IJAAR PUBLISHING®

Open Access Journal of Management Sciences Research | ISSN: 3027-1975
Vol. 2, Issue 2 (April-June, 2024) | www.ijaar.org

THE IMPACT OF MANDATORY AUDIT FIRM ROTATION ON AUDIT (MAFR) QUALITY AND COSTS

Ikilidih, Joy N., Dibua, Ekene C., and Szhamaki Mohammed
Department of Accountancy,
Paul University, Awka, Anambra State, Nigeria
Mail: dibuaekene@gmail.com; joynkechi131@gmail.com

Abstract
Mandatory audit firm rotation is a policy that requires companies to change their audit firm after a certain period, typically every 5-10 years. The primary rationale behind this policy is to enhance auditor independence and objectivity, which can lead to improved audit quality. However, the impact of mandatory audit firm rotation on audit quality and costs is a subject of ongoing debate and research. This study investigated the impact of mandatory audit firm rotation on both audit quality and audit costs. Using a sample of publicly traded companies, the study examined the relationship between mandatory rotation, audit quality, and audit fees over a 10-year period (2013-2023). Audit quality was measured using various proxies, such as the frequency of restatements, the likelihood of issuing going-concern opinions, and the accuracy of earnings forecasts. Audit costs were measured by the audit fees paid by the companies. The results showed that mandatory audit firm rotation had a mixed impact on audit quality and costs. While the policy appears to enhance auditor independence and objectivity, leading to improvements in some measures of audit quality, it also disrupted the auditor-client relationship and results in higher audit fees due to the costs associated with the transition to a new audit firm. The findings of this study contributed to the ongoing debate on the merits of mandatory audit firm rotation and have important implications for policymakers, companies, and audit firms. The study highlighted the need for a careful consideration of the trade-offs between the potential benefits and the costs associated with the implementation of such a policy.

Keywords: Mandatory audit firm rotation, Audit quality and costs

Ikilidih, J. N., Dibua, E. C. & Szhamaki Mohammed. (2024). The Impact of Mandatory Audit Firm Rotation on Audit (MAFR) Quality and Costs. *Open Access Journal of Management Sciences Research. 2*(2), 35-47. DOI: 10.5281/zenodo.11576996

INTRODUCTION

Mandatory audit firm rotation (MAFR) is a regulatory requirement that requires companies to change their external audit firm after a certain period of time, typically ranging from 5 to 10 years (IFAC, 2017). It is in this light that the Nigerian Code of Corporate Governance (NCCG) 2018 specified that all Private companies, with the exclusion of private companies with a staff strength of 8 or less and files, return to Federal Inland Revenue Service (FIRS) and Corporate Affairs Commission (CAC) and the Public companies listed should not exceed a tenure of 10years for audit firms (section 20.1) and can be reengaged after 7 years (section 20.2). The primary rationale behind this policy is to enhance auditor independence and improve audit quality by reducing the risk of over-familiarity between the auditor and the client (OECD, 2022). The assumption is that regular changes in audit firms would prevent auditors from developing too close a relationship with the client, which could compromise their professional skepticism and judgment.

However, the impact of mandatory audit firm rotation on audit quality and costs is a subject of ongoing debate and research. While the policy may enhance auditor independence, it can also disrupt the auditor-client relationship and lead to a loss of client-specific knowledge, potentially compromising audit quality. Additionally, the costs associated with mandatory rotation, such as the time and resources required for the transition to a new audit firm, may outweigh the potential benefits. For instance, Chen et al. (2020) found that MAFR led to improved audit quality and higher audit fees evidenced by a reduction in earnings management and increased costs associated with the on boarding of a new audit firm. On the other hand, Cameran et al. (2016) who reviewed existing literature on MAFR found that the impact of MAFR on audit quality is mixed, with some studies showing improvements and others finding no significant change.

With mixed opinions from previous studies, this study aimed to investigate the impact of mandatory audit firm rotation on both audit quality and audit costs, providing a comprehensive analysis of the trade-offs involved. By examining the relationships between audit quality, audit costs, and mandatory rotation, the study sheds light on the implications of this policy for companies, auditors, and regulators. Findings from this study would contribute to the ongoing debate surrounding the effectiveness of MAFR as a regulatory tool to enhance auditor independence and audit quality. The findings will provide valuable insights for policymakers, regulators, and companies considering the implementation or continuation of MAFR requirements. Additionally, the study will shed light on the potential trade-offs between the benefits of MAFR and the associated costs, which is an important consideration for stakeholders.

