Accounting Forum

ISSN: (Print) (Online) Journal homepage: www.tandfonline.com/journals/racc20

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To cite this article: Michael Harber, Alan Duboisée de Ricquebourg & Warren Maroun (2024) Costs and benefits of mandatory audit firm rotation: initial engagement experience of audit committee chairs and engagement partners, Accounting Forum, 48:1, 63-89, DOI: 10.1080/01559982.2022.2130812

To link to this article: https://doi.org/10.1080/01559982.2022.2130812

ACCOUNTING FORUM
2024, VOL. 48, NO. 1, 63–89
https://doi.org/10.1080/01559982.2022.2130812

Routledge
Taylor & Francis Group

RESEARCH ARTICLE

Costs and benefits of mandatory audit firm rotation: initial engagement experience of audit committee chairs and engagement partners

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ABSTRACT
Audit regulators remain divided on whether the costs of mandatory audit firm rotation (MAFR) will be outweighed by the benefits of the regulation. Existing research provides mixed results in support of the benefits of MAFR. This paper aims to complement these studies by examining what costs and benefits are experienced during the initial engagement after a MAFR. 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 pressurising auditors to appease their new clients to retain the engagement and recover these initial costs. This paper provides insights for policymakers considering the costs and benefits of implementing MAFR, and for audit committees and auditors who seek to maximise the benefits while minimising the costs of their next MAFR event.

KEYWORDS
Mandatory audit firm rotation; auditor independence; audit quality; corporate governance

ACCEPTED BY
Lisa Baudot

1. Introduction

Mandatory audit firm rotation (MAFR) is primarily intended to limit the adverse audit quality effects of lengthy audit firm tenures (Casterella & Johnston, 2013; Horton et al., 2021). There is, however, little consensus among audit regulators and practitioners about the merits of the regulation (Harber & Maroun, 2020; Horton et al., 2018; Reid &

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Carcello, 2017). For example, while several countries, including those in the European Union (EU), have adopted a version of MAFR (European Commission, 2014; Garcia-Blandon et al., 2020; Horton et al., 2018), many have not. Others, like Singapore, legislated and then repealed the regulation (IFAC, 2017). Following a protracted debate in the United States of America (USA) in 2013, the House of Representatives blocked the Public Company Accounting Oversight Board's (PCAOB) proposal to implement MAFR (H.R., 1564, 2013).

South Africa is the most recent jurisdiction to mandate MAFR. In 2017 the Independent Regulatory Board for Auditors (IRBA) introduced the ruling, limiting audit firms' tenure to a maximum of 10 years (IRBA, 2017). As in the EU, the South African legislation is, in part, a response to high-profile corporate and audit failures and deteriorating results from regulatory inspections of audit work (IRBA, 2016). Yet an overview of the comment letters submitted by affected South African organisations before the enactment of MAFR shows strong disagreement surrounding MAFR's potential to enhance auditor independence and audit quality (Harber & Maroun, 2020; Ndaba et al., 2021). These concerns are consistent with views raised in other jurisdictions (Ewelt-Knauer et al., 2013; Fontaine et al., 2017) and have left open the crucial question of whether the costs of the regulation outweigh its intended benefits.

To date, no study has engaged in the views of practitioners who have experienced mandated firm rotation. Given the paucity of jurisdictions where MAFR has been in effect and the difficulty of researchers accessing the decision-makers within the audit process (Knechel et al., 2013), research has been confined to enquiries with practitioners who have not experienced mandated firm rotations (see, Ewelt-Knauer et al., 2013; Fontaine et al., 2017; Harber & Maroun, 2020; Ndaba et al., 2021). Even archival studies of the audit quality effects of MAFR suffer from a lack of data (Casterella & Johnston, 2013). Using the South African context where mandated rotations began shortly after the June 2017 ruling, we have engaged directly with matched pairs of audit committee chairs (AC) and audit partners (AP) of exchange-listed companies which have recently completed the process of rotating firms and the first-year audit under the new firm.

We make an important empirical and methodological contribution by engaging with AP-AC pairs. Much of the existing research on MAFR relies on inferential testing of audit quality and auditor independence surrogates to conclude on the costs and benefits of firm rotation. Little is known about how audit practice itself is influenced by a mandatory change of audit firms and the informed experiences of both auditors and auditees (Ewelt-Knauer et al., 2013; Harber & Maroun, 2020). The current paper provides first-hand accounts of how audit firms engage with their clients during these initial audit engagements where the relationship between the two parties is forged and the claimed costs of MAFR are most acute. The dyads' views also provide insights into the practical steps which companies and auditors might take to mitigate the negative consequences of MAFR.

The current paper's findings will be relevant for practitioners and regulators interested in the costs and benefits of rotating audit firms. It is in response to calls for more exploratory research on audit regulation from developing economies (Cooper & Robson, 2006; Harber & Willows, 2022) while generating findings which should be relevant in other jurisdictions where post-implementation reviews of MAFR are required, or where rules for firm rotation are being considered. Differences in countries' regulatory, cultural, and technical environments mean that the results and recommendations outlined here should be generalised with caution. Nevertheless, our findings and recommendations may inform researchers interested in testing the costs and benefits of MAFR in other jurisdictions.

While six of the nine AC chairs remained opposed to MAFR, auditees experienced unexpected benefits to financial reporting quality arising from the auditor's fresh perspective on the company's accounts, and the new auditor's willingness to challenge management on financial reporting matters. While a primary argument against MAFR concerns the risk of losing the incumbent auditors' client-specific knowledge and expertise, new audit firms mitigated this by investing considerably in gaining a suitable understanding of their new clients and the associated audit risks. Overall, these findings suggest that the primary argument against MAFR (the loss of client-specific knowledge which is detrimental to audit quality) may be overstated. This is not, however, to say that the costs of MAFR are negligible.

