Research conducted by Ruiz-Barbadillo et al. (2009) found no indication that 'going-concern modified opinions' were more likely to be issued during the period when audit-firm rotation was mandatory. During their research they discovered that auditor motivation to preserve their current clients did not have a bearing on their judgements during either the mandatory rotation or post-mandatory rotation periods (Ruiz-Barbadillo et al., 2009). In addition they found no evidence that MAFR reduces the effect of the auditor's financial reliance on the audit fee (Ruiz-Barbadillo et al., 2009). In agreeing with these conclusions, Barnes and Renart (2013) discovered from their research that auditors in Spain had a tendency to qualify their audit reports, impervious to any bargaining power of the client. Indeed Barnes and Renart (2013) learned that auditors took greater interest in protecting their reputation in the post-mandatory period in Spain as a result of auditors viewing the audit as being more valuable due to the saving on switching-costs, as would be the case with MAFR.

Skinner and Srinivasan (2012, p.1738) outlined two guiding influences on auditors' incentives to deliver quality- "a litigation/insurance incentive and a reputation incentive". The reputation incentive element was borne out following the two month suspension imposed by the Japanese Financial Services Agency on the PwC associated audit firm ChuoAoyama over its implication in the fraudulent activities of one of its clients, Kanebo, in 2006 (Skinner and Srinivasan, 2012). Following this unparalleled blow, up to 25% of ChuoAoyama's client base, both large and small, deserted the firm, forcing PwC to rebrand itself in Japan as PriceWaterhouseCoopersAarata (Skinner and Srinivasan, 2012).

In a very strange and unusual case, Callaway, the NYSC traded company, changed its auditors three times in one fiscal year, amid concerns over auditor independence, (Hunt, Reed and Sierra, 2011). The first change in 2002 arose voluntarily when PwC were dismissed in an effort by Callaway to reinforce its corporate governance (Hunt et al., 2011). PwC were replaced by Arthur Andersen who were themselves then dismissed amid concerns about their independence following the Enron affair. Andersen were replaced by KPMG who were subsequently dismissed over a dispute with management relating to the accounting treatment of warranty liability (Hunt et al., 2011). Interestingly, the Callaway case involved three of the Big-Five audit firms, as they were then known. A report produced in 2006 by Oxera, on behalf of the Department of Trade and Industry in the UK revealed the dominance of the Big-Four auditing firms, KPMG, PwC, Ernst & Young and Deloitte in the UK audit market, reporting that between them they audit 99% of the FTSC 100 top companies (Oxera, 2006). This report led to the Financial Services Authority expressing the view that "there is a real danger that the market for auditing large companies could ossify with companies realistically unable to change their auditors" (FSA cited in Smith, 2006, p.5). This no doubt influenced the EU in its decision to restrict 'Big-Four Only' audits of large enterprises (Council Regulation No 537/2014 EU).

Castellano (2002, p.37) reported that following the collapse of Enron, the American Institute of Certified Accountants stated that it "takes seriously its public responsibility and is committed to doing everything possible to restore confidence in the profession". This was a full six years prior to the collapse of Lehman Brothers in 2008. The role of accountants/advisors was also investigated in 2004 when the Australian Government, who were so alarmed by the role of auditors and advisors in the collapse of HIH Insurance, that they set up a Royal Commission to investigate (Mirshekary et al., 2004). A common feature of the collapse of HIH Insurance in Australia and Enron in the US was that they were both audited by the same auditing firm, Arthur Andersen (Devi et al, 2012).

In 2002, following the collapse of Enron and WorldCom, the US government passed SOX into law (DeFond and Francis, 2005). The main aim of the new law was to reduce audit failure by introducing stricter controls and regulations on the auditing profession (Tackett, 2004). SOX also included a regulation which prohibits corporations from engaging the same audit firm for both auditing and 'non-accounting consulting services' (Bates et al., 2012). Although, at the time, the US government did seriously consider incorporating MAFR in SOX, they instead chose to include five-year MAPR (Bates et al., 2012; Jenkins and Vermeer, 2013). The General Accounting Office in the United States decided to wait and see the effects of the SOX before considering the introduction of mandatory audit-firm rotation (Lim and Tan, 2010). There is a contention that the introduction in the US of MAPR every five years may have been motivated by 'political expediency' rather than any need for such regulation (DeFond and Francis, 2005).

The Corporations Act 2001, in Australia, introduced five-year MAPR and following the investigation into the collapse of HIM insurance the government there adopted the Corporate Law Economic Reform Program Act 2004 (CLERP) (Hossain, 2013). CLERP introduced "statutory changes to auditor independence requirements with the aim of improving auditor independence" (Clout, Chapple and Gandhi, 2013, p.91). Clout et al. (2013, p.91) report that following CLERP "auditing standards have become statutory-based and not merely professional based" and as a result found that shareholder rewards were improved. Agreeing with Clout et al. (2013), Hossain (2013, p.247) examined the effects of these regulations and found a marked improvement in that while auditors had a "propensity to issue going-concern opinion for a financially distressed company" in the period before the introduction of CLERP, they were less inclined to do so following the introduction of the new regulations.

In a study of the damaged status of auditing and of the independence of auditors in Libya Hamuda and Sawan (2014) discovered a great deal of dissatisfaction that the amount of the non-audit fees is not disclosed separately from the audit fees in the financial reports of each client. Libya is unusual in that a separate body, the Libyan Association of Accountants and Auditors (LAAA) allocates clients to auditing firms and this, together with the extraordinary rule of conducting audits according to local standards and practices as opposed to international accepted standards, is seen as a barrier to international audit firms practicing in Libya, thereby reducing competition (Hamuda and Sawan, 2014). Their report suggests that having audits conducted according to international standards "would improve the perception of auditor independence" (Hamuda and Sawan, 2014, p.124).

As an alternative approach to improving auditor independence Romero (2010) suggested that rather than the appointment being made by the owners of a company, auditors should be appointed by an independent outside body such as the Stock Exchange or a Public Oversight Board. Stock exchanges would have a vested interest in acting as intermediary insofar as stock prices are invariably negatively affected following the disclosure of a fraud (Romero 2010). This is something akin to the practice by the LAAA who interpose themselves between audit firm and client in the appointment of auditors (Hamuda and Sawan, 2014). If the client employs and finances the auditor then the client can be selective in deciding on the auditor who is the most likely to yield to the client's wishes in term of the audit report (Romero 2010).

In India, Murthy and Gupta (2013) suggest 'dual audit' as an unconventional approach where both auditors would be independent of each other and would be appointed by statutory instrument. According to Murthy and Gupta (2013) the general public's trust in the financial accounts would increase and auditor independence would be enhanced when dual auditing is practiced. Whereas in Denmark and France 'joint-audits' are carried out, i.e. both auditors contribute to the same audit and produce one audit report, in China dual audits are practiced, which means that the auditors, independently of each other, conduct two separate audits and produce two separate audit reports (Lin, Lin, and Yen, 2014). The results of their research into the benefits of dual audits indicate that "auditors become more conservative and allow less income increasing earnings management" (Lin, et al., 2014, p.81). Zerni, Haapamäki, Järvinen and Niemi, (2012,p.757) conducted a study of firms voluntarily engaging dual auditors in Sweden and found "a higher degree of earnings conservatism, lower abnormal accruals, and better credit ratings" giving rise to better audit quality.

While the introduction of MAFR by the European Commission is at odds with other jurisdictions, most notably the US, there is an acknowledgement of the need for global acceptance of international accounting standards. The European

Commission, as far back as 2002, recognised the need for convergence within Europe of the standards used in the preparation of financial statements of listed companies, including banks and insurance companies, and noted its importance in achieving the 'competitiveness of Community capital markets' (Council Regulation No 1606/2002 EU). Given the global nature of business today, Frazer (2010) suggests that the time has come for a single set of global international auditing standards. The audit of multi-national companies requires a transnational global opinion to be formed during the audit and not having a uniform set of international standards hinders that process, (Frazer, 2010). There is a danger of confusion, loss of quality, and the possibility of non-compliance when the audit team of a single client is operating to different standards in different jurisdictions, (Frazer, 2010). In a similar vein, Stringer (2011) makes the point that MAFR would 'impose an international impossibility on multi-national companies' operating in countries that do not operate a system of MAFR.

To summarise, the results of different studies on the effects of MAFR in Spain indicate that the regulations made very little impact on audit quality and it was noted that MAFR was abandoned after seven years. Following a long process of consultation in the wake of various financial scandals in the US and Australia both countries elected to introduce MAPR in preference to MAFR.

Finally, having considered the experiences in other countries, the subsequent section will examine the situation in Ireland leading up to the decision to introduce MAFR. This section will also review the reaction of the accounting profession in Ireland to the introduction MAFR.

2.7 Background to the introduction of audit-firm rotation in Ireland

This section will give a brief outline of the prevailing situation in Ireland in the lead-up to the introduction of MAFR and gives an indication as to why there may be concerns that MAFR may not solve the issue of auditor independence. Also reviewed in the section will be the accounting bodies' attempts at improved self-regulation and their response to the introduction of MAFR.

The American government's reaction to the collapse of Enron was the introduction of SOX and five year MAPR, whilst in Australia the government also adopted five year MAPR. In Ireland the government enacted the Company Law

Enforcement Act 2001 and the Companies (Auditing & Accounting) Act 2003 although the introduction of these two pieces of legislation was driven not by the Enron or HIH affairs but by events in Ireland in the latter half of the 1990's (Heneghan and O'Donnell, 2007). These events in Ireland included several media reports concerning the use of 'bogus non-resident accounts' by banks (O'Regan, 2010) and the public disquiet following the publication of the reports of different government tribunals, including the Beef Tribunal in 1994 (Heneghan and O'Donnell, 2007). The Company Law Enforcement Act 2001 empowered the Office of the Director of Corporate Enforcement (ODCE) and the Companies (Auditing & Accounting) Act 2003 spawned the Irish Auditing and Accounting Supervisory Authority (IAASA) (Heneghan and O'Donnell, 2007). The creation of the IASSA represented the first time that the various accounting bodies in Ireland became answerable to a supervisory authority (Heneghan and O'Donnell, 2007).