Corporate failures and scandals have raised questions as to the ability of auditors to objectively give an opinion on the books and records prepared by management (Omoye & Aronman, 2013). This question is particularly relevant given that some of the auditors were apparently not objective enough to have been able to present a check on most of the failed companies. According to Hoyle (1978), long audit tenure threatens auditors' independence. Although it is expected that auditors will act in a way and manner that will help to reduce any information asymmetry present in the link between shareholders and management, the long tenure was seen to have threatened this objectivity, hence the need to rotate auditors arose to increase audit quality. Several pieces of literature on the linkage between audit rotation and audit quality reflect mixed results. Therefore, there is the need to assess the effect of audit rotation on audit quality and cost in the light of the pronouncement of NCCG (2018) to know the level of compliance and its impact, to bridge the existing gap in knowledge. Most studies

conducted on the effect of audit rotation on audit quality (Kim et al., 2015; Imeokparia, 2014; Okaro et al., 2013) have either shown that there is a significant effect or not and either to the positive or negative direction. Therefore, this study contributes by examining whether there is a significant impact of MAFR on audit quality and cost. It did so answering the following questions:

1. What is the impact of MAFR on audit quality in publicly traded companies in Nigeria?
2. How does MAFR affect audit costs in publicly traded companies in Nigeria?
3. What factors influence the relationship between MAFR, audit quality and audit costs in publicly traded companies in Nigeria?

The main objective of this study was to investigate the impact of MAFR on audit quality and cost in publicly traded companies in Nigeria. Therefore, the specific objectives were:

i. To investigate the impact of MAFR on audit quality, as measured by factors such as earnings management, going-concern opinions, and financial reporting accuracy.
ii. To examine the effect of MAFR on audit costs, including both direct audit fees and any indirect costs associated with the transition to a new audit firm.
iii. To identify the potential factors that may influence the relationship between MAFR, audit quality, and audit costs, such as the length of the audit firm tenure, the size and complexity of the client, and the competitiveness of the audit market.

Hypotheses

In order to achieve the objectives of this study, the following null hypotheses were formulated:

H_{o1}: MAFR has no significant impact on audit quality of publicly traded companies in Nigeria.

H_{o2}: MAFR has no significant on audit costs of publicly traded companies in Nigeria.

H_{o3}: There is no impact of MAFR, audit quality, and audit costs on factors such as company size, leverage, complexity and audit market competition of publicly traded companies in Nigeria.

LITERATURE REVIEW

Audit Quality

An audit quality measurement system is formed to monitor, maintain and control the audit process. This is necessary because the users of financial statements rely on auditor's report to enable them to make decisions on their investments. The audit quality measures which are tools for the quality of audit are the forward-looking indicators that help stakeholders to predict the quality of the audit and possibly highlight areas for change (Zheng et al., 2018). Audit quality will increase the maximum value for investors in the capital market because it often uses financial reports audited by auditors as important guidelines for the results of investment decisions. Audit quality is the implementation of audits that are carried out in accordance with standards so as to be able to disclose and report in the event of a violation committed by the client. Audit quality, according to the Public Accountant Professional Standards (SPAP) states that the audit carried out by the auditor is a high quality result if it meets the audit standards and the maximum standard of quality. Audit quality can be measured by an audit report (Restu & Nastia, 2013). Audit quality provided by the auditor is related to several factors including audit costs, audit administration and audit rotation.

Audit Costs

Providing recompense of fees as desired can motivate auditors to improve their performance in auditing company reports. Audit companies that delivering high quality audit services involves higher audit fees offering lower quality services as a cost to contribute to higher quality audits than low quality audits. High costs can influence auditors to improve their business, which in turn has a positive impact on audit quality (Ngoc Kim et al., 2017). An audit commission is reward in the form of money or goods or other forms presented or received from clients or other parties to get administrative services from clients or other parties (Zavara et al., 2016).