All of the APs supported MAFR as a way of improving public perception of auditor independence but they were concerned with the significant start-up costs auditors were forced to absorb during initial engagements. Evidence suggests that auditors feel pressurised to recover these costs leading to a conscious or unconscious effort to appease a new client, which is not conducive to the proper exercising of professional judgement and scepticism. There were also no definitive examples of how independence "in fact" (as opposed to independence "in appearance") was bolstered because of a change in audit firms.

As an implication of our findings, more should be done to minimise "switching costs" as described, especially those experienced in the early years following a firm rotation. Three common recommendations were raised. Firstly, companies need to plan their next MAFR so that an experienced AC chair and CFO are present during the years immediately before and after rotation. Secondly, the rotation should be scheduled to allow the new auditor sufficient time to plan for the first-year audit, understand the client and, if possible, to shadow the outgoing auditor in their last year of appointment. Lastly, to safeguard against audit quality compromise, the auditor and audit committee need to discuss the true costs of a firm rotation so that both parties reach an agreement on how these costs may be fairly recovered over time.

Section 2 provides an overview of the framework of the cost–benefit trade-off inherent in the MAFR debate, which we employ to organise our analysis of the interview data, together with a review of the literature which highlights the mixed academic evidence in support of the regulation. The method is then outlined in Section 3, our findings in Section 4, and the paper ends with our concluding discussion in Section 5.

2. Mandatory audit firm rotation: a cost–benefit trade-off

Internationally, the debate on whether the costs of forced auditor rotation outweigh the intended benefits continues. For example, in 2011 the former Securities and Exchange Commission chair in the USA expressed concern that " … the cure [MAFR] could turn out to be worse than the disease" (Cohn, 2012). Not long after legislators rejected the proposal, deciding to retain partner-only rotation rules (H.R., 1564, 2013). In contrast, despite being faced with similar opposition, the EU in 2014 proceeded with its

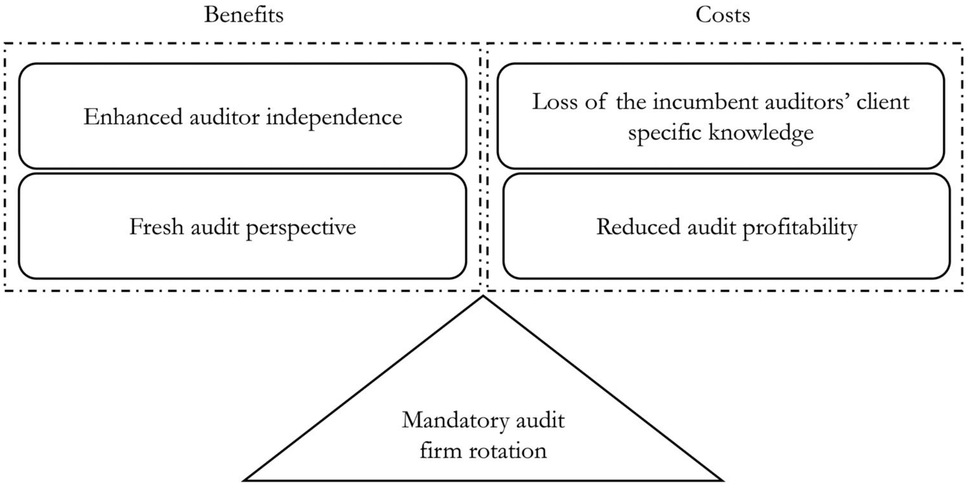

Figure 1. Framework of the cost-benefit trade-off (compromise and balance).

policy on rotating audit firms (effective in 2016), although with "a much-watered down version of the original proposals" than originally tabled (Horton et al., 2018, p. 991). Part of the reason for the compromise in the EU was a recognition of the cost–benefit trade-off (summarised in Figure 1) inherent in the regulation (Horton et al., 2018).

2.1. Benefits of MAFR

"Audit quality", as defined by DeAngelo (1981), is the joint probability an auditor will (1) identify and (2) report a breach in an accounting system, where a failure in (1) implies a lack of expertise and a failure in (2) a lack of auditor independence "in mind/fact".[1] Longer firm tenures increase relational familiarity and reliance on fee incomes, potentially compromising independence and professional scepticism (Bell et al., 2015; Casterella & Johnston, 2013; Tepalagul & Lin, 2015). A professionally sceptical and independent auditor will more likely comply with the professional standards and act without undue influence when gathering evidence and forming opinions about the client's finances (IESBA, 2018).

Advocates of MAFR argue that social and economic bonding between auditors and their clients caused by lengthy tenures compromises the auditor's integrity and increases the likelihood of audit failures (Bell et al., 2015). Regulators in both the UK (FRC, 2010, p. 6) and the USA (GAO, 2003, p. 13; PCAOB, 2011, p. 11) have also argued that firm rotations provide the benefit of a "fresh approach", a "fresh look" or a "fresh viewpoint" which can bolster audit quality. There is some support for this argument in existing auditing standards. For example, ISA 240 requires auditors to add an "element of unpredictability" in their planned audit report. IAS 330 and ISA 500 call on auditors to use well-designed test procedures to reduce audit risk to an acceptably low level. A more

[1]While "independence in appearance" relates to the public perception of a lack of bias, "independence in mind" refers to the reality of the auditors' state of mind i.e. whether the auditor is independent "in fact" (see the International Code of Ethics for Professional Accountants IESBA, 2018, section 290).

innovative and rigorous audit methodology will be better suited to identifying misstatements because of fraud or error than the increasingly standardised approaches which take hold at long-standing audit clients (Logie & Maroun, 2020).