The duties of the IAASA include, *inter alia,* "the supervision of how the prescribed accountancy bodies regulate and monitor their members; and the promotion of adherence to high professional standards in the auditing and accountancy profession," (IAASA, 2003). The Institute of Chartered Accountants in Ireland (ICAI) was bitterly opposed to the creation of the IAASA and wanted to retain self-regulation with their CEO, Brian Walsh, arguing that "self-regulation is both in the public interest and in members' interest" (Walsh, cited in O'Regan, 2010, p.309). Nonetheless, the ODCE was authorised to sit on the board of the IAASA and the Companies (Auditing & Accounting) Act 2003 imposed a limit of four accountants being entitled to sit on the board at any one time (Heneghan and O'Donnell, 2007). O'Regan (2010) noted that the ICAI were very unhappy with the low representation of accountants on the IASSA, suggesting that the public interest would not be served by the inadequate level of 'expertise'

In an effort to improve its disciplinary and regulatory operations, the ICAI established an independent Chartered Accountants Regulatory Board (CARB) in 2007 (Chartered Accountants Ireland, 2015). The former Chief Executive of the Financial Regulator in Ireland, Dr Liam O'Reilly, was appointed inaugural Chairman of CARB (Chartered Accountants Ireland, 2015). However, it subsequently transpired that Dr O'Reilly was functioning as a director of Merrill Lynch International Bank, which suffered a financial penalty of €2.75 million in 2009 as a result of serious financial irregularities, which cost the bank €306 million (Webb, 2009). According to CARB (2015), their role is to accept responsibility 'for developing Standards of Professional Conduct and supervising the compliance of members, member firms and students'. In his newspaper column Ross (2011) reported that CARB was fined a record €110,000 by IAASA in 2011 for the third in a series of serious violations and blatant disregard of its own rules during a period of eight months. Following the establishment of a prima facie case against four members of ICAI by Mr. John Purcell, an independent Special Investigator, CARB initiated Disciplinary Tribunals against all four, the first of which related to the case against Mr. Seán Fitzpatrick of Anglo Irish Bank (CARB, 2011). Ernst and Young (E&Y) were the auditors in the case of Anglo Irish Bank and according to the Special Investigator they "had failed to detect the scale of Seán Fitzpatrick's loans and their systematic refinancing over year ends" (Purcell, cited in Ross, 2011). Simon Carswell, in his book *Anglo Republic: Inside the bank that broke Ireland (2011)*, recorded that Seán Fitzpatrick had loans amounting to €4.2m in 2000 rising to €122m in 2007 and noted that:

> "These figures were not reflected in Anglo's annual reports because of the movement of the loans to Irish Nationwide for a few days over the bank's year-end" (Carswell, 2011, p.246).

Carswell (2011) detailed how the Financial Regulator became aware of these 'bed and breakfast' loans in 2008 and, following the provision of legal advice by solicitors Matheson Ormsby Prentice that the loans were legal, decided not to pursue the matter.

The findings in this section would indicate that self-regulation of the auditing profession is not working and that there is a need for some form of increased mandatory regulation, although it is not clear if MAFR is the proper course to take. A disappointing finding is that, in spite of the actions of some banks and auditors, no regulations were proposed in relation to mandatory same audit year-end dates for all banks and financial institutions, which might potentially help prevent the switching of irregular loans between banks over their different year-end dates, as happened in the Anglo case, and might also provide clarity on inter-bank loan transactions.

Summary of literature review

MAFR auditor rotation with be introduced in Ireland on the 17th of June 2016. Limitations will also be imposed on acting as both auditor and non-accounting consultant to the same client. These new regulations were established in order to enhance auditor independence and to improve audit quality. The regulations were driven, in part, by the discreditable auditing behaviour in various accounting and financial institutions in Australia, the US and Ireland, amongst other countries. However, in both Australia and the US, MAPR was introduced in preference to MAFR. While there are advantages and disadvantages to MAFR, there is no clear predominant view arising from the research in this thesis that MAFR will prove effective in Ireland. That said, the evidence suggests a need for some form of increased regulation of the auditing profession in Ireland. A disappointing feature of the research is that no evidence was found of research on mandatory same audit year-end dates for all banks and financial institutions.

Chapter 3 Research Questions, Objective and Hypotheses

3.1 Research Objective

The primary objective of this study is to establish whether or not the proposed MAFR will lead to increased auditor independence and consequently, result in an improvement in the quality of audits in Ireland. Audit quality depends to a large extent on the independence of the auditor and implies a situation where an auditor has the ability and is willing “to detect, and report on, the existing material misstatements” (Mostafa Mohamed and Hussien Habib, 2013, p.1). The expectation is that the objective of the research will be achieved by analysing three overlapping general themes as follows:

1. The first question has been designed to establish if there is a need to be concerned that MAFR may give the appearance of increased auditor independence but may not, in fact, result in any discernible improvement in auditor independence and might even undermine the professional level of auditor scepticism and objectivity, and possibly lead to inferior audit quality.

H1 (a): Mandatory *audit-firm* rotation will result in higher audit *quality.*

H1 (b): Mandatory *audit-firm* rotation improves the independence of the auditor.

H1 (c): Mandatory *audit-firm* rotation will result in higher audit *effort.*

H1 (d): *Audit-firm* rotation reduces the likelihood of inappropriate attachment.

2. The purpose of the second question is to assess if the extra costs involved with MAFR are justified in the form of actual increased audit quality. Costs in this instance are not restricted to monetary expenses but include the loss of the cumulative knowledge and experience of unrestricted audit tenure.

H2 (a): Client-specific knowledge is lost due to *audit-firm* rotation.

H2 (b): When *audit firms* are required to gain new client-specific knowledge, audit quality declines.

H2 (c): The higher the fee dependence, the lower the audit quality.

H2 (d): The higher the fee dependence, the lower the audit quality, even with MAPR.

3. Question three is aimed at establishing if *audit-partner* rotation as opposed to *audit-firm* rotation would be more beneficial in terms of audit quality and provide greater flexibility to shareholders/directors in the appointment of auditors.

H3 (a): Mandatory *audit-partner* rotation will result in higher audit *quality.*

H3 (b): Mandatory *audit-partner* rotation will result in higher audit *effort.*

H3 (c): The longer the *audit partner's* tenure, the more complacent s/he will be.

H3 (d): The longer the *audit partner's* tenure, the less sceptical s/he will become.

H3 (e): *Audit-partner* rotation improves the impression of independence given by the audit partner.

Chapter 4 Methodology

4.1 Participants

The population is composed of all qualified accountants resident in Ireland and in countries where MAR was considered and/or introduced. According to the IAASA there were 33,706 members of a Prescribed Accountancy Body (PAB) resident in Ireland on the 31st of December 2014 (IAASA, 2015). A PAB is an accounting body that is subject to the control of the IAASA, of which there are nine in Ireland (IAASA, 2015) (see table 1).

Table 1: Prescribed Accountancy Bodies in Ireland on the 31st of December 2014.

Association of Chartered Certified Accountants
Association of International Accountants
Chartered Institute of Management Accountants
Chartered Institute of Public Finance and Accountancy
Institute of Chartered Accountants in England and Wales
Institute of Chartered Accountants in Ireland
Institute of Chartered Accountants in Scotland
Institute of Certified Public Accountants in Ireland
Institute of Incorporated Public Accountants

(IAASA, 2015)

According to the IAASA (2015), the highest proportion of PAB members, 62%, were engaged in business while 24% were working in practice, with the remainder in the public service, retired or in other occupations. Females accounted for 42% of the membership of PAB with the proportion of males standing at 58% (IAASA, 2015). There were 301,846 accountants residing in the UK who were members of one of the seven recognised accountancy bodies in the UK as of the 31st of December 2014 (Financial Reporting Council, 2015). In the US 1.2 million accountants were resident there in 2012, according to the US Dept. of Labor (Bureau of Labor Statistics, 2014). In Australia 18,900 qualified accountants were recorded as resident in the country in May 2014 (Australian Government Department of Employment, 2014). According to the Ministry of Business, Innovation and Employment (cited in Careers New Zealand, 2014) 31,225 accountants were registered in New Zealand in 2014. Communication difficulties and incomplete information on the contact details of accountants in other countries meant that the survey distribution spread was limited; therefore, an opportunistic non-probability sample was used to target the participants.

4.2 Data collection procedure

The email addresses of the participants were obtained from the websites of auditing and accounting firms located in Ireland, England, the US, Australia and New Zealand. Each participant was sent a personalised email which briefly outlined the purpose of the email and requested his or her participation in the survey. LimeSurvey’s free open source software survey tool was used to collect the data (LimeSurvey, 2015). Included in the email sent to all the participants was a link to the online survey. When accessed, the participants were greeted with a short welcoming statement which explained the reason for the research, the purpose of it and the thesis title. Also included here was a brief description of the student’s status, a note confirming that all replies were confidential and that email replies could not be traced back to the individual respondent. At the end of the survey was a short note thanking the participants for completing the survey and stressing how important their participation was in getting an overall view of accountants’ opinions on various aspects of MAR. Because the information was gathered by email, respondents were free to present their own thoughts on the subject.

In total 192 online personalised questionnaires were distributed, of which 79 were returned and this represented a return of 41%. However, 7 questionnaires were returned incomplete and were disregarded. Of the 72 completed questionaires returned, 15 respondents were female with the remaining 57 being male. A study of the post qualification experience of the 72 respondents indicates that 7 of them [10%] have less than five years' experience and 15 of them [21%] have between five and ten years' experience. The remaining fifty [69%] have more than ten years' experience. Table 2 gives an age profile of the 72 respondents and Table 3 illustrates the level of experience of all respondents.

Table 2: Age profile of respondents according to their gender

Number in their:	*Twenties*	*Thirties*	*Forties*	*Fifties*	*Sixties*	*Seventies*
Females	0	10	4	1	0	0
Males	1	26	8	11	9	2

Table 3: Analysis of the post qualification experience of the respondents:

Years qualified	*Numbers of respondents*	*Females*	*Males*
Less than 5 years	7	3	4
Between 5 and 10 years	15	4	11
Between 10 and 15 years	15	3	12
Between 15 and 20 years	6	1	5
Between 20 and 25 years	7	3	4
Between 25 and 30 years	8	1	7
Between 30 and 35 years	6	0	6
Between 35 and 40 years	6	0	6
Between 40 and 45 years	2	0	2

4.3 Measures used

There are three basic research methods: qualitative, quantitative, and a mixture of both qualitative and quantitative. In describing the difference between qualitative and quantitative research, Saunders, Lewis and Thornhill (2012) suggest that qualitative research refers to the gathering and study of non-numeric data such as words, images or similar, whereas quantitative research involves using numbers or numeric data. The main advantage with qualitative research is that it has the potential to provide very detailed and rich information; however, the disadvantage is that it can be very time-consuming and costly, and there may be difficulties in getting participants to cooperate. One of the main disadvantages with quantitative research is its inflexibility in that once questionnaires are distributed they cannot be changed. The major advantage of quantitative research is that it facilitates the targeting of a broad and geographically dispersed population (Saunders et al., 2012). It was for this reason that the quantitative method was chosen for this research.

The survey instrument itself was largely based on a similar research instrument compiled in Egypt by Anis (2014), although some of the questions were adapted to suit Irish conditions. In all, thirteen questions were included in the survey and, similar to Anis (2014), all participants were requested to indicate their preference to each of the questions by using a Likert 5-point scale ranging from Strongly Disagree to Strongly Agree. The survey included the three main dependent questions and seven sub-questions with three further independent questions designed to gather information on the participants' gender, age and their level of post qualification experience. By virtue of the fact that the survey instrument was distributed by email, the respondents were free to give their own views in a qualitative manner by return email.