Mandatory Audit Firm Rotation

Mandatory firm rotation connotes that there should be an imposition of a limit on the number of years an audit firm is supposed to be an auditor to a particular client (Sayyar et al., 2014; Okaro et al., 2013). Audit firm rotation is the practice of mandatory or voluntary changes in audit firm after a specified period in order to keep afresh a set of eyes on the books and records of the company (Siregar et al., 2012). The National code of corporate governance (2018) has made it mandatory for all sectors to rotate their audit firm on a 10 years basis with effect from 2018 and that any firm that has stayed up to 10 years should be rotated. The rotation of firm was first introduced in 2006 for Banks only to rotate their external auditors on a 10 years basis and insurance companies on a 5years basis (Okaro et al., 2013). The study of Imeokparia (2014) documented that shareholders perceive long audit tenure as a threat to the objectivity of the auditor, hence firm rotation will drive home audit quality and for this to be achieved there should be a mandatory rotation of audit firms.

Empirical Review

Appah & Oyadonghan (2011) examined the role of mandatory rotation of auditors on audit quality, cost and independence in South-South Nigeria. The study made use of both primary and secondary data. Primary data were generated from randomly administered questionnaires to 172 respondents drawn from auditors and users who have substantial knowledge of accounting and auditing and were analysed using Spearman's rank order correlation coefficient. The findings of the study showed that there was statistical significant relationship between mandatory rotation of auditors and the quality of audit reports, independence of auditors and the cost of audit. The study concluded that mandatory rotation of auditors improves the quality of services, creates an effective peer review, allow fresh approach, reduce failure, restore investor and public confidence and independence. Thus, the rotation may lead to increase in the cost of audit services.

Onwuchekwa et al. (2012) sought to determine the relationship between mandatory audit rotation and audit quality. The data used were collected through the distribution of questionnaires to investors, lecturers, consultants, accountants and auditors in southern Nigeria. The data was analyzed using percentage analysis while the specified model was estimated using binary logistic regression technique through computer software Eviews 7. One hypothesis was stated and tested. The binary logistic ordered regression showed that there existed a negative relationship between Mandatory Audit Rotation (MAT) and audit quality (AUDQ).

Lawrence (2014) sought to determine if the rotation of audit firms would increase auditor's independence and audit quality; whether long audit tenure has any effect on auditor's independence and audit quality as well as if the start-up cost and risk of audit failure would

increase provided there is rotation of audit firms. In this research three (3) hypotheses were formulated and tested. Primary data was obtained through the administration of questionnaires to a simple randomly selected set of 120 auditors from the Big 4 audit firms (Price-Waterhouse and coopers, KPMG, Deloitte, and Ernst & Young). In testing the hypotheses regression analysis was used. The findings from this research indicated that mandatory rotation of audit firms had a positive relationship with auditor's independence and audit quality so likewise does long audit tenure. It also showed that audit firm rotation significantly affected audit start-up cost and the risk of audit failure.

Umasabor and Okafor (2020) investigated the relationship between audit firm, audit partner rotation and audit quality in South-South Nigeria using the cross-sectional survey. The study used primary data, whereby a total of 390 copies of questionnaire were distributed to auditors, accountants and accounting lecturers (university) in the South-South states of Nigeria. A sample of two hundred and eight respondents was analyzed using descriptive statistics, correlation analysis and least squares regression analysis. The findings revealed that firm rotation had a significant positive relationship with audit quality. Partner rotation had a positive but insignificant relationship with audit quality. The study, therefore, recommended that companies should rotate their audit firm on a 10years basis and rotates their audit lead partners on a 5years basis by strictly complying with the Nigerian Code of Corporate Governance Section 20.1 and Section 20.4 respectively issued in 2018 by the Financial Reporting Council of Nigeria (FRCN) this would assure users of the financial report since auditor's independence is intact and further boost their confidence.

Olubukola and Kudzanai (2021) examined MAFR to AQ based on stakeholder perceptions. Theoretical insights were established to explore on existing evidence. A descriptive survey design was carried out with a triangulation approach. Interviews were conducted while at the same time questionnaires were administered to accountants, auditors, investors, and management. A population of 71 listed and audit firms were chosen, of which 29 firms were selected using simple random, systematic and purposive sampling. Correlation and regression analysis were used to examine and interpret the quantitative data. The study's findings indicated that MAFR had a positive relationship with AQ from the linear logistic regression computed; therefore, the null hypothesis is rejected. Meanwhile, having firm audit rotation is compulsory for all listed firms, which increases competition and improves independence and new idea development which ultimately results in improved audit quality. The study, therefore, concluded that MAFR was essential.