Not all the benefits of MAFR take the form of substantive improvements to audit quality. Policymakers may be acting in good faith to improve audit practice but much of the regulatory development targeted at auditors is symbolic. As explained by, *inter alia*, Humphrey et al. (2011), Khalifa et al. (2007), Maroun and Solomon (2014) and Unerman and O'Dwyer (2004), in institutionalised settings maintaining the confidence of non-experts in the credibility of external audit is just as important as implementing structural reforms which change how audits are executed. The same may apply to MAFR in South Africa (Harber & Maroun, 2020) and other jurisdictions (Ewelt-Knauer et al., 2013) where regulation improving independence in appearance and the perceived levels of audit quality is an effective response to high-profile audit failures and the growing concern among members of the general public that audit may no longer be fit for purpose (The Economist, 2018a, 2018b). This may be the case even if MAFR does not lead to significant changes in the quality of audit engagements.

2.2. Costs of MAFR

Opponents of MAFR counter the arguments in favour of rotation by pointing out that the loss of a knowledgeable and experienced audit firm will result in a decline in audit quality. For example, the USA General Accounting Office (GAO) concluded that MAFR:

> … may not be the most efficient way to enhance auditor independence and audit quality, considering the costs of changing the auditor of record and the loss of auditor knowledge that is not carried forward to the new auditor. (GAO, 2003, p. 50)

Historically, the perceived cost of losing the incumbent audit firms' client-specific knowledge has been the foremost concern against the adoption of MAFR, as noted by UK finance directors (Hussey & Lan, 2001), Canadian AC members (Fontaine et al., 2017), U.S. lawmakers (H.R., 1564, 2013; Reid & Carcello, 2017) and South African auditors, AC chairs and financial directors (Harber & Maroun, 2020).[2] These groups generally agree that the more traditional partner-only rotation rules sufficiently address any concerns about auditor independence and professional scepticism without the cost of losing the audit firms' accumulated client-specific knowledge (Casterella & Johnston, 2013; Laurion et al., 2017).

In addition to this primary "switching cost", audit committees (ACF, 2017; Fontaine et al., 2017) and auditors (Ewelt-Knauer et al., 2013; Harber & Maroun, 2020) perceive that MAFR will lead to significant financial cost and disruption. For example, changing audit firms may require more managerial involvement by auditors and auditees and place a burden on audit committees which must invest additional time in monitoring initial engagements (Fontaine et al., 2017). Few studies are available to confirm or refute these claims but Kwon et al. (2014) find that engagement hours significantly increased after the South Korean adoption of MAFR in 2006. Engagement hours are a reasonable

[2]Again, these opinions are collected from practitioners who were not operating within a MAFR setting and thus, in contrast with our paper, represent views that are not informed by real and recent experiences of forced rotations.

proxy for auditor effort (Knechel et al., 2013) and an increase in the time spent on an audit is to be expected as the incoming audit firm will be less familiar with a client than will the outgoing audit firm.

Interviews with South African auditors before the MAFR ruling was published in June 2017 show that auditors anticipate that their firms' profitability will be adversely affected by the additional costs of tendering and the once-off costs associated with multiple first-year engagements. There are concerns that the costs are unlikely to be covered by initial audit fees (Harber & Maroun, 2020; Ndaba et al., 2021). These views are not specific to South Africa. In the UK, for example, the regulator believes that competitive tendering by firms causes them to "compete fiercely on price" (FRC, 2010, p. 7). The PCAOB (2011, p. 17) emphasised that MAFR would give audit firms far shorter periods to recover fees. While this may reduce the risk of "low-balling"[3] (PCAOB, 2011, p. 17), it may increase the economic bonding between auditors and their clients if audit firms feel pressurised to retain the engagement for the full tenure to recover initial start-up costs.

2.3. Review of the literature

The academic evidence of the implications of MAFR is mixed. Some experimental studies find that MAFR increased perceptions of auditor independence (Gates et al., 2006; Jennings et al., 2006) and reduced the likelihood of auditors issuing biased reports (Arel et al., 2006; Dopuch et al., 2001; Wang & Tuttle, 2009). Others find no difference in independence in fact or appearance (Aschauer & Quick, 2018; Kamath et al., 2018; Kaplan & Mauldin, 2008; Quick & Schmidt, 2018). However, by their very nature, experiments construct abstract interventions to simulate an audit firm rotation (Humphrey, 2008) and do not assess fully the complexity and challenges encountered in a real MAFR setting (Quick & Schmidt, 2018).

To overcome these criticisms, other studies have used archival-empirical methods to examine the effects on audit quality from long audit tenures and changing audit firms. Overall, there is little evidence that long audit tenures negatively affect audit quality (e.g. Garcia-Blandon et al., 2020; Johnson et al., 2002; Knechel & Vanstraelen, 2007; Myers et al., 2003), undermining support for MAFR (Casterella & Johnston, 2013; Tepalagul & Lin, 2015). Similarly, most studies examining the effects on audit quality following a voluntary change in audit firms provide little evidence in support of forced rotations of audit firms (see, Casterella & Johnston, 2013). However, these studies often ignore the endogenous selection bias when using a sample of companies which chose to rotate their auditors. A voluntary change in audit firm can be because of financial difficulty or receiving a modified audit opinion (Carey et al., 2008; Casterella & Johnston, 2013), factors which can also be associated with auditees' financial reporting quality.