The actual participation by the respondents was taken as proof of their willingness to participate in the survey. It was felt that the ethical risks in conducting the survey were almost non-existent as the respondents' identity or that of their employer is not identifiable. Nonetheless, a completed ethics form was submitted to the Ethics Committee in order to comply with college policy.

As the survey involved using a Likert 5-point scale it was deemed necessary to test the reliability of the measurement scales used; however, as the scales used were already tested for validity and reliability in the study by Anis (2014), upon which this study is based, it was felt unnecessary to test them again.

4.4 Analysis

The three most relevant questions are as follows:

Question 1: Mandatory audit firm rotation will result in higher audit quality

Question 2: Client-specific knowledge is lost by auditor rotation

Question 3: Audit partner rotation will result in higher quality

In order to address these questions, use was made of SPSS's analytic software package and the following analytical procedures were adopted. Initially, descriptive statistics were run on all the variables of interest in order to achieve an overview of the sample. In addition, all relevance samples were tested for normality in order to identify appropriate tests of difference whether parametric (t-test) or non-parametric (One sample t-test). All tests were at the 5% significance level. In the event all the questions were tested using a One-Sample Wilcoxon Signed Rank Test with a hypothesised median of 3. Whilst the parametric t-test provides both positive and negative numerical values of the responses, with the One-Sample Wilcoxon Signed Rank Test it is necessary to use the respective values of the mean and median to determine the positive or negative nature of the responses.

Chapter 5 Findings

5.1 Introduction

This section will report the findings of the research. The descriptive statistics will be discussed and following that, the details of the various tests conducted will be reported.

5.1.1 Question 1: Mandatory audit firm rotation will result in higher audit quality

5.1.2 Question 1: Descriptive Statistics

Illustrated in Table 4 are the key statistics: the Mean, the Median, the Mode and Standard Deviation. The frequency distribution curve is shown in the histogram (Figure 1). The full list of descriptive statistics is available in Appendix 2

Table 4: The views of all 72 respondents

Audit firm rotation will result in higher quality		
N	Valid	72
	Missing	7
Mean		3.14
Median		3.00
Mode		4
Std. Deviation		1.025

Figure 1: Histogram :The views of all 72 respondents

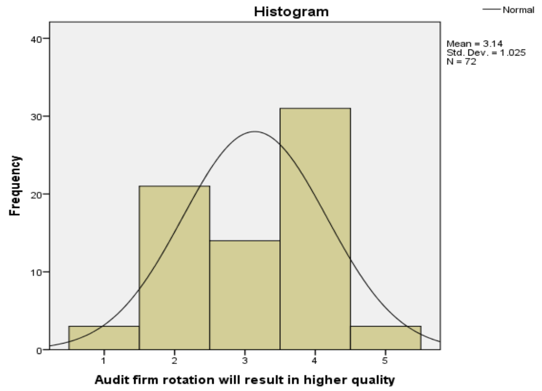


Figure 2: The views of female respondents

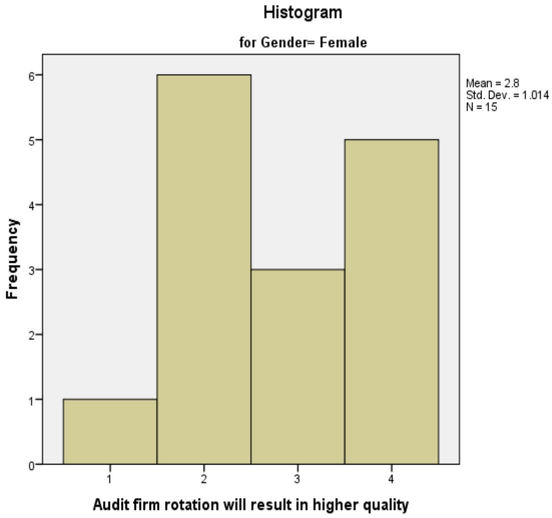


Figure 3 : The views of male respondents

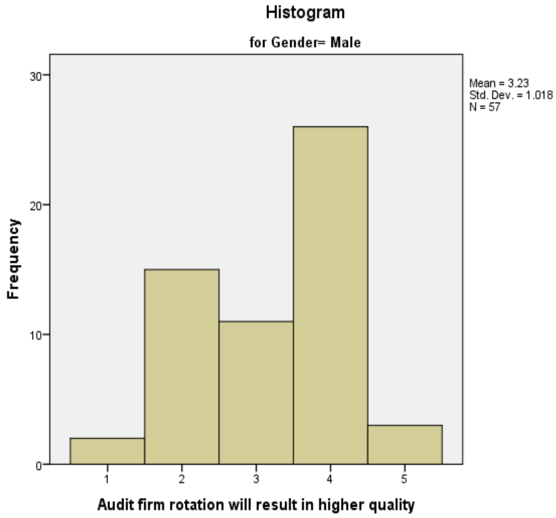


Figure 4: The views of those qualified 0-5 years

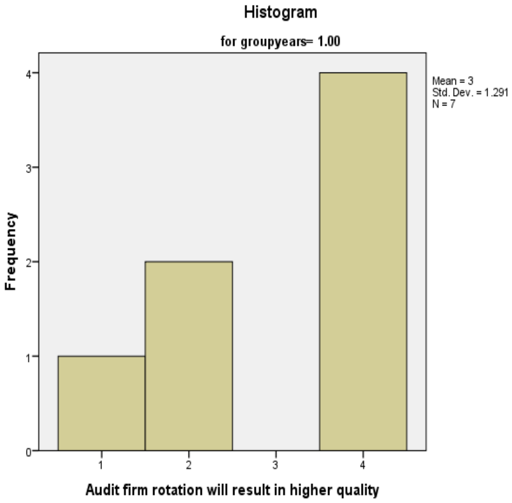


Figure 5 : The views of those qualified 5-10 years

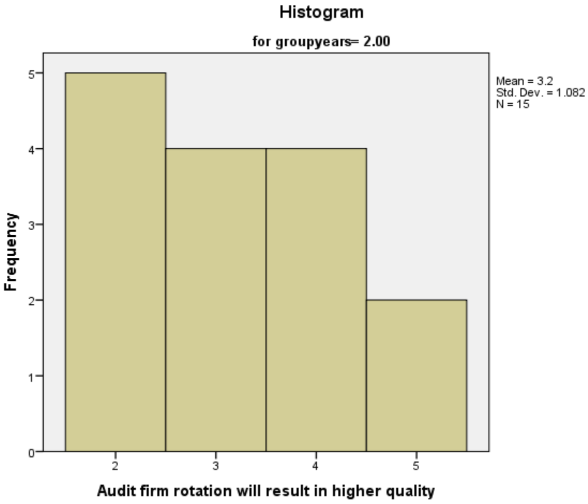
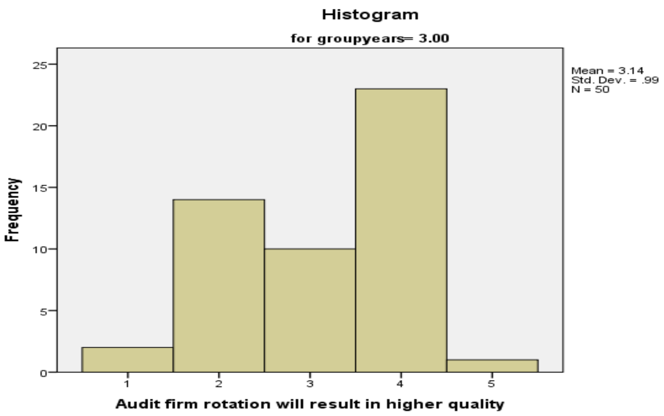


Figure 6: The views of those qualified for more than 10 years



5.1.3 Question 1: Results of tests for difference

The five categories shown in the histogram (Figure 1) represent the five Likert options from the questionnaire ranging from Strongly Disagree (4%), Disagree (29%), Neither Agree nor Disagree (20%), Agree (43%), and Strongly Agree (4%). The case processing results confirmed that the total participation in the survey was 79 with 72 [91%] valid responses and 7 [9%] invalid responses. An analysis of the 72 valid responses (Figures 2 and 3) reveals the divide of the choices between females and males as follows : (1) Strongly Disagree [7% female, 2% male] (2) Disagree [40% female, 26% male] (3) Neither Agree nor Disagree [20% female, 19% male] (4) Agree [33% female, 46% male] and (5) Strongly Agree [0% female,7% male].

An analysis of those respondents with less than 5 years post-qualification experience as displayed in Figure 4 reveals their preferences as follows: (1) Strongly Disagree [14%], (2) Disagree [29%], (3) Neither Agree nor Disagree [0%], (4) Agree [57%] and (5) Strongly Agree [0%].

The views of those with post-qualification experience of between 5 and 10 years are illustrated in Figure 5 and indicate the following: (1) Strongly Disagree [0%], (2) Disagree [33%], (3) Neither Agree nor Disagree [27%], (4) Agree [27%] and (5) Strongly Agree [13%].

Illustrated in Figure 6 are the views of those with post-qualification experience greater than 10 years and they are quantified as follows: (1) Strongly Disagree [3%], (2) Disagree [28%], (3) Neither Agree nor Disagree [22%], (4) Agree [46%] and (5)Strongly Agree [1%].

The tests of normality reveal a .000 significance level in the Shapiro-Wilks test. The Shapiro-Wilks test (Appendix 5) indicates the presence or absence of normality in the distribution and as the significance level is less than .05 it signals a significant deviation from normality. In the circumstances, a One Sample t-test is not the appropriate test but rather a nonparametric One-Sample Wilcoxon Signed Rank Test with a hypothesised median of 3 was used. Table 5 illustrates the findings of that test and indicate a significance level of .258, which obviously is greater that the significance level of .05 as set in the study. Therefore the decision is to retain the null hypothesis. In other words the respondents neither agree nor disagree with the statement that audit firm rotation will result in higher audit quality.

Table 5: Question1: One-Sample Wilcoxon Signed Rank Test

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of Audit firm rotation will result in higher quality equals 3.	One-Sample Wilcoxon Signed Rank Test	.258	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

5.1.4 Question 2: Client-specific knowledge is lost by auditor rotation

5.1.5 Question 2: Descriptive Statistics

Table 6 indicates the most relevant statistics i.e. the Mean, The Median, The Mode and Standard Deviation. The histogram (Figure 7) illustrates the frequency distribution curve. To preserve the conciseness of the report, the complete list of descriptive statistics is included in Appendix 3.