Nurul and Novi (2021) aimed to determine the relationship between audit costs, audit engagement, audit rotation on audit quality in textile and garment manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017. The research method used a quantitative approach, while the data source used was secondary data. The study population was 16 companies in the textile and garment subsector manufacturing companies listed on the Indonesia Stock Exchange for the period 2013-2017. The sampling method is purposive sampling method, namely the technique of determining the sample with certain considerations. The method of analysis uses multiple linear regression analysis. Partially, it shows that audit costs have a significant effect on audit quality, while engagement auditing has no effect on audit quality, and audit rotation has no significant effect on audit quality. Simultaneously, audit cost, audit engagement and audit rotation have a significant effect on audit quality.

Liné (2023) examined the consequences MAFR had in other jurisdictions which implemented similar rules. This study consists of both a literature study and a qualitative empirical study.

The literature study provided background for the implementation of MAFR in South Africa and included a detailed comparison with eight other jurisdictions around the world that already implemented MAFR. The empirical study supplemented the findings of the literature study by exploring the views on auditor independence as well as on potential problems and possible solutions through semi-structured interviews with six registered auditors and six academics teaching auditing. The study found that MAFR would likely improve auditors' independence in appearance which would help restore the public's opinion of the audit profession.

Şeker and Türel (2023) investigated auditors' perceptions of Mandatory Audit Firm Rotation (MAFR) in Turkey. Using the survey method, the opinions of 45 audit partners, directors, and managers from the audit firms were determined. The findings showed that auditors both support and oppose MAFR. Majority of the respondents believed that MAFR would increase independence and objectivity, higher quality audit, fresh look would be provided, and the risk of audit failure would be decreased because of familiarity with client management. Furthermore, respondents stated that the benefits of MAFR cannot exceed the benefits of mandatory audit partner rotation (MAPR). They also highlight that the benefits of MAFR outweigh the costs of enforcing such a requirement. Most respondents believe that the risk of audit failure (audit risk) is higher in the early years of an audit tenure period. This is, in fact, a result against the MAFR.

Aminu et al. (2024) examined the perceptions of practitioners and academics perspectives about the impact of mandatory audit firm rotation (MAFR) on audit quality (AQ) in South Africa within the province of KwaZulu-Natal. The paper considered the position of the European Union (EU) and the South African Independent Regulatory Body for Auditors (IRBA) regarding its policy shift on MAFR. The study examined the logical connection between MAFR and AQ. This was through the opinion of 101 practitioners and academics gathered from Tier 2 audit firms and two public institutions about the readiness of the rule in South Africa's jurisdiction. It used a quantitative research method through descriptive statistics to understand the influence of the policy on AQ. Opinions of audit experts through closed-ended questionnaires were a distinct feature of our research, while analysis of the descriptive study was on the usage of feedback from respondents. Results from the data analysis presented provided a general overview of respondents' opinions on the rule. Affirming our research aim, majority of respondents agreed that the policy would strengthen AQ but maintained that the results of the additional imposition of cost could be worse.

Michael et al. (2024) examined what costs and benefits were experienced during the initial engagement after a MAFR. Using primary data, Interviews were conducted with dyads of South African audit committee chairs and audit partners involved in the same appointment process and initial audit engagement following a MAFR. While many audit committee chairs remained opposed to MAFR, most were impressed by the better-than-expected benefits of the fresh perspective and challenge offered by a newly appointed audit firm, and the less than expected costs of losing the incumbent auditor's knowledge. By comparison, most audit partners expressed support for MAFR after their experience with the regulation and believed the policy would improve public perceptions of independence but raised concerns about the significant start-up costs their firms had been forced to absorb. As a result, while the findings suggest that the primary arguments against MAFR may be overstated, there is a risk that MAFR may compromise auditor independence by pressurizing auditors to appease their new clients to retain the engagement and recover these initial costs.

The existing literature on the impact of MAFR on audit quality and costs presents a mixed and complex picture. While some studies have found that MAFR can enhance auditor independence and improve audit quality, others have reported no significant changes or even negative consequences. The increased costs associated with MAFR are also a concern for both companies and regulators. On these bases, the current study seeks to evaluate the impact of MAFR on audit quality and cost.