Further studies use the demise of Arthur Andersen (AA) (Blouin et al., 2007; Kealey et al., 2007; Nagy, 2005) or audit firm failures (Firth et al., 2012) to examine the effects on audit quality of a forced change in auditor. While audit quality improved for AA's smaller former clients (Nagy, 2005), most companies which changed auditors following the

[3]Low-balling is the practice of strategic fee discounting to secure appointment. The practice is considered unethical if the fee quoted is so low that it prejudices the ability of the auditor to perform the engagement in accordance with applicable technical and professional standards (IESBA, 2018).

collapse of AA showed no improvement in audit quality (Blouin et al., 2007). This is in line with Firth et al. (2012) who find no improvement in audit quality after companies were forced to change auditors following the collapse of local audit firms in China. Yet, examining the clients of failed audit firms as a proxy for MAFR can also lead to endogenous selection bias. In substance, a forced change in auditor following the collapse of an audit firm is different from the promulgation of regulation mandating periodic rotation of all audit firms (Cameran et al., 2016; Casterella & Johnston, 2013).

Given the above, South Korea, Spain, and Italy have all been used as settings to examine the effects of a "real" change in audit firms because these countries have legislated some form of MAFR. In South Korea, under a regulatory regime of auditor designation, Kim and Yi (2009) find an increase in earnings quality, shown by a reduction in discretionary accruals, for companies forced to change audit firms. Since the designation rules only applied to problematic companies, their findings may not hold when all companies are required to rotate audit firms. When South Korea did adopt MAFR in 2006, Kwon et al. (2014) found that, while audit engagement hours and fees increased, discretionary accruals (a widely used proxy for audit quality) remained unchanged following the appointment of new audit firms. Likewise, Ruiz-Barbadillo et al. (2009) find no difference in audit quality, as proxied by the likelihood of receiving a modified audit opinion, for Spanish companies between the periods when MAFR was required and later repealed. These results should, however, be interpreted with some caution because the affected audit firms were anticipating rather than participating in MAFR. Spain repealed their MAFR legislation before any companies were obliged to change audit firms (Carrera et al., 2007).

In Italy, which first implemented its policy in 1975, MAFR did not appear to improve audit quality for companies audited by a Big-N auditor. Rather than increasing quality, earnings quality weakened in the initial three years following MAFR (Cameran et al., 2015) and was highest in the last three years of an audit firm's nine-year tenure (Cameran et al., 2016). However, using a far larger sample of Italian companies, Corbella et al. (2015) find that, while MAFR did not impact earnings quality for companies with a Big-N auditor, earnings quality did improve after a MAFR for companies using a non-Big-N firm. A more recent Italian study by Horton et al. (2021), however, finds no evidence of an improvement in the quality or value relevance of reported earnings after a MAFR.

Our study is best positioned on a continuum which ranges from interpretive analysis aimed at theory development, at the one extreme, to the empirical verification and quantification of the consequences of audit regulation, on the other. Concerning the latter, developing a model to test audit quality changes resulting from MAFR in a positivist sense is beyond the scope and nature of this research. When it comes to theory, a significant body of work has already considered how auditing functions currently as a rational technical construct which serves the capital market (e.g. Francis, 2011; Watts & Zimmerman, 1983) and as an amalgamation of institutionalised practices which allow it to command the confidence of non-experts (Pentland, 1993; Power, 2003). What is missing are more practically-orientated studies which draw on earlier empirical work and theoretical perspectives to examine aspects of audit practice and advance normative recommendations (Hay, 2015). This provides the basis for framing the current paper. It must be iterated that our aim is not to develop a meta-theory for firm rotation which incorporates positivist, interpretive and critical perspectives on auditing. Our objective is simpler: to outline the effects of MAFR which may be an advantage or disadvantage to audit quality and to use this as a framework for evaluating how dyads of audit partners and audit committees have internalised MAFR. The originality of this paper lies in the examination of the views of senior practitioners and members of auditees' governing bodies who have recently experienced a mandatory firm rotation. In so doing we provide a deeper understanding of the real-world experienced effects of the MAFR cost–benefit trade-off.

3. Method

Following a series of high-profile corporate and audit failures, the South African regulator passed legislation requiring MAFR in June 2017. Like the EU rules, South African public interest entities are required to rotate audit firms where their tenure exceeds 10 years. This first rotation must be performed before 1 April 2023 with subsequent rotations on a 10-year basis (IRBA, 2017). According to the IRBA, MAFR was legislated to improve audit quality by enhancing auditor independence and increasing audit market competition (IRBA, 2016). As in other jurisdictions, the regulator's proposals were met with fierce resistance (Harber & Maroun, 2020; Ndaba et al., 2021).

Our data were collected from mostly dyads of audit committee chairs and audit partners who had recently completed the appointment of the new audit firm and the subsequent first-year audit following the June 2017 ruling (refer to Table 1). We adopted a semi-structured interview approach, consistent with that used in other qualitative studies in the accounting literature (e.g. Dodgson et al., 2020; Maroun & Atkins, 2014; Soobaroyen et al., 2019; Westermann et al., 2019). The approach encouraged comprehensive conversations with participants about their recent experience of mandatory firm rotation. As shown in Appendix 1 and 2, the questions were open-ended, providing a degree of structure while also allowing the participants to converse freely (Miles et al., 2014). Various issues were discussed at differing times in the interviews but, by the completion of the interview, all issues had been covered.

Using purposive sampling, we identified a list of Johannesburg Stock Exchange (JSE) listed companies which had recently performed a MAFR based on the following criteria:

(1) the respective JSE listed company announced its intention to rotate its audit firm post the June 2017 IRBA MAFR ruling;
(2) the company's audit committee acknowledges that the MAFR regulation was a reason for the rotation;
(3) the incumbent audit firm's tenure would have equalled or exceeded the maximum allowance of 10 years as of April 2023 (as per the IRBA's ruling); and
(4) the newly appointed auditors had completed at least one audit of the financial statements.

After selecting the companies, we contacted their respective AC chairs and were successful in securing interviews with fifteen companies. We then invited the new APs for these companies to participate in the study. Interviews with the new APs for eleven of

Table 1. Companies selected.