Table 6: The views of all 72 respondents

Statistics

Client-specific knowledge is lost by audit firm rotation

N	Valid	72
	Missing	7
Mean		3.86
Median		4.00
Mode		4
Std. Deviation		1.052

Figure 7: Histogram: The views of all 72 respondents

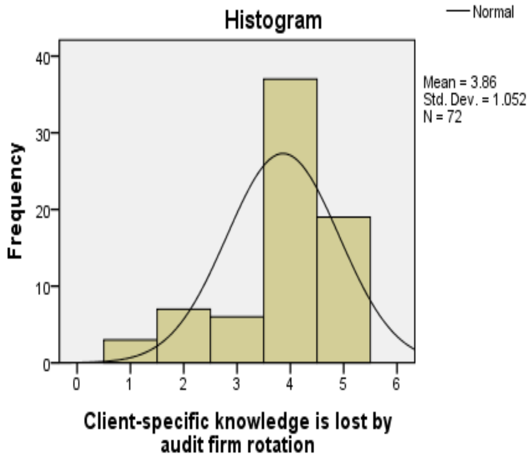


Figure 8: The views of females

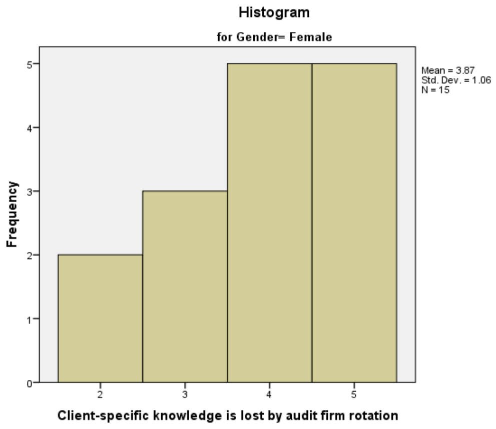


Figure 9: The views of males

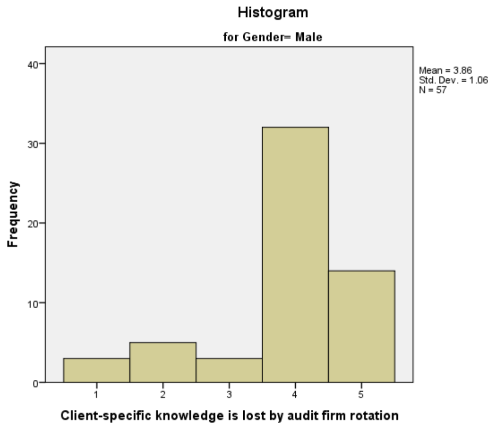


Figure 10: The views of those qualified 0-5 years

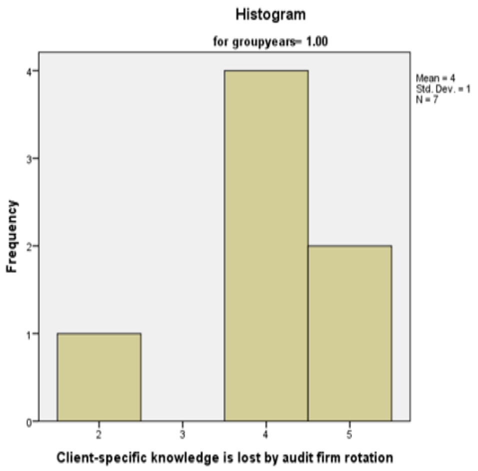


Figure 11: The views of those qualified between 5 -10 years

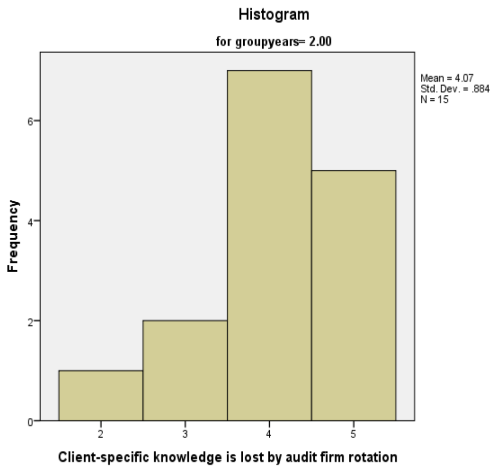
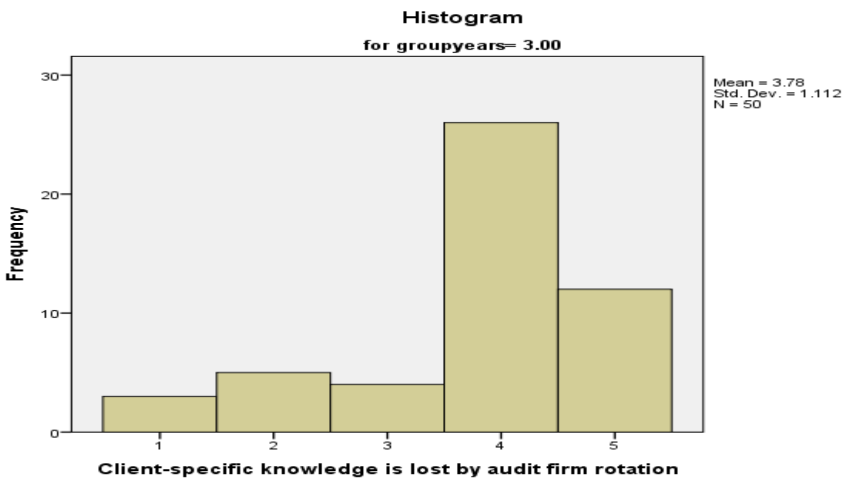


Figure 12: The views of those with more than 10 years' experience



5.1.6 Question 2: Results of tests for difference

The histogram (Figure 7) illustrates the responses of all 72 respondents as follows: (1) Strongly Disagree (4%), (2) Disagree (10%) (3) Neither Agree nor Disagree (8%) (4) Agree (51%) and (5) Strongly Agree (27%). The case processing results are similar to question number 1 with 72 (91%) valid responses and 7 (9%) invalid. Figures 8 and 9 indicates the individual views of females and males as follows: (1) Strongly Disagree [0% female, 5% male] (2) Disagree [14% female, 7% male] (3) Neither Agree nor Disagree [20% female, 5% male] (4) Agree [33% female, 57% male] and Strongly Agree [33% female, 26% male].

An analysis of their views on the loss of client-specific knowledge as a result of MAFR of those respondents with less than 5 years post-qualification experience is displayed in Figure 10 and reveals their preferences as follows: (1) Strongly Disagree [0%], (2) Disagree [14%], (3) Neither Agree nor Disagree [0%], (4) Agree [57%] and (5) Strongly Agree [29%].

Of those with post-qualification experience of between 5 and 10 years their views are illustrated in Figure 11 and indicate the following: (1) Strongly Disagree [0%], (2) Disagree [6%], (3) Neither Agree nor Disagree [14%], Agree [47%] and Strongly Agree [33%].

Illustrated in Figure 12 are the views of those with post-qualification experience greater than 10 years and they are quantified as follows: (1) Strongly Disagree [5%], (2) Disagree [10%], (3) Neither Agree nor Disagree [7%], (4) Agree [54%] and (5) Strongly Agree [26%].

A significant deviation was noted in the Shapiro-Wilks test (Appendix 6) with a test level of .000 which is considerably less than the .05 level adopted in this study. As in question 1, a nonparametric One-Sample Wilcoxon Signed Rank Test with a hypothesised median of 3 was used, with the findings displayed in Table 7. The result indicated a significance level of .000 which means the respondents reject the hypothesis. A study of the value of the mean, which shows a value of 3.86 which is greater than the hypothesised median of 3, and this coupled with a value of 4 for the median (Table 6) indicates a positive response. This result implies that the respondents believe that Client-specific knowledge is lost by audit firm rotation.

Table 7: Question2: One-Sample Wilcoxon Signed Rank Test

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of Client-specific knowledge is lost by audit firm rotation equals 3.	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

5.1.7 Question 3: Audit partner rotation will result in higher audit quality

5.1.8 Question 3: Descriptive Statistics

A full list of descriptive statistics is available in Appendix 4 however, the most important statistics, the Mean, The Median, The Mode and the Standard Deviation are noted in Table 8. The histogram (Figure 13) displays the frequency distribution curve.