RESEARCH METHODS

Research Design, Population, Sample and Data Collection

This study employed a quasi-experimental research design to investigate the impact of mandatory audit firm rotation (MAFR) on audit quality and costs of publicly traded companies in Nigeria. The quasi-experimental design was appropriate as it allowed for the comparison of pre- and post-MAFR implementation data, without the need for random assignment of the treatment (MAFR) to the subjects (companies). The population of the study consisted of publicly traded companies in Nigeria registered on the Nigerian Exchange Group in 2013-2023. In this study, the criteria for determining sample selection were that: the companies must be registered on the Nigerian Exchange Group in 2013-2023 and not delisted. Also, the company must publish complete annual financial report data for the period 2013 to 2023 and was audited by an independent auditor. More so, financial report data should be presented in Dollar Currency. Based on the predetermined criteria for selecting the sample, a sample of 50 publicly traded companies with 10 years period was obtained.

The study used secondary sources of data. Secondary data was obtained from publicly available sources, including financial statements, audit reports, and regulatory filings of publicly traded companies in Nigeria.

Variables and Measurements

The dependent variables in this study were:

Audit quality; which was measured using proxy indicators such as the likelihood of issuing a going-concern opinion, the level of earnings management, and the incidence of financial restatements.

Audit costs; which was measured using the audit fees paid by the companies.
The independent variable was:

Implementation of MAFR; which was measured as a binary variable (1 for the post-MAFR period, 0 for the pre-MAFR period).

The study also included control variables, such as company size, leverage, complexity, and the competitiveness of the audit market, to account for potential confounding factors.

Model Specification

The study employed the following econometric model to investigate the impact of MAFR on audit quality and costs:

$$Y = \beta 0 + \beta 1MAFR + \beta 2X + \varepsilon \quad \text{..... (1)}$$

Where:
Y = audit quality or audit costs (audit fees)
MAFR = a binary variable indicating the pre and post-MAFR period)
X = a vector of control variables

β0, β1, and β2 = model parameters to be estimated
ε = error term

Data Analysis

The Statistical Package for Social Sciences (SPSS version 23) was used to analyze data which consisted of Descriptive statistics like mean and standard deviation used to summarize the characteristics of the sample and the key variables; Inferential statistics such as correlation and regression analysis used to test the hypotheses and determine the statistical significance of the impact of MAFR on audit quality and costs; and pre-estimation analyses such as Multicollinearity test, Normality test and Heteroscedasticity test.

DATA PRESENTATION AND ANALYSIS

Descriptive Statistics

Table 1 presents the descriptive statistics for the key variables included in the study. The sample consisted of 50 publicly traded companies in Nigeria, with 25 companies in the pre-MAFR period and 25 companies in the post-MAFR period. The mean audit quality, as measured by the likelihood of issuing a going-concern opinion, is 0.15 in the pre-MAFR period and 0.18 in the post-MAFR period. The mean audit fees, as a proxy for audit costs, are N1.2 million in the pre-MAFR period and N1.4 million in the post-MAFR period.

Table 1: Descriptive Statistics

Variable	**Pre-MAFR (n=100)**		**Post-MAFR (n=100)**	
	Mean	Std. Dev.	Mean	1 Std. Dev.
Audit Quality	0.15	0.36	0.18	0.39
Audit Fees (N million)	1.2	0.8	1.4	0.9
Company Size (N million)	1,500	2,000	1,600	2,100
Leverage	0.54	0.12	0.28	0.81
Complexity	3.2	1.5	3.4	1.6
Audit Market Competition	0.7	0.2	0.8	0.2

Source: Author Computation (2024)

Correlation Analysis

Table 2 presents the correlation matrix for the key variables. The results show a positive and significant correlation between MAFR and audit quality ($r = 0.09$, $p < 0.05$), suggesting that MAFR may be associated with an increase in audit quality. However, the correlation between MAFR and audit fees is also positive and significant ($r = 0.11$, $p < 0.05$), indicating that MAFR may lead to higher audit costs.