Co. id	Industry	Market capitalisation (Rand million)	Tenure of outgoing audit firm (years)	Outgoing audit firm	Incoming audit firm	Financial year-end (under newly appointed auditor)
C01	Construction & Materials	1,000 < 25,000	11	Non-Big 4 firm	Big 4 firm	28 February 2018
C02	Financial Services	1,000 < 25,000	9	Non-Big 4 firm	Non-Big 4 firm	28 February 2019
C03	General retailers (Fashion)	25,000 < 50,000	75	Big 4 firm	Big 4 firm	31 March 2018
C04	Transportation & Logistics	10 < 1,000	11	Big 4 firm	Non-Big 4 firm	28 February 2019
C05	General Industrials	50,000 < 100,000	11	Big 4 firm	Big 4 firm	30 June 2019
C06	Property	1,000 < 25,000	13	Non-Big 4 firm	Big 4 firm	31 March 2019
C07	Mining	1,000 < 25,000	9	Big 4 firm	Big 4 firm	30 June 2019
C08	Infrastructure	10 < 1,000	12	Non-Big 4 firm	Big 4 firm	31 August 2019
C09	Healthcare	25,000 < 50,000	22	Non-Big 4 firm	Big 4 firm	30 September 2019
C10	Forestry & Paper	10 < 1,000	69	Big 4 firm	Big 4 firm	30 June 2019
C11	Mining	10 < 1,000	14	Big 4 firm	Non-Big 4 firm	31 December 2018

This table shows the unique id and characteristics for the 11 JSE listed companies where we obtained interviews with both the Audit Committee chairs and Audit Partners following a rotation of audit firms due to MAFR requirements. The outgoing and incoming audit firms include six of the largest audit firm networks in South Africa in terms of size and number of clients. For ease of comparison, companies are classified into industries according to their Industry Classification Benchmark (ICB) sector, and size according to their market capitalisation on 28 February 2020.

the fifteen companies for which we had interviewed the AC chairs were held. No response was received from two APs and two APs declined our invitation.

As shown in Table 1, the market capitalisation for the eleven companies ranges between ZAR10 million and ZAR100 billion[4] with multiple industries represented. This addresses the possibility of sector – or size-specific factors which may be affecting how MAFR is experienced by auditees.

The remainder of this study focuses on the findings from the interviews with the AC chairs and APs for the eleven companies. Doing so allows the opportunity for deeper insight (Dodgson et al., 2020; McCracken et al., 2008) into how the cost–benefit trade-off experienced by the two key parties to the same engagement may have shaped their final opinions on MAFR. By focusing on the AC-AP dyads at these organisations, we were able to gain detailed insights into the processes followed to appoint a new auditor; how the auditor dealt with the first-year engagement and the audit client's perceptions of the costs and benefits of rotating audit firms in the year when the adverse effects of MAFR are expected to be highest.

Each participant is a qualified professional accountant. On average, the nine AC chairs reported 18 years' of experience in their current role (range: 5–34) and the ten APs reported an average of 14 years' experience as an engagement leader (range: 9–25).[5] Given the relevance of the size of the audit firm as an indicator of audit quality (DeAngelo, 1981), audit partners from both the Big 4 and second-tier firms have been engaged. Refer to Table 2.

To develop our interview agenda, we reviewed information from several sources namely, (1) the MAFR regulations as communicated by the regulator and gazetted

Table 2. Audit committee chair and audit partner dyads experience.

AC id	AP id	Co. id	AC chair: Experience as an AC member (years)	AP: Experience within the profession (years)	AP: Experience as engagement partner (years)
AC01	AP01	C01	13	30	20
AC02a	AP02	C02	17	23	9
AC03	AP03	C03	23	24	16
AC04	AP04	C04	12	18	11
AC05a	AP05	C05	20	30	25
AC05b	AP06	C06	20	20	10
AC02b	AP07a	C07	17	23	13
AC08	AP07b	C08	31	23	13
AC09	AP09	C09	34	28	21
AC10	AP10	C10	5	23	10
AC11	AP11	C11	9	18	9
Average			**18.2**	**23.7**	**14.4**

This table shows the unique identifiers of the AC chairs and APs who were interviewed along with an overview of the number of years of experience of the AC chairs, the number of years of professional experience of the Aps, and the number of years of experience as an engagement partner of the Aps. Of the audit committee chairs interviewed, two individuals each sat as AC chairs on two companies within the sample (AC02 and AC05), but their experiences of each company rotation were discussed separately. As such, 9 AC chairs were interviewed addressing 11 separate rotation experiences. Of the auditor partners interviewed, one partner (AP07) was the new auditor of two companies within the sample, but their experiences of each company rotation were discussed separately. As such, 10 separate Aps were interviewed addressing 11 separate rotation experiences.

[4]Approximately USD0.7 million USD7 billion.

[5]All auditors interviewed had prior experience with proposing appointments to secure new clients, as well as with partner rotations within existing clients. AC chairs also possessed prior experiences with oversight of AP rotations. These experiences served as a base from which to contrast the recent novel experience of audit firm rotation.

into law (IRBA, 2016, 2017), (2) the IRBA's public consultation process (Harber & Maroun, 2020; IRBA, 2016), (3) the literature documenting the MAFR debate in the USA and the EU (Cameran et al., 2016; Horton et al., 2018; PCAOB, 2011; Reid & Carcello, 2017) and (4) the academic literature on auditor rotation (e.g. Cameran et al., 2015, 2016; Casterella & Johnston, 2013; Garcia-Blandon et al., 2020; Kwon et al., 2014; Tepalagul & Lin, 2015) and audit quality (e.g. Knechel et al., 2013; Tepalagul & Lin, 2015).