Table 8: The views of all 72 respondents

Audit partner rotation will result in higher audit quality

N	Valid	72
	Missing	7
Mean		3.24
Median		3.00
Mode		4
Std. Deviation		.971

Figure 13 Histogram : the views of all 72 respondents

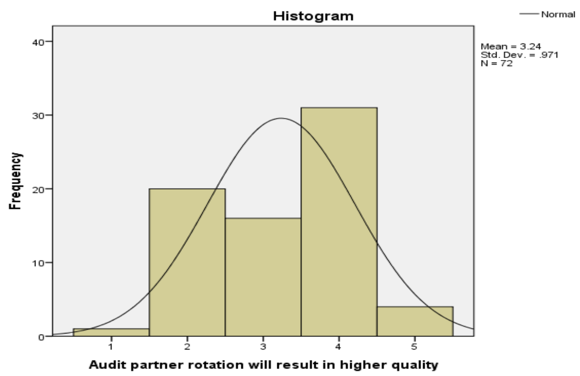


Figure 14: The views of females

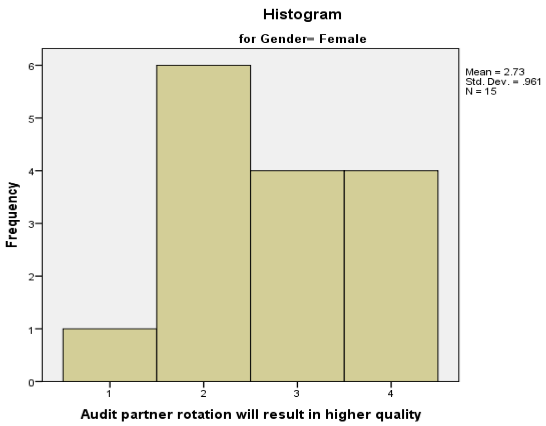


Figure 15: The views of males

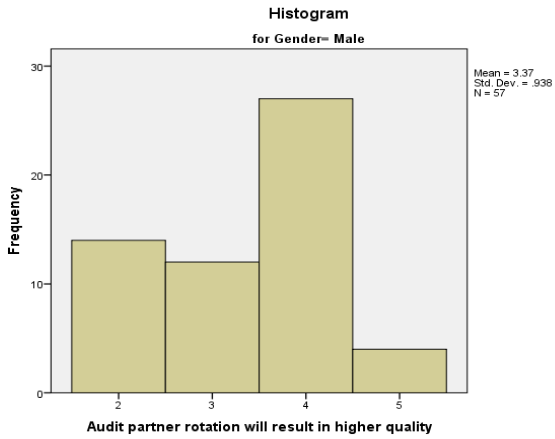


Figure 16: The views of those qualified 0-5 years

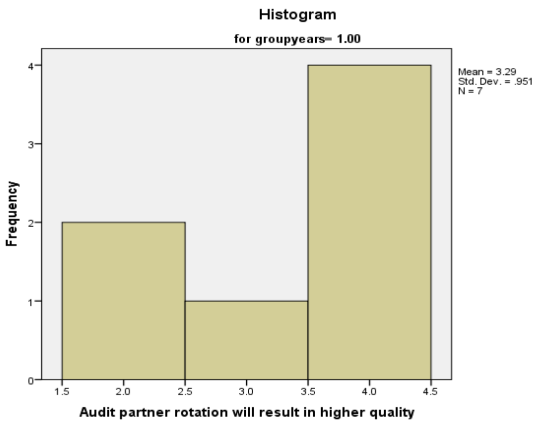


Figure 17: The views of those qualified between 5 -10 years

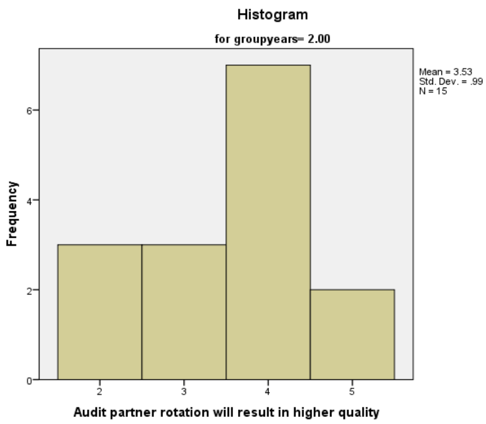
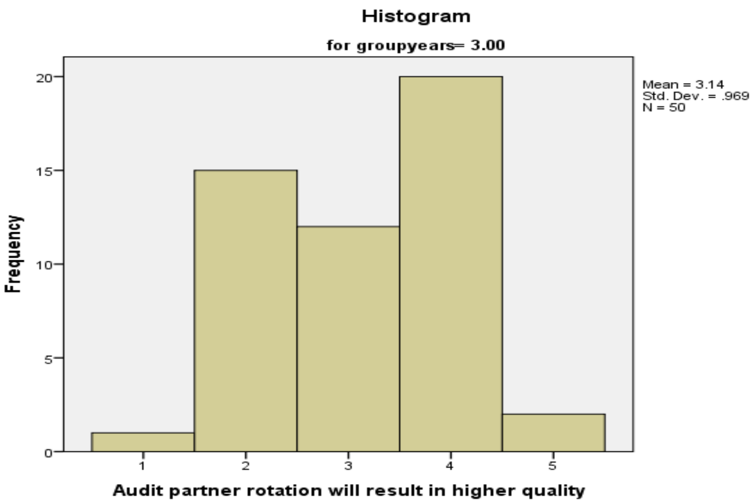


Figure 18: The views of those with more than 10 years' experience



5.1.9 Question 3: Results of tests for difference

The results of the survey are displayed in the histogram in Figure 13 as follows: 1. Strongly Disagree (1%), 2. Disagree (28%), 3. neither Disagree nor Agree (22%), 4. Agree (43%) and Strongly Agree (6%). As before there were 72 valid responses with 7 invalid replies. The valid responses as illustrated in Figure 14 (females) and Figure 15 (males) indicates the variance in the choices of both categories as follows: (1) Strongly Disagree [6% female, 0% male] (2) Disagree [40% female, 24% male] (3) Neither Agree nor Disagree [27% female, 21% male] (4) Agree [27% female, 48% male] Strongly Agree [0% female, 7% male].

An analysis of their views on the whether MAFR with result in higher quality by those respondents with less than 5 years post-qualification experience is displayed in Figure 16 and reveals their preferences as follows: (1) Strongly Disagree [0%], (2) Disagree [29%], (3) Neither Agree nor Disagree [14%], (4) Agree [57%] and (5) Strongly Agree [0%].

Of those with post-qualification experience of between 5 and 10 years their views are illustrated in Figure 17 and indicate the following: (1) Strongly Disagree [0%], (2) Disagree [20%], (3) Neither Agree nor Disagree [20%], Agree [47%] and Strongly Agree [13%].

Illustrated in Figure 18 are the views of those with post-qualification experience greater than 10 years and they are quantified as follows: (1) Strongly Disagree [2%], (2) Disagree [30%], (3) Neither Agree nor Disagree [24%], (4) Agree [40%] and (5) Strongly Agree [4%].

The normality test revealed a .000 significance level in the Shapiro-Wilks test (Appendix 7). This is well below the .05 significance level set in the study and indicates a significant deviation from normality. In a similar fashion to the previous two questions, a One-Sample Wilcoxon Signed Rank Test with a hypothesised median of 3 was used. The result of this test is displayed in Table 9 and indicates a significance level of .43 and a rejection of the null hypothesis. A study of the value of the mean, which shows a value of 3.24 which is greater than the hypothesised median of 3, and this coupled with a value of 3 for the median (Table 8) indicates a positive response. This result implies that the respondents believe that MAPR will result in higher audit quality.

Table 9: One-Sample Wilcoxon Signed Rank Test

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of Audit partner rotation will result in higher quality equals 3.	One-Sample Wilcoxon Signed Rank Test	.043	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

5.1.10 Sub-objectives

The remaining ten independent variables were also subjected to a One-Sample Wilcoxon Signed Rank Test with the results displayed in Table 10.

Table 10: One-Sample Wilcoxon Signed Rank Test Overall Results

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of Audit firm rotation will result in higher effort equals 3.	One-Sample Wilcoxon Signed Rank Test	.002	Reject the null hypothesis.
2	The median of Audit partner rotation will result in higher effort equals 3.	One-Sample Wilcoxon Signed Rank Test	.002	Reject the null hypothesis.
3	The median of The longer audit partner's tenure the more complacent s/he will be equals 3.	One-Sample Wilcoxon Signed Rank Test	.847	Retain the null hypothesis.
4	The median of The longer the audit tenure the less sceptical s/he will become equals 3.	One-Sample Wilcoxon Signed Rank Test	.093	Retain the null hypothesis.
5	The median of Audit quality declines when client specific knowledge is required equals 3.	One-Sample Wilcoxon Signed Rank Test	.005	Reject the null hypothesis.
6	The median of Audit firm rotation improves independence of auditor equals 3.	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.
7	The median of Audit partner gives impression of improved independence equals 3.	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.
8	The median of Audit firm rotation reduces prospect of inappropriate attachment equals 3.	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.
9	The median of The higher the fee dependence, the lower the quality equals 3.	One-Sample Wilcoxon Signed Rank Test	.001	Reject the null hypothesis.
10	The median of The higher the fee dependence,the lower quality,even with MAPR equals 3.	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

The remaining ten questions from the survey were tested for normality (Appendix 8) and analysed for positive and negative responses by using the individual mean and median for each one (Appendix 9), interestingly all but two of the ten results indicated a rejection of the null hypothesis. The respondents neither agreed nor disagreed with the question (number 3 in Table 10) '*The longer the audit partner's tenure the more complacent s/he will be'* or with the question *'The longer the audit tenure the less sceptical s/he will become'* (number 4 in Table 10), although the result of this question at .093 is very close to the .05 significance (rejection) level adopted in this study. Following the analysis the positive and negative indicators of the remaining 8 questions from Table 10 are as follows:

The first three questions had a negative response, in other words, the respondents do not agree with the hypotheses.

Question 5: Audit quality declines when client-specific knowledge is required

Question 9: The higher the fee dependence, the lower the audit quality

Question 10: The higher the fee dependence, the lower the audit quality, even with MAPR

The remaining five questions had a positive response, that is to say, the respondents agreed with the hypotheses.

Question 1: Audit firm rotation will result in higher effort

Question 2: Audit partner rotation will result in higher effort

Question 6: Audit firm rotation improves the independence of auditors

Question 7: Audit partner rotation gives impression of improved independence

Question 8: Audit firm rotation reduces the prospect of inappropriate attachment

5.2 Supplementary qualitative analysis

Two respondents gave written feedback in the form of an email as follows:

Respondent A (From Dublin) wrote:

“Just a note about auditors and independence. The position and the rotation of auditors is really relevant in large audits, Plcs and public and public funded companies. I would question the rotation in small non-public audits. There is a whole section in the audit packs about independence which is a load of crap. It is designed in a way to fit all companies large and small”.

Respondent B (From Guernsey) wrote:

“Incidentally we rotate listed audits here every 5 years between our Guernsey, Isle of Man and Jersey offices. My experience is the quality of the audit depends hugely on the audit partner concerned; the length of service has an almost imperceptible impact. Without naming names the audit quality goes up, then down then back up again as each rotation occurs. The authorities are focussing on 5% of the ‘problem’ and ignoring the other 95% and they would be better to concentrate on increasing individual partner quality in my opinion (e.g. partners should take and have to pass a technical exam every 5 years say)”.

Chapter 6 Discussion

6.1 Discussion

The aim of this study is to establish whether or not MAFR will prove effective in Ireland. The method used was to canvass the views of qualified accountants in Ireland and in countries where MAR, in its various guises, was introduced. Improved audit quality and loss of client-specific knowledge were used as proxies in deciding how effective MAFR would be. As well as that, views were sought on whether MAPR would be a more effective choice. In parallel, views were sought on the advantages and disadvantages of MAFR and MAPR. On the question of whether ‘Audit-firm rotation will result in higher quality’ the accountants surveyed were neutral, neither agreeing nor disagreeing. The accountants strongly agreed with the statement that ‘Client-specific knowledge is lost by audit-firm rotation' and they also agreed that 'Audit-partner rotation will result in higher quality'.

The result of the survey, that accountants had a neutral opinion on whether MAFR improves quality, is in line with the mixed views on the same topic as outlined in the literary review with some reviewers such as (Anis, 2014), reporting that professional auditors' perception was that audit quality deteriorated the longer the auditor engagement period. However, others, like Daugherty et al. (2013) suggest that that there is no real gain to be had by introducing MAFR when the extra costs are taken into account. Whilst acknowledging some improvement in audit quality following MAFR, it was found only to exist in the period immediately before and immediately following rotation (Lennox et al., 2014).

But in order to really establish if MAFR will prove effective in improving audit quality there is a need to examine the different elements that impact on that quality, for example, independence. It might be considered objective to view auditor independence as being possibly impaired as a result of long tenure. While this may be true with regard to advice on the client's strategic corporate issues, in terms of the quality of the audit report, there is already in place legislation and legally binding rules and regulations governing the preparation of such reports that would make it very unlikely that the reporting quality would be affected by long audit tenure. However, the evidence shows that the provision of non-audit services does impact negatively on auditor independence and the results of the survey for this study indicate that accountants view auditor rotation as reducing inappropriate attachment. Krauss and Zülch (2013) point to the bond created between the auditor and client and the possible impairment of audit quality when non-audit fees are involved. There are contrasting views in the literature on the spillover benefits in audit quality when non-audit services are provided by the same auditor/accountant. Perhaps the new EU regulation did not go far enough by not including a total ban on providing non-audit services rather than a limit of 70% of the previous three years non-audit fees. It might be desirable to have the role of auditor separated from that of non-audit consultant, as in the medical profession, where the general practitioner provides a service distinct from that of the specialist.