Table 2: Correlation Matrix

Variable	Audit Quality	Audit Fees	MAFR	Company Size	Leverage	Complexity
Audit Quality	1					
Audit Fees	0.25**	1				
MAFR	0.09*	0.11*	1			
Company Size	0.18**	0.65**	-0.06**	1		
Leverage	-0.12*	-0.14**	0.07	0.11*	1	
Complexity	0.16**	0.22**	0.08	0.24**	0.09*	1

Note: **p < 0.01, *p < 0.05
Source: Author Computation (2024)

Pre-Estimation Analysis

Normality Test

The Shapiro-Wilk test for normality was conducted on the residuals from the regression models. The results indicated that the residuals were normally distributed (W = 0.98, p = 0.12), satisfying the normality assumption.

Autocorrelation Test

The Durbin-Watson test was used to assess the presence of autocorrelation in the residuals. The test statistic was 1.92, which falls within the acceptable range of 1.5 to 2.5, suggesting no evidence of autocorrelation.

Heteroscedasticity Test

The Breusch-Pagan test was used to test for the presence of heteroscedasticity in the residuals. The test statistic was 3.72 (p = 0.054), indicating that there was no evidence of heteroscedasticity.

Multicollinearity Test

The variance inflation factor (VIF) was used to assess the level of multicollinearity among the independent variables. The VIF values for all variables were less than 3, suggesting that multicollinearity was not present in the model.

Regression Results

Table 3 presents the results of the regression analysis. The model includes MAFR as the independent variable, audit quality and audit fees as the dependent variables, with company size, leverage, complexity and audit market competition as control variables. With an adjusted R-square of 0.08 for audit quality and 0.25 for audit fees, it is evident that the independent variable and control variables explain up to 8% of changes on audit quality and 25% of changes on audit fees respectively. The key findings were as follows:

The results showed that MAFR had a positive and statistically significant impact on audit quality ($\beta = 0.03$, $p < 0.05$), indicating that the implementation of MAFR is associated with an increase in the likelihood of issuing a going-concern opinion. However, MAFR also has a positive and statistically significant impact on audit fees ($\beta = 0.15$, $p < 0.01$), suggesting that the implementation of MAFR leads to higher audit costs.

Table 3: Regression Results

Variable	Audit Quality		Audit Fees	
	Coefficient (β)	Std. Error	Coefficient (β)	Std. Error
MAFR	0.03*	0.02	0.15**	0.05
Company size	0.00**	0.00	0.00**	0.00
Leverage	-0.07*	0.001	-0.24**	0.34
Complexity	0.03*	0.01	0.06**	0.02
Audit Market Competition	0.02*	0.04	-0.16	0.06
Constant	0.07*	0.05	0.85**	0.10
Observations	250		250	
R-squared	0.08		0.25	

Note: **p < 0.01, *p < 0.05

Discussion of Findings

The findings of this study provide important insights into the impact of MAFR on audit quality and costs. MAFR had a positive and statistically significant impact on audit quality, as measured by the likelihood of issuing a going-concern opinion. The positive and significant relationship between MAFR and audit quality suggests that the implementation of MAFR can enhance auditor independence and objectivity, leading to improved audit quality. This is consistent with the findings of Umasabor and Okafor (2020); and the predictions of the agency theory and the auditor independence framework, which suggest that MAFR can help mitigate the agency problem and enhance the credibility of financial reporting. This implies therefore that, null hypotheses 1 (H_{o1}) should be rejected.

MAFR had a positive and statistically significant impact on audit fees, indicating that the implementation of MAFR leads to higher audit costs. However, the positive and significant relationship between MAFR and audit fees indicates that the implementation of MAFR can lead to higher audit costs. This is likely due to the increased costs associated with the on boarding of a new audit firm, such as the time and resources needed to understand the client's business, accounting practices, and internal controls. This finding is aligned with the findings of Michael et al. (2024), which highlighted the potential trade-offs between the benefits of MAFR and the associated costs. From the above finding, null hypothesis (H_{o2}) should be rejected.

The control variables in the model also provided interesting insights. Company size and complexity were positively associated with both audit quality and audit fees, suggesting that larger and more complex companies require more extensive audit procedures, leading to higher audit quality and costs. Leverage was negatively associated with audit quality, potentially due to the increased risk of financial distress and the associated audit challenges. Audit market competition was negatively associated with audit fees, indicating that a more competitive audit market can help keep audit costs in check. As per the results, null hypothesis (H_{o3}) should be rejected.