A final set of nine semi-structured questions (see Appendix 1) was included in the agenda used to interview the AC chairs. The questions were modified for the APs to deal with the international operations/functions of their audit firms (see Appendix 2).[6]

Interviews were conducted telephonically[7] by the same researcher and averaged 40 min. At the start of each interview, the researcher explained the purpose of the study and stressed the importance of sharing personal experiences with the first-year audits. Participants were encouraged to talk openly, provide examples and re-explain key points to avoid ambiguity. All interviewees were reminded of their right to withdraw from the study at any time and were guaranteed anonymity.[8]

3.1. Data analysis

The open and axial coding of transcripts was an iterative process (Höllerer et al., 2018, p. 625). This is an inherent characteristic of interpretive research and should not be seen as a threat to validity and reliability. Safeguards were introduced to limit subjectivity and ensure that the data collection and analysis were complete, accurate and internally valid.

All the interviews were recorded and transcribed shortly after they were completed, with a copy emailed to each respective participant requesting communication of any changes, clarification or additional comments as required. No material modifications were noted. Each transcript was then reviewed by the interviewer and one of the other two authors as the transcripts were completed. The review process ensured the accuracy of the transcripts but also facilitated ongoing discussion in the data collection phase. During this process, the researchers identified emerging themes, extracted relevant quotations and noted unusual, interesting, and conflicting accounts by participants for further evaluation.

Informed by the coding strategies outlined in Miles et al. (2014), the initial themes emerging from the data were iteratively determined as the interviews progressed. Similar codes were merged under broader themes which were then organised according to the costs and benefits of MAFR, now serving as open codes to generate a list of concerns, issues and experiences raised by the participants. Examples included: (1) the time taken by auditors to tender for engagements; (2) the cost of increased monitoring by ACs

[6]For example, the AC chair was asked about their discussions with the CFO of the company concerning the challenges of running the business while the audit was being performed. The AP was asked how co-operative the CFO was in aiding the audit team in their requests. Again, the AP was questioned concerning challenges experienced in delivering the audit on budget and the areas requiring audit emphasis, whereas the AC chair was asked about the impact of the audit on the business and audit committee responsibilities.

[7]While face-to-face interviews are widely viewed as the "gold-standard" (Tucker & Parker, 2014), the geographical dispersion and availability of the participants meant telephonic interviews was the best approach to gain access to such high-profile interviewees.

[8]Table 1 shows how all company, AC chair and AP names have been replaced with identifiers (Company 01; AC01; AP01 etc.) for the purpose of providing quotes.

during the first year of the audit and (3) how auditors worked to gain an understanding of their new clients. Particular attention was paid to understanding consistent and divergent views between the two groups (AC chairs and APs). A list of consistent and divergent views was kept and discussed regularly. Revisions to the open codes took place until no additional themes or insights were noted and the authors were able to aggregate the data under broader theme headings or axial codes.

The axial coding involved a discussion among the authors to ensure that each of the key costs and benefits outlined by the prior research was operationalised according to the experiences of the respondents and their firms. To limit the degree of researcher bias and retain focus on the paper's objectives, the axial codes were derived from the earlier empirical research outlining the costs and benefits of MAFR as outlined in Section 2. The axial codes were also informed by professional standards on audit practice and quality (e.g. IAASB, 2009, 2014; IESBA, 2018). The axial codes were used to determine how MAFR impact specific aspects of the audit engagement and the associated quality indicators in addition to evaluating broader cost versus benefit considerations. The aim was not to test for the effects of MAFR on audit quality in a positivist sense but to ensure that the analysis was grounded in already established assurance discourses while not overlooking trends or themes which had not been addressed by the prior research.

Consistent with the interview agenda and the MAFR cost–benefit trade-off per Figure 1, participants distinguished between their experiences with the appointment of the new auditor (or similarly, the ending of the incumbent's term) and their views on the initial audit engagement following the MAFR. Certain codes applied to this early period (such as the costs of the tendering process and assessing the qualities of the applicants), while others applied to the first-year engagement (such as the fresh perspective benefit and the frustrations of dealing with auditors unfamiliar with the complexities of the business). This distinction informed our interpretation of the data and how the findings are structured.

4. Findings

4.1. Insights into the costs and benefits of MAFR

Table 3 shows that, as expected, prior to experiencing a MAFR, almost all the AC chairs and APs were unconvinced that the benefits would outweigh the costs. The various costs and benefits expressed were consistent with those outlined in Section 2 and are not expanded here. Instead, we focus on how the views of the costs and benefits were either confirmed or altered by recent experiences with a mandatory firm rotation.

Of the nineteen interviewees, three (ten) were in favour of MAFR prior to (after) their recent experience. Moreover, a further two AC chairs, while still opposed to MAFR, had softened their opposition to the regulation.[9] These changes in opinions are in line with recent survey results by de Jong et al. (2020) showing a greater level of support for MAFR in the Netherlands after the introduction of the respective regulatory requirements. As

[9]While excluded from our analysis, three of the AC chairs from the four companies from which we were unable to obtain an interview with the AP also changed opinions in favour of MAFR for similar reasons to those outlined in the remainder of this study.

Table 3. Opinions towards MAFR before and after the initial engagement.