There is a degree of logic to the view that auditor rotation results in lost client-specific knowledge. A strong acceptance of this view was shared between the literary reviewed articles and respondents to the survey. There is a strong correlation across the different categories of post-graduation experience in the survey results on the lost client-specific knowledge as a result of MAFR. For example, of the accountants with less than five years' experience, 86% agreed; of those with between 5 and 10 years' experience, 80% agreed, and of those with greater than 10 years' experience, 80% also agreed. Although there is a certain amount of cooperation between the existing auditor and an incoming auditor, this would not extend to the level of sharing the learned experience from being engaged in the audit. However, this loss of client-specific knowledge can be offset to a certain extent by auditors with industry-specific experience rotating between different clients within the industry. The result of the survey confirms this negative relationship between audit-firm rotation and the loss of client-specific knowledge.

It is debatable whether mandatory rotation would have prevented the questionable auditing practices at Anglo Irish Bank. It is a fundamental requirement of an auditor to ensure that the financial statements being audited give 'a true and fair view' of an enterprise's business during and at the end of an accounting period. Apart from the fact that the 'bed and breakfast' loans from Irish Nationwide to Anglo were deemed to be legal, it is a stretch of the imagination to view these loans as being compatible with giving 'a true and fair view' of Anglo's financial position at its year end. Whatever about viewing the loans as acceptable for one year, having them repeated for a very short period, at the same time every year, must have raised suspicion. Depending on their industry-specific experience and level of scepticism, perhaps the auditors of Anglo did consider the loans appropriate. It is debatable whether a rotating auditor would have viewed them differently. Maybe auditors with greater industry-specific experience might have reacted with more scepticism.

According to the survey undertaken for this study, accountants had mixed views on whether a long duration of tenure results in an auditor becoming less sceptical. There is no evidence so far that the auditors at Anglo raised the issue of the loans with the directors or whether they were 'leaned on' to accept the loans as being 'normal'. As Patel and Prasad (2013) point out, when auditors perform both audit and non-audit services it raises the possibility of impairment of the audit quality, as the auditor may fear losing both the audit fee and non-audit fee if s/he is not compliant with the wishes of the client. It is not known publicly if this was the case with Anglo. This fear of losing both fees would also apply in situations of mandatory rotation. It is the stated aim of the EC that one of the key objectives of the new regulation is to remove any natural danger to the independence of the auditor and improve audit quality. Then why not impose mandatory same audit year-end dates for all banks and financial institutions? This would eliminate the possible danger to audit quality, as was apparent at Anglo. Perhaps this is something the government might consider introducing separately in Ireland given that it is not included in the new EU regulation.

There is a view that the introduction of MAR may weaken the role of the audit committee in its duties of selecting the auditors and controlling the financial reporting within an organisation, as alluded to by Jenkins and Vermeer (2013). While this may be so, the audit committee itself is drawn from the board of directors of the organisation but must, as decreed by the Companies (Auditing & Accounting) Act 2003, contain at least two independent non-executive directors of the company. Although the audit committee is designed to act in the best interest of shareholders there is no compulsion to have independent shareholders represented on the audit committee. Given that it is ultimately the shareholders who will suffer the costs if the auditors are responsible for irregular practices at the behest of management, then perhaps the shareholders ought to be represented on the audit committee with at least two places on the committee being reserved for independent shareholders, should they chose to take up the option. Perhaps this is an issue that should be revisited by the Irish government.

Attempts at increased self-regulation by the auditing profession appear to have been less than successful, particularly following the failure of Enron in 2001 in the US, the demise of HIH in Australia in the same year, and in Ireland leading up to the collapse of Anglo in 2008 in spite of the improved legislation dealing with the duties of auditors. However, the introduction of the IAASA has resulted in closer monitoring of auditors and the imposition of fines and the resultant publicity is bound to have a beneficial effect on the future conduct of auditors in Ireland. As DeFond and Francis (2005) pointed out, despite the high profile audit failures like Enron, the total number of audit failures in the US is small. It would be reasonable to make the same comment about Ireland when one considers the number of organisations, large and small, being audited every year.

The results of the survey indicated that the majority [57%] of accountants polled were in agreement that MAPR will result in higher quality audits. This percentage is consistent across the different post-qualification categories; however, there was some divergence in the views of females on this issue. Of the female respondents, 46% disagreed that MAPR will result in higher audit quality with only 27% agreeing with the concept. In contrast to this majority view and consistent with the females' opinions, the reviewed literature indicate little evidence of improvement in audit quality as a result of MAPR. This is to a certain extent understandable given that any particular audit firm will have a distinct culture and a standard audit manual outlining the audit tests and procedures to be followed during an audit. However, consideration has to be given to the training, education and personality of the individual auditor. Irrespective of the duration of tenure, some people are naturally suited to the role of auditing while others may be less so. As respondent (B) in the supplementary research points out, audit quality goes up, down and back up again depending on the individual auditor, suggesting a need for regular mandatory testing of each auditor's technical knowledge of the most recent laws and regulations. This might bring consistency to audit quality but may not improve it. There is a difficulty in assessing audit quality as a result of MAPR because in most countries the identity of the audit partner is not readily available to the public although it may be objectively assessed internally where the name of the audit partner is known, as in the case described by respondent (B).

Interestingly, the research indicates that MAPR was chosen in the US and Australia in preference to MAFR and in Spain MAFR was tried and then abandoned, indicating that perhaps MAPR might have been a more cost effective option in the EU. MAPR, coupled with more stringent legislation such as SOX in the US and CLERP in Australia, appears from the literature reviewed to have been very successful in both countries. Conceivably this combination of MAPR and appropriate additional regulations might have proved a more effective choice than MAFR in the EU.

Chapter 7 Conclusion and Recommendations

7.1 Conclusions and Recommendations

Before discussing the conclusion and recommendations it was deemed necessary to briefly revisit the impetus to undertake the research. Ireland, being a member of the EU, is obligated to introduce the new EU laws governing mandatory audit firm rotation. In the light of various scandals in Ireland culminating in the collapse of Anglo Irish Bank in 2008 this paper sought to establish if the new regulations will be effective in preventing such audit failures in the future and to seek to establish if the new regulations are the most appropriate and cost effective method to deal with improved auditor independence and audit quality in Ireland.

While the decision has already been taken to introduce MAFR in Europe, it was hoped that conducting this study would shed some light on the consequences of the new regulations in Ireland. The various components that influence audit quality were identified and emphasised by the literature reviewed, and the most important elements were examined and studied. Based on this examination, the following three statements were formulated and were used as the three main hypotheses in the research:

1. Mandatory Audit Firm Rotation will result in higher audit quality.
2. Client-Specific knowledge in lost by Audit Firm Rotation.
3. Mandatory Audit Partner Rotation will result in higher audit quality.

It was intended to add to the existing literature by analysing the complex nature of audit quality and to give an indication as to whether MAFR will prove effective or not. However, this study is subject to certain limitations, for example, the completed number of questionnaires (72) may not be substantial enough to be considered representative of the whole population of accountants in the countries selected. Added to which, there was an element of bias in the distribution of the questionnaire as it was limited to those accountants whose email addresses were available on their websites.

The conclusion to be drawn from the research is that those who favour MAFR argue that it will reduce the incidence of inappropriate attachment between auditor and client, eliminate the incidence of low-balling and help prevent auditors becoming less sceptical. However, the evidence from the Spanish experiment with MAFR indicates that there was no reduction in auditor independence or audit quality (Blandȯn and Bosch (2013a). Those who disagree with MAFR claim that client-specific knowledge will be lost, adding to the costs of an audit, that it will impact negatively on audit quality and it will diminish the role of the audit committee. This concern over loss of client-specific knowledge was confirmed by the research for this study.

The scandals at Enron and HIH in 2001 have led to the view that the provision of non-audit services by auditors can be detrimental to auditor independence. This has led to the introduction of various restrictions on the non-audit services that can be provided by auditors in different countries. Part of the new EU regulation is that the provision of non-audit services in Ireland will be restricted to 70% of the non-audit fees for the previous three years. The danger of this limited restriction is that it may lead to the audit fees being increased by agreement with the client in order to compensate for the reduced non-audit fees thereby undermining the new regulation. Future research might examine the effects of this element of the new regulation on audit fees vis-à-vis non-audit fees following the introduction of the new regulation.

The replies of the respondents to all questions were quite consistent across the different categories in terms of their length of experience and in terms of gender, with one exception. In contrast to the majority view in the sample population, females disagreed with the notion that MAPR would improve the quality of an audit; however, this view expressed by the females is consistent with the findings from the literature reviewed. A reservation with regard to the survey is that only 15 females responded to the survey, which represented only 20% of the sample population. It is not clear if the views of 15 female accountants could be regarded as representative of the total female population of accountants. Details on the numbers of females in the countries included in the survey are not readily available. As a recommendation for future research in this area it is suggested that an equal number of males and females be included in the sample. A limitation of the research is that no question was included in the research instrument to gauge the opinion of accountants on whether MAFR should be restricted to organisations with a certain level of revenue income, with organisations below that threshold being excluded. This was a sensible suggestion by respondent (A) in the supplementary qualitative analysis. The fact that two respondents volunteered insightful comments indicates that perhaps an element of qualitative research might have enhanced the study by adding richer data than is available by questionnaire alone.

As regards self-regulation of the accounting profession in Ireland, the structure of the different affiliated bodies is such that it is not conducive to self-regulation. The evidence suggests that the profession can be monitored and controlled by government regulation, as witnessed by the introduction of SOX in the US and CLERP in Australia and the IASSA in Ireland. These measures, coupled with the increased threat of negative publicity and loss of business, would be seen as a driving force for a reduction in auditors' tolerance for adherence to improper management practices.

The restriction on the insistence by some banks and insurance companies of 'Big-Four' auditing firms is an effort by the EU to restrict the bargaining power of the four biggest auditing firms and can only be seen as being a positive move towards increased auditor independence.

A recommendation for future research is that a consistent selection of variables such as low-balling, non-audit fees, and duration of auditor tenure be used when comparing audit quality and auditor independence in different countries. A disappointing feature of the research is how very little comment was made on same audit year-end dates being made compulsory in Ireland and maybe this an area for further research.

Glossary

Key audit partner or key audit partners means	(a) "The one or more statutory auditors designated by a statutory audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm", or (b) "in the case of a group audit, at least the one or more statutory auditors designated by a statutory audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the one or more statutory auditors designated as being primarily responsible at the level of material subsidiaries, or (c) "The one or more statutory auditors who sign the audit report" (Council Regulation No 220/2010 EC)
Mandatory Audit-Firm Rotation (MAFR)	Section 207(c) of the Sarbanes-Oxley Act of 2002 defined MAFR as the imposition of a limit in the number of years during which a registered public accounting firm may act as auditor of record for a client.
Statutory audit	"Statutory audit means an audit of individual accounts or group accounts insofar as required by Community law" (Council Regulation No 220/2010 EC).
Statutory auditor	"Statutory auditor means a natural person who is approved in accordance with these Regulations to carry out statutory audits" (Council Regulation No 220/2010 EC)

References

Accountancy SA (2014) ‘Mandatory rotation of audit firms’. *Accountancy SA,* pp. 18-19.