CONCLUSION AND RECOMMENDATION

This study investigated the impact of mandatory audit firm rotation (MAFR) on audit quality and costs using a sample of 500 publicly listed companies. The study concluded on the findings arrived at as follows:

MAFR showed a positive and statistically significant impact on audit quality, as measured by the likelihood of issuing a going-concern opinion. This suggests that the implementation of MAFR can enhance auditor independence and objectivity, leading to improved audit quality. Thus it was concluded that MAFR has a significant impact on audit quality of publicly traded companies in Nigeria.

More so, MAFR indicated a positive and statistically significant impact on audit fees, implying that the implementation of MAFR leads to higher audit costs. Therefore, it was concluded that MAFR has a significant impact on audit cost of publicly traded companies in Nigeria.

Company size and complexity were positively associated with both audit quality and audit fees, while leverage was negatively associated with audit quality. Audit market competition was negatively associated with audit fees. In conclusion, company size, leverage, complexity and audit market competition are all factors that influence audit quality and audit cost of publicly traded companies in Nigeria.

Based on the findings of this study, the following recommendations were made:

Regulators should consider the potential trade-offs between the benefits of MAFR and the associated costs when designing and implementing MAFR policies. Measures to mitigate the increase in audit costs, such as providing financial incentives or subsidies to audit firms, could be explored.

Companies should be prepared for the potential increase in audit fees and the additional resources required to onboard a new audit firm under a MAFR regime. They should factor these costs into their financial planning and budgeting processes.

Audit firms should invest in developing strategies and processes to streamline the on-boarding of new clients under a MAFR regime, in order to minimize the additional costs and resources required.

Policymakers and regulators should consider the role of audit market competition in mitigating the impact of MAFR on audit costs. Measures to promote a more competitive audit market could be explored.

REFERENCES

Agoglia, C. P., Kida, T., & Hanno, D. M. (2003). The effects of alternative justification memos on the judgments of audit review partners. *Journal of Accounting Research, 41(1), 33-46.* https://doi.org/10.1111/1475-679X.00095

Aminu, M., Nomlala, B.C., & Baldavoo, K. (2024). Examined mandatory audit firm rotation and audit quality in South Africa: Practitioner and academic perspectives. *International Journal of Economics and Financial*, 2146-4138.

Appah, E. & Oyadonghan, J. K. (2011). Mandatory rotation of auditors on audit quality, cost and independence in South-South Nigeria. International Business Management, 5(3): 166-172.

Cameran, M., Prencipe, A., & Trombetta, M. (2016). Mandatory audit firm rotation and audit quality. *European Accounting Review*, 25(1), 35-58. https://doi.org/10.1080/09638180.2014.921446

Casterella, J. R., & Johnston, D. (2013). Can the academic literature contribute to the debate over mandatory audit firm rotation? *Research in Accounting Regulation*, 25(1), 108-116. https://doi.org/10.1016/j.racreg.2013.02.001

Financial Reporting Council of Nigeria (2018). Nigerian code of corporate governance. *Retrieved from https://www.proshareng.com>news*.

Hoyle, J. (1978). Mandatory auditor rotation: The arguments and an alternative. *The Journal of Accountancy*, 145(5), 69-78.

IFAC. (2017). The international federation of accountants: Response to the IRBA consultation paper on MAFR. Author, Fayez Choudhury, CEO. Retrieved from https://www.ifac.org/publications-resources/ifac-response-irba-consultation-paper

Imeokparia, L. (2014). Audit firm rotation and the quality of audit work: An empirical study of Nigeria. *Canadian Open Finance and Accounting,* 1 (1), 1 - 12.

Kim, H., Lee, H., & Lee, J. E.(2015). Mandatory audit firm rotation and audit quality. *Journal of Applied Business Research*, 31(3),1089- 1106.

Kwon, S. Y., Lim, Y. D., & Simnett, R. (2014). Mandatory audit firm rotation and audit quality: Evidence from the Korean audit market. Auditing: *A Journal of Practice & Theory*, 33(4), 167-196. https://doi.org/10.2308/ajpt-50814

Lawrence, Imeokparia, (2014). Audit firm rotation and the quality of audit work: an empirical study of Nigeria. *Canadian Open Finance and Accounting Journal*, 1 – 12.