	AC chair				AP				Dyadic comparison	
Co. id	AC id	In favour before?	In favour after?	Changed opinion?	AP id	In favour before?	In favour after?	Changed opinion?	Comparative positions on MAFR before	Comparative positions on MAFR after
C01	AC01	Yes	Yes	No	AP01	No	No	No	Mixed	Mixed
C02	AC02a	No	No	No	AP02	Yes	Yes	No	Mixed	Mixed
C03	AC03	No	Yes	**Yes**	AP03	No	Yes	**Yes**	Both against	**Both in favour**
C04	AC04	No	No	No [α]	AP04	No	No	No	Both against	Both against
C05	AC05a	No	Yes	**Yes**	AP05	No	Yes	**Yes**	Both against	**Both in favour**
C06	AC05b	No	Yes	**Yes**	AP06	No	Yes	**Yes**	Both against	**Both in favour**
C07	AC02b	No	No	No [α]	AP07a	No	No	No	Both against	Both against
C08	AC08	No	No	No	AP07b	No	No	No	Both against	Both against
C09	AC09	No	No	No	AP09	No	Yes	**Yes**	Both against	**Mixed**
C10	AC10	No	No	No	AP10	No	Yes	**Yes**	Both against	**Mixed**
C11	AC11	No	No	No	AP11	Yes	Yes	No	Mixed	Mixed
Proportion in favour		1/9	3/9	2/9		2/10	7/10			

This table presents an overview of the individual AC chair and AP opinions, and a comparison of the opinions for the matched AC chair and AP dyads, towards MAFR before and after their experience of an initial engagement due to a MAFR. [α] represents individuals who remain opposed to the regulation, but whose view has improved, based on the experience of the "fresh look" and perception benefits.

shown in Table 3, while eight dyads had been jointly opposed and three dyads had mixed opinions towards MAFR, experiencing the actual costs and benefits of a recent MAFR led five dyads to re-evaluate their positions. Three dyads (Company C03, C05 and C06) entirely changed their opinions in support of MAFR. The AC chairs remained opposed in Company C09 and C10 but the APs for these engagements changed opinions in support of MAFR. While opinions towards MAFR remained unchanged for the remaining six dyads, only three of these (Company C04, C07, and C08) remained opposed to MAFR, of which two (C07 and C08) were audited by the same audit partner (AP07). The AC chairs at Company C04 and C07 showed significantly less opposition to the regulation after their recent experiences.

We now present our findings concerning the nature of the costs and benefits experienced by AC chairs and APs during the initial audit engagement to examine why these interviewees either changed opinions or remained opposed to MAFR.

4.1.1. Enhanced independence

One of the main benefits of MAFR is to enhance auditor independence. All but one of the APs whose opinion changed in favour of MAFR, acknowledged that firm rotation changes the public's *perception* about threats to independence compromising audit quality:

> … when you see all the things that have gone a bit "pear-shaped" around the South African business environment, maybe this [MAFR] is not such a bad thing (AP07a)

The regulation is not "a *bad thing*" (AP07a) because it enhances independence in appearance and, as confirmed by all interviewees, plays an important role in reassuring the public that the regulator is responding to concerns about audit quality decline. Concerning enhanced independence in mind ("in fact"), however, none of the interviewees admitted to independence improvements. This is understandable considering that none believed independence in mind had been materially compromised. A more critical interpretation is that MAFR only makes it appear as if auditors are more independent of their clients but does little to address the facts and circumstances which can compromise an auditor's ethics, irrespective of the engagement term. In other words, the independence benefits of MAFR are symbolic (Ndaba et al., 2021) and are realised by the regulator (rather than the auditor or auditee) even if there has not been a significant change to audit practice.

The interviewees' initial concerns that MAFR only addresses perceptions did not change post rotation. Nevertheless, interviewees felt that MAFR leads to auditors challenging management on financial reporting matters more effectively and demonstrating greater professional scepticism. This suggests that newly appointed audit firms are more objective and more sceptical during initial engagements. The newly formed relationship and relative lack of familiarity with the complexities of the client's business encourage more deliberation among members of the audit team and the challenging of the status quo at clients. The newly appointed audit partner feels compelled to be more involved during the engagement to "bridge the knowledge gap" and question underlying assumptions established by the client. If this is the case, the initial concern that the independence benefits of MAFR are more symbolic than substantive could be overstated. Our data indicate that, after the new audit firm has been appointed and commences with the risk assessment and response process, clients notice the benefits of a more objective or impartial audit team, even if this is not understood as improved independence in mind.

4.1.2. A fresh audit perspective vs. the loss of the incumbent auditors' client-specific knowledge

Challenging management's assumptions is consistent with the "fresh perspective" benefit of MAFR. Many references to the benefits of a "fresh look" were made by the AC chairs. For example:

> … you've got a set of key audit matters, which the incumbent auditor has thought important … then a new firm comes in and they completely change all those. They go "no, no, those are the wrong ones – these are the right ones". I certainly see that as an advantage (AC05a)

A new audit firm can look at the financial reporting estimates, judgements, and policies differently, improving the quality of the audit outcome. As a result, rather than bemoaning the loss of the predecessor auditor's knowledge and expertise, AC chairs praised the "fresh look" provided by a new audit firm. A common theme among the AC chairs in favour of MAFR was how they had been pleasantly surprised by the benefits of a new approach to auditing their organisations. Consider the following anecdotal comments reflecting on the difference between partner-only rotation and audit firm rotation:

> … the nature of this thing is [that] firms do things differently, so [management] become accustomed to the way in which a firm does things. A new firm comes in and asks maybe harder questions in certain areas, maybe they don't focus as much in others (AP07a)

The terms "professional scepticism" and "challenge" were commonly used by the AC chairs. The engagements in which management experienced the most "challenges" from the auditors, were the same engagements where the AC chairs and APs views changed in favour of MAFR. The process of identifying and resolving material accounting matters provided the dyads with objective evidence of the benefit of rotating audit firms. For example, describing the audit of Company C05, AC05a explained "I am now a fan of mandatory firm rotation, having not been" after observing how the new audit firm expended significant effort to conduct the engagement and challenged management on important judgements. This view was shared by the lead engagement partner (AP05) who explained that the engagement required 25 subsidiary-level audit partners, all assigned from his audit firm, and who reported to him on the underlying audits in the group. According to AP05 they "were hand-picked" and suitably experienced so that they would have the courage to challenge management when needed.