Al-Khoury, A.F., Ali, A., Al-Sharif, M., Hanania, J., Al-Malki, I. and Jallad, M. (2015) ‘Auditor independence and mandatory auditor rotation in Jordan’. *International Business Research*, 8 (4), pp. 73-82.

Anis, A. (2014) ‘Auditors' perceptions of audit firm rotation impact on audit quality in Egypt’. *Accounting & taxation*, 6(1), pp. 105-120.

Antonio, L.M. and Bassetti, A. (2014) ‘Rotation of independent auditors and analysis of their reports before and after rotation in Brazil’. *Journal of Accounting and Taxation,* 6 (1), pp. 19-29.

Arya, A. and Glover, J. (2014) ‘Auditor independence revisited’. *Journal of accounting, auditing & finance,* 29 (2), pp. 188-198.

Australian Government Department of Employment (2014) ’Labour Market Research – Accountants Australia May 2014’ [Online]. *Australian Government Department of Employment* Available from: http://docs.employment.gov.au/system/files/doc/other/2211accountantaus_1.pdf [Accessed 19th July 2015].

Banimahd, B. and Beigi, E. (2012) ‘Audit privatization and opinion shopping: evidence of Iran’. *Interdisciplinary Journal of Contemporary Research in Business’,* 4 (3), pp. 441-449.

Barnes, P. and Renart, M.A. (2013) ‘Auditor independence and auditor bargaining power: some Spanish evidence concerning audit error in the going concern decision’. *International journal of auditing*, 17 (3), pp. 265-287.

Bates, H.L., Waldrup, B.E., Jaeger, D.G. and Shea, V. (2012) ‘Issues with mandatory audit firm rotation’. *Journal of Business and Accounting,* 5 (1), pp. 70-75.

Blandón, J. G. and Bosch, A.J.M. (2013a) 'Audit firm tenure and qualified opinions: New evidence from Spain'. *Revista de Contabilidad - Spanish Accounting Review,* 16 (2), pp. 118-125.

Blandón, J. G. and Bosch, A.J.M. (2013b) 'Audit tenure and audit qualifications in a low litigation risk setting: An analysis of the Spanish market'. *Estudios de Economia,* 40 (2), pp. 133-156.

Blay, A.D. and Geiger, M.A. (2013) 'Auditor fees and auditor independence: evidence from going concern reporting decisions'. *Contemporary accounting research*, 30 (2), pp. 579-606.

Boone, J.P., Khurana, I.K. and Raman, K.K. (2008) 'Audit firm tenure and the equity risk premium'. *Journal of Accounting, Auditing & Finance,* 23 (1), pp. 115-140.

Bureau of Labor Statistics (2014) 'Occupational outlook handbook'. [Online]. *Bureau of Labor Statistics*, Available from: http://www.bls.gov/ooh/business-and-financial/accountants-and-auditors.htm [Accessed 19th July 2015].

CARB (2011) 'Statement by chartered accountants regulatory board March 2011'.*Chartered Accountants Regulatory Board* [Online]. Available from: https://www.carb.ie/public-communications/notices/2011/Statement-by-chartered-accountants-regulatory-board/ [Accessed 14th June 2015].

CARB (2015) 'CARB Regulatory bulletin'. *Chartered Accountants Regulatory Board* [Online]. Available from: https://www.carb.ie/ [Accessed 4th June 2015].

Careers New Zealand (2015) 'Accountant' [Online].*Careers New Zealand*. Available from: http://www.careers.govt.nz/jobs/finance/accountant/# [Accessed 20th July 2015].

Carrera, N., Gómez-Aguilar, N., Humphrey, C. and Ruiz-Barbadillo, E. (2007) 'Mandatory audit firm rotation in Spain: a policy that was never applied'. *Accounting, Auditing & Accountability Journal,* 20 (5), pp. 671-701.

Carswell, S. (2011) *Anglo Republic: Inside the bank that broke Ireland*. Dublin: Penguin Ireland.

Castellano, J. G. (2002) ‘Restoring public confidence’. *Journal of Accountancy*, 193 (4), pp. 37-39.

Chan, K.C., Farrell, B. and Healy, P. (2014) ‘Audit firm rotation - concerns and considerations’. *Journal of Applied Business Research,* 30 (1), pp. 227-232.

Chartered Accountants Ireland (2015) ‘Chartered Accountants Regulatory Board (CARB)’. *Chartered Accountants Ireland* [Online]. Available from: https://www.charteredaccountants.ie/General/About-Us/Chartered-Accountants-Regulatory-Board-CARB/ [Accessed 4th June 2015].

Clout, V.J., Chapple, L. and Gandhi, N. (2013) ‘The impact of auditor independence regulations on established and emerging firms’. *Accounting Research Journal,* 26 (2), pp. 88-108.

Contessotto, C. and Moroney, R. (2014) "The association between audit committee effectiveness and audit risk", *Accounting and finance*, 54 (2), pp. 393-418.

Council Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p. 1).

Council Regulation (EC) No 220/2010 of 20th May 2010 S.I. No. 220/2010 - European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 [Online]. Available from: http://www.irishstatutebook.ie/pdf/2010/en.si.2010.0220.pdf [Accessed 19th July 2015].

Council Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC Text with EEA relevance (OJ L 158, 27.5.2014, p. 77–112).

Daugherty, B., Dickins, D., Higgs, J. and Tatum, K. (2013) 'The question of mandatory audit firm rotation'. *CPA Journal,* 83 (1), pp.28-33.

DeFond, M. L. and Francis, J. R. (2005) 'Audit Research after Sarbanes-Oxley'. *Auditing: Journal of Practice & Theory,* 24 (suppl.), pp.5-30.

Desir, R., Casterella, J.R. and Kokina, J. (2014) 'A reexamination of audit fees for initial audit engagements in the post-SOX period'. *Auditing*, 33 (2), pp. 59-78.

Devi, S.S., Kumar R.S. and Raju, S.K. (2012) 'Regulation of accounting firms: evidence from Fiji'. *Global Journal of Business Research*, 6 (1), pp.91-101.

Dopuch, N. and King, R.R. (1996) 'The effects of lowballing on audit quality: An experimental markets study'. *Journal of Accounting, Auditing & Finance,* 11 (1), pp. 45-68.

European Commission (2011) 'International Accounting Standards 1, Presentation of Financial Statements'. [Online]. *European Commission.* Available from http://ec.europa.eu/internal_market/accounting/docs/consolidated/ias1_en.pdf

Fatemi, D.J. (2013) 'New evidence on an old question: Does lowballing undermine auditors' Independence or their Clients' Investment Decisions?' *Current Issues in Auditing,* 7 (1) pp. 22-29.

Financial Reporting Council (2015) 'Key facts and trends in the accountancy profession' [Online]. *Financial Reporting Council (FRC)* Available from: https://www.frc.org.uk/Our-Work/Publications/Professional-Oversight/Key-Facts-and-Trends-in-the-Accountancy-Profes-(1).pdf [Accessed 19th July 2015].

Flanagan, P. (2015) 'KPMG and ESB audit deal turns 89' [Online]. *Independent.ie,* Business Newsletter, 30th March, Available from: http://www.independent.ie/business/kpmg-and-esb-audit-deal-turns-89-31103469.html.

Frazer, P.N. (2010) 'A single set of worldwide auditing standards: The road is long'. *International Journal of Disclosure and Governance,* 7(4), pp. 298-309.

Gates, S.K., Jordan Lowe, D. and Reckers, P.M.J. (2007) ‘Restoring public confidence in capital markets through auditor rotation’. *Managerial Auditing Journal*, 22 (1), pp. 5-17.

Government of Ireland. *Companies (Auditing and Accounting) Act,* (2003) section 42.

Hamuda, K. and Sawan, N. (2014) ‘Perceptions of Auditor Independence in Libyan Audit Market’. *International Business Research,* 7 (2), pp. 120-128.

Harandi, S. and Khanagha, J.B. (2013) ‘Auditing quality and disclosure quality’. *Interdisciplinary Journal of Contemporary Research in Business*, 5 (7), pp. 247-257.

Healy, T. (2012) ‘Anglo sues former auditors in €50m Sean Fitzpatrick case’ [Online]. *Independent.ie.* Available from: http://www.independent.ie/irish-news/courts/anglo-sues-former-auditors-in-50m-sean-fitzpatrick-case-28948718.html [Accessed 28th January 2015].

Heneghan, J. and O'Donnell, D. (2007) ‘Governance, compliance and legal enforcement: evaluating a recent Irish initiative’. *Corporate Governance,* 7 (1), pp. 54-65.

Hossain, S. (2013) ‘Effect of regulatory changes on auditor Independence and audit quality’. *International Journal of Auditing,* 17 (3), pp. 246-264.

Hunt, A.K., Reed, B.J. and Sierra, G. (2011) ‘Changing auditors--the case of Callaway golf company and its four different auditors in one year’. *Journal of the International Academy for Case Studies,* 17 (8), pp. 99.

IAASA (2003) ‘What is the role of the authority’. *Irish Auditing & Accounting Supervisory Authority,* [Online]. Available from: https://www.iaasa.ie/About-IAASA/FAQs/General [Accessed 27th May 2015].

IAASA (2015) ‘Profile of the Profession’. *Irish Auditing & Accounting Supervisory Authority,* [Online]. Available from:

https://www.iaasa.ie/Publications/RMS/Profiles-of-the-Profession/2014-Profile-of-the-Profession [Accessed 18th July 2015].

James, R. (2015) ‘The virtues of audit rotation’. *Accounting Today,* 29 (2), pp. 14-16.

Jenkins, D.S. and Vermeer, T.E. (2013) ‘Audit firm rotation and audit quality: evidence from academic research’. *Accounting Research Journal,* 26 (1), pp. 75-84.

Junaidi, Miharjo, S. and Hartadi, B. (2012) ‘Does auditor tenure reduce audit quality?’ *Gadjah Mada International Journal of Business,* 14 (3), pp. 303-315.

Jyh-shyan, L., Hsueh-chang, T. and Yung-I, L. (2014) ‘Quality of financial statements and tenure of statement-related personnel’. *Journal of Modern Accounting and Auditing*, 10 (3), pp.297-307.

Kandemir, H.K. (2013) ‘The EU law on auditing and the role of auditors in the global financial crisis of 2008’. *International Journal of Disclosure and Governance*, 10 (3), pp. 213-233.

Kandemir, T. and Akbulut, H. (2013) ‘Bagimsiz denetimin etkinliginde denetimden sorumlu komitenin rolü: Türkiye’deki bagimsiz denetim firmalarina yönelik bir arastirma’. (Turkish). *International Journal of Management Economics & Business / Uluslararasi Yönetim Iktisat ve Isletme Dergisi,* 9 (20), pp. 37-55.

King, D.L. and Case, C.J. (2014) ‘Sarbanes-Oxley act and the public company accounting oversight board's first eleven years’. *Journal of Business and Accounting,* 7 (1), pp. 11-23.