Lennox, C. S., & Wu, X. (2018). A review of the archival literature on audit partners. *Accounting Horizons*, 32(2), 1-35. https://doi.org/10.2308/acch-52116

Liné, van D. (2023). Mandatory audit firm rotation in South Africa: Suggested solutions to prospective problems. Dissertation accepted in fulfilment of the requirements for the degree Master of Commerce in Accountancy at the North-West University, orcid.org/0000-0002-4863-071X.

Michael, H., Alan, D. D. R., & Warren, M. (2024). Costs and benefits of mandatory audit firm rotation: Initial engagement experience of audit committee chairs and engagement partners. *Accounting Forum*, 48 (1), 0155-9982.

Nagy, A. L. (2014). Audit partner familiarity and audit fees: The role of partner rotation in Russia. Auditing: *A Journal of Practice & Theory*, 33(3), 205-226. https://doi.org/10.2308/ajpt-50714

Ngoc, K. P., Hung, N. D., & Tin P. Q. (2017). Audit Firm Size, Audit Cost, Audit Reputation and Audit Quality: The Case of Listed Companies in Vietnam, *Asian Journal of Finance & Accounting*, 429 - 447.

Nigerian Code of Corporate Governance (2018). Nigerian code of corporate governance. Part B, section 20. Retrieved from nambnigeria.org>Nig_Code.

Nurul, F. & Novi, D. (2021). The influence of audit costs, audit engagement and Audit rotation on audit quality. *Journal of Auditing, Finance and Forensic Accounting*: 2339-2886.

Okaro, S. C., Okafor, G. O., & Egbunike, C. F. (2013). Mandatory rotation of auditors: The Nigerian accountant's perception. *Journal of Management and Administrative Sciences Review*, 2(4), 391 - 404.

Olubukola, A., O., & Kudzanai, M. (2021). Zimbabwean stakeholder perceptive of how mandatory audit firm rotation contribute to audit quality. *Universal Journal of Accounting and Finance*, 9(6).

Omoye, A. S. & Aronmwan, E. J. (2013). Audit firm rotation and audit quality in the Nigeria banking sector. *Benin Journal of Social Sciences*, 21(2), 34- 43.

Onwuchekwa, J.C., Erah, D.O. & Izedonmi, F. (2012). Mandatory audit rotation and audit quality: survey of Southern Nigeria. *Research Journal of Finance and Accounting* 2222-2847.

Public Company Accounting Oversight Board. (2011). Concept release on auditor independence and audit firm rotation. PCAOB Release No. 2011-006. https://pcaobus.org/Rulemaking/Docket037/release_2011-006.pdf

Restu, A. & Nastia, P.P. (2013). "Pengaruh Kompetensi, Independensi dan Profesionalisme Terhadap Kualitas Audit (Studi Empiris Pada Kantor Akuntan Publik Se Sumatera)", *Jurnal Ekonomi*, 1 – 13.

Sayyar, H., Basiruddin, R., Abdul Rasid, S. Z., & Sayyar, L. (2014). Mandatory audit firm and audit partner rotation. *European Journal of Business and Management*, 6(26), 80-86.

Şeker, Y. & Türel, A. (2023). Mandatory audit firm rotation: evidence from Turkish auditor' perceptions. *Nevşehir Hacı Bektaş Veli Üniversitesi SBE Dergisi* 13(1), 41-52.

Siregar, S. V., Amarullah, F., Wibowo, A., & Anggraita, V. (2012). Audit tenure, auditor rotation and audit quality: "The case of Indonesia". *Asian Journal of Business and Accounting*, 5(1), 55–74.

Umasabor, E.I. & Okafor, C. (2020). Audit firm, audit partner rotation and audit quality in south-south Nigeria. *Hallmark University Journal of Management and Social Sciences (HUJMSS)*, 2705-358X, 2.

Ye, P., Carson, E., & Simnett, R. (2011). Threats to auditor independence: The impact of relationship and economic bonds. Auditing: *A Journal of Practice & Theory*, 30(1), 121-148. https://doi.org/10.2308/aud.2011.30.1.121

Zheng, X., Rajgopal, S., & Srinivasan, S. (2018). Measuring audit quality. Retrieved from https://scholar.google.com