King, R.R., Davis, S.M. and Mintchik, N. (2012) ‘Mandatory disclosure of the engagement partner's identity: potential benefits and unintended Consequences’. *Accounting Horizons,* 26 (3), pp. 533-561.

Köhler, A. G. and Ratzinger-Sakel, N. (2012) 'Audit and non-audit fees in Germany – The impact of audit market characteristics'. *Schmalenbach Business Review: ZFBF,* 64 (4), pp. 281-307.

Krauss, P. and Zülch, H. (2013) 'Non-audit services and audit quality: blessing or curse?' *Journal of Applied Business Research,* 29 (2), pp. 305-325.

Lennox, C., Wu, X. and Zhang, T. (2014) 'Does mandatory rotation of audit partners improve audit quality?' *The accounting review,* 89 (5), pp.1775-1803.

Lim, C. and Tan, H. (2010) 'Does auditor tenure improve audit quality? Moderating effects of industry specialization and fee dependence'. *Contemporary accounting research,* 27 (3), pp. 923-957.

LimeSurvey (2015) 'The most popular free open source software tool on the web' [Online]. Available from: https://www.limesurvey.org/en/ [Accessed 26th July 2015].

Lin, C.J., Lin, H.L. and Yen, A.R. (2014) 'Dual audit, audit firm independence, and auditor conservatism'. *Review of Accounting & Finance,* 13 (1), pp. 65-87.

McCabe, S. (2014) 'KPMG boss fears audit rules more than Nationwide fallout' [Online]. *Independent.ie* Available from: http://www.independent.ie/business/irish/kpmg-boss-fears-audit-rules-more-than-nationwide-fallout-30478206.html [Accessed 28th January 2015].

Minutti-Meza, M. (2013) 'Does auditor industry specialization improve audit quality?' *Journal of Accounting Research*, 51 (4), pp. 779-817.

Mirshekary, S., Yaftian, A. M. and Cross, D. (2004) 'Australian corporate collapse: The case of HIH Insurance'. *Journal of Financial Services Marketing*, 9 (3), pp. 249-258.

Monroe, G. and Hossain, S. (2013) 'Does audit quality improve after the implementation of mandatory audit partner rotation?' *Accounting and Management Information Systems,* 12 (2), pp. 263-279.

Mostafa Mohamed, D. and Hussien Habib, M. (2013) ‘Auditor independence, audit quality and the mandatory auditor rotation in Egypt’. *Education, Business and Society: Contemporary Middle Eastern Issues,* 6 (2), pp. 116-144.

Murthy, K.V.B. and Gupta, R. (2013) ‘Relevance of dual external audit and current audit system in India’. *International Journal of Applied Financial Management Perspectives,* 2(1), pp. 225-232.

O'Regan, P. (2010) ‘Regulation, the public interest and the establishment of an accounting supervisory body’. *Journal of Management & Governance,* 14 (4), pp. 297-312.

Oxera (2006) ‘Competition and choice in the UK audit market’. [Online]. Available from: http://www.oxera.com/Oxera/media/Oxera/Competition-and-choice-in-the-UK-audit-market.pdf?ext=.pdf [Accessed 2nd June 2015].

Patel, A. and Prasad, P. (2013) ‘Auditor independence, audit fees lowballing, and non-audit services: evidence from Fiji’. *Accounting & Taxation,* 5 (2), pp. 103-120.

Romero, S. (2010) ‘Auditor independence: third party hiring and paying auditors’. *EuroMed Journal of Business,* 5 (3), pp. 298-314.

Ross, S. (2011) ‘Shane Ross: Look out for our Greek pals’ [Online]. *Independent.ie.* Available from: http://www.independent.ie/opinion/columnists/shane-ross/shane-ross-look-out-for-our-greek-pals-26772885.html

Ruiz-Barbadillo, E., Gómez-Aguilar, N. and Carrera, N. (2009) ‘Does mandatory audit firm rotation enhance auditor independence? Evidence from Spain’. *Auditing,* 28 (1), pp. 113-135.

Saunders, M., Lewis, P. and Thornhill, A. (2012) *Research methods for business students.* 6th ed. Harlow: Prentice Hall.

Skinner, D.J. and Srinivasan, S. (2012) ‘Audit Quality and Auditor Reputation: Evidence from Japan’. *The Accounting Review,* 87 (5), pp. 1737-1765.

Smith, P. (2006) 'Oxera responses reveal split'. *Accountancy*, 138 (1357) p. 5.

Stringer, G. (2011) ‘PCAOB Rulemaking Docket Matter No.37’ [Online]. *Public Company Accounting Oversight Board (PCAOB)* Available from: http://pcaobus.org/Rules/Rulemaking/Pages/Docket037Comments.aspx [Accessed 20th May 2015].

Svanström, T. (2013) ‘Non-audit services and audit quality: evidence from private firms’. *European accounting review*, 22 (2), pp. 337-366.

Tackett, J. (2004) ‘Sarbanes-Oxley and audit failure: A critical examination’. *Managerial Auditing Journal,* 19 (3), pp. 340-350.

Wang, S.W. and Hay, D. (2013) ‘Auditor independence in New Zealand: further evidence on the role of non-audit services’. *Accounting and Management Information Systems,* 12 (2), pp. 235-262.

Webb, N. (2009) ‘Ex-regulator red-faced as bank hit by €2.75m fine’ [Online]. *Independent.ie.* Available from: http://www.independent.ie/business/irish/exregulator-redfaced-as-bank-hit-by-275m-fine-26576335.html [Accessed 4th June 2015].

Ye, P., Carson, E. and Simnett, R. (2011) ‘Threats to auditor independence: the impact of relationship and economic bonds’. *Auditing,* 30(1), pp. 121-148.

Zerni, M., Haapamäki, E., Järvinen, T. and Niemi, L. (2012) ‘Do joint audits improve audit quality? evidence from voluntary joint audits’. *European Accounting Review*, 21 (4), pp. 731-765.

Appendices

Appendix 1: The questions from online questionnaire

All these questions had the following answer options:

Strongly Disagree - Disagree - Neither - Agree - Strongly Agree

Q1. Mandatory *audit firm* rotation will result in higher audit *quality*

Q2. Mandatory *audit firm* rotation will result in higher audit *effort*

Q3. Mandatory *audit partner* rotation will result in higher audit *quality*

Q4. Mandatory *audit partner* rotation will result in higher audit *effort*

Q5. The longer the *audit partner's* tenure, the more complacent s/he will be

Q6. The longer the *audit partner's* tenure, the less sceptical s/he will become

Q7. Client-specific knowledge is lost due to *audit firm* rotation

Q8. When *audit firms* are required to gain new client-specific knowledge, audit quality declines

Q9. *Audit firm* rotation improves the independence of the auditor

Q10. *Audit partner* rotation improves the impression of independence given by the audit partner

Q11. *Audit firm* rotation reduces the likelihood on inappropriate attachment

Q12. The higher the fee dependence, the lower the audit quality

Q13. The higher the fee dependence, the lower the audit quality, even if there is a mandatory audit partner rotation requirement

The following three questions have different answer options:

What is your gender?	Female/ Male
What is your age?	…………….
How long are you qualified as an accountant?	…………….

Appendix 2: Question 1 Descriptive statistics: Audit-firm rotation will result in higher quality?

Descriptives

			Statistic	Std. Error
Audit firm rotation will result in higher quality	Mean		3.14	.121
	95% Confidence Interval for Mean	Lower Bound	2.90	
		Upper Bound	3.38	
	5% Trimmed Mean		3.15	
	Median		3.00	
	Variance		1.051	
	Std. Deviation		1.025	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.286	.283
	Kurtosis		-1.033	.559

Appendix 3: Question 2 Descriptive Statistics: Client-specific knowledge is lost by auditor rotation?

Descriptives

			Statistic	Std. Error
Client-specific knowledge is lost by audit firm rotation	Mean		3.86	.124
	95% Confidence Interval for Mean	Lower Bound	3.61	
		Upper Bound	4.11	
	5% Trimmed Mean		3.95	
	Median		4.00	
	Variance		1.107	
	Std. Deviation		1.052	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-1.132	.283
	Kurtosis		.873	.559

Appendix 4: Question 3 Descriptive Statistics: Will MAFR improve will result in higher quality?

Descriptives

			Statistic	Std. Error
Audit partner rotation will result in higher quality	Mean		3.24	.114
	95% Confidence Interval for Mean	Lower Bound	3.01	
		Upper Bound	3.46	
	5% Trimmed Mean		3.22	
	Median		3.00	
	Variance		.943	
	Std. Deviation		.971	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.212	.283
	Kurtosis		-1.047	.559

Appendix 5: Question 1 Tests of Normality

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Audit firm rotation will result in higher quality	.272	72	.000	.854	72	.000

a. Lilliefors Significance Correction

Appendix 6: Question 2 Tests of Normality

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Client-specific knowledge is lost by audit firm rotation	.330	72	.000	.802	72	.000

a. Lilliefors Significance Correction

Appendix 7: Question 3 Tests of Normality

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Audit partner rotation will result in higher quality	.270	72	.000	.853	72	.000

a. Lilliefors Significance Correction

Appendix 8: Secondary questions: Tests of Normality

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Audit firm rotation will result in higher effort	.300	72	.000	.850	72	.000
The longer audit partner's tenure the more complacent s/he will be	.229	72	.000	.887	72	.000
The longer the audit tenure the less sceptical s/he will become	.274	72	.000	.872	72	.000
Audit quality declines when client specific knowledge is required	.242	72	.000	.892	72	.000
Audit firm rotation improves independence of auditor	.330	72	.000	.831	72	.000
Audit partner gives impression of improved independence	.333	72	.000	.817	72	.000
Audit firm rotation reduces prospect of inappropriate attachment	.327	72	.000	.825	72	.000
The higher the fee dependence, the lower the quality	.261	72	.000	.884	72	.000
The higher the fee dependence,the lower quality,even with MAPR	.280	72	.000	.871	72	.000
Audit partner rotation will result in higher effort	.288	72	.000	.852	72	.000

a. Lilliefors Significance Correction

Appendix 9: Secondary questions: Mean and Median

Questions 1 to 5: Mean and Median

		Audit firm rotation will result in higher effort	Audit partner rotation will result in higher effort	The longer audit partner's tenure the more complacent s/he will be	The longer audit partner's tenure the less sceptical s/he become	Loss of audit quality when new client-specific knowledge is required
N	Valid	72	72	72	72	72
	Missing	7	7	7	7	7
Mean		3.42	3.39	3.03	3.25	2.64
Median		4.00	4.00	3.00	4.00	2.00

Questions 6 to 10: Mean and Median

		Audit firm rotation improves independence of auditor	Audit partner gives impression of improved independence	Audit firm rotation reduces prospect of inappropriate attachment	The higher the fee dependence, the lower the quality	The higher the fee dependence, the lower quality, even with MAPR
N	Valid	72	72	72	72	72
	Missing	7	7	7	7	7
Mean		3.67	3.78	3.68	2.51	2.39
Median		4.00	4.00	4.00	2.00	2.00