> I can leave this [partner] to lead that charge because I know that he knows what he's doing, and I know he's going to interact well … picking the right personalities of the different engagement partners to marry the client is also very important (AP05)

The increased questioning by the new auditors was often described as uncomfortable. For example, AC03 (for Company C03) recounted how the disagreement between management and the audit partner (AP03) over the provision for impairment of trade receivables was contentious, resulting in the most "traumatic audit [I have had] in my twenty-odd years". The audit partner (AP03) agreed, describing the audit as a "huge effort" from both sides: "it was extremely hard … I still have some scars on my back".

Overall, the findings from comparing the AC chair and AP experiences at Company C03, C05, and C06 show that the benefits of the challenge and fresh perspective of the new auditor outweighed the costs of changing audit firms.

Company C09 and C10, where only the APs changed their views, also support this finding. In Company C09 there was a significant restatement of prior year results because of disagreement over the classification of cash flows from a business acquisition. The new auditor (AP09) disagreed with the treatment adopted by management in the prior year. AP09 changed their view in favour of MAFR because rotating audit firms resulted in the identification of a material matter in the prior year's accounts which may have remained unnoticed. A similar view was shared by AP10 from their engagement:

> … there was no disagreement in the end. Initially, there was disagreement because pushback is there [as the CFO argues:] "the Big 4 firms are the same so why would you have a different view?" … after a lot of in-depth discussion with various people, including the audit committee, agreement was reached. If you go look at their financial statements, you will see there was a big write-off on goodwill [and a] corresponding increase in their biological assets … If [the previous audit firm] had remained on the audit, some of the write-offs would not have been that significant (AP10)

Neither AC09 nor AC10 changed their view on MAFR but AC10 noted:

> … it [MAFR] did challenge management to look at certain things differently, which I think was a good thing. But you have to weigh that up, you know, at the end of the day against your investment from both sides. (AC10)

At Company C04, C07, and C08, AC chairs and APs experienced less conflict and disruption. They weighed up the costs and benefits of a MAFR differently and concluded that MAFR failed to yield a significantly different audit which improved financial reporting quality and/or the underlying systems and controls.

C07 and C08 were audited by the same partner (AP07). These three interviewees all reported a very positive experience of rotating audit firms but remained opposed to MAFR. The two engagements were not characterised by levels of conflict and disruption experienced by the AC chairs and APs who had changed their views towards MAFR. AC02b noted that the initial audit engagement "worked absolutely superbly. It really was … I can't put my finger on any problems that we had." Likewise, AC08 commented on how well the CFO and the incoming AP worked together. The time and effort invested by the partner in the first year of the engagement were complimented. Nevertheless, AC02b remained opposed to MAFR. The same sentiment was expressed by AP07. The reason for the continued opposition was simply that "partner rotation is, in my mind more than sufficient … to get rid of the familiarity threat" (AP07) and implementation of MAFR across the industry was "going to be chaos" (AC02b). Those auditors who remained in opposition emphasised the cost of the regulation to the profession. AP07 noted how the need to tender for multiple engagements "would compromise [their] personal life" and noted the significant costs their firms were expected to absorb to understand and familiarise themselves with a new client:

> … when we accept a new audit the transition cost will be for our own account … . But I do believe that mandatory firm rotation will increase audit fees as there's a bigger realisation that you need to recover all these costs (AP07a)

4.1.3. Reduced audit profitability

To overcome their unfamiliarity with their new clients APs unanimously described the tremendous efforts required to "upskill themselves". Prior to appointment, the tendering process required a sufficient level of understanding of the prospective client to produce a competitive bid. Once appointed, the APs face the pressing task of investing the necessary time and effort to gain sufficient knowledge and understanding of their clients' businesses to identify key risk areas and develop a suitable audit approach for the initial engagement:

> … you need to be appointed long ahead of the time, and you need to spend at least a year with the previous auditor, attending audit committees, almost shadowing them … you really have got to get that understanding, and it takes time (AP03)

The extra time and effort required by the audit team during the initial engagement led to all but two AC chairs acknowledging that the new audit firm experienced budget overruns. These overruns were generally absorbed by the audit firm because APs experienced "quite a lot of resistance [from the audit committee] to increasing the fee" (AP05). This was corroborated by the AC chairs who shared how the competitive tender process had resulted in downward pressure on audit fees. For example, AC03 explained that the agreement with the appointed firm required fees to match those charged by the outgoing firm for 3 years with only inflationary adjustments. AP10 confirmed that the auditor agreed to match the fees of the outgoing firm and absorb any setup costs incurred to perform the first-year audit. As a result, APs described how their profit margins were reduced to the point that initial engagements were loss-making. Table 4 reports the summary of the estimates of these costs and shows that 20% to 50% of the overall audit fee was irrecoverable during the initial engagement. Contributing to this was the significant amount of additional partner time required during the first year of a new audit which ranged from 20% to 100% of the amount of time compared to a recurring engagement.

Table 4. Additional audit costs and partner time incurred during the initial engagement.

AP id	Additional audit costs	Additional audit partner time
AP01	50%	50%
AP02	20–30%	20–30%
AP03	25%	>30%
AP04	30%	50–60%
AP05	30%	50%
AP06	50%	100%
AP07a	30–50%	100%
AP07b	30–50%	100%
AP09	30–50%	50%–100%
AP10	30%	30%
AP11	30–50%	50%

This table provides an overview of the additional audit costs and partner time incurred, relative to an ongoing audit engagement, during the initial engagement year following a MAFR based on interviews with the new audit partners of the 11 JSE listed companies which recently changed audit firms.

Since audit committees were unlikely to approve an increase in audit fees after rotation, APs iterated the need for cost efficiencies during the initial years of an engagement to maintain their profit margins:

> … unless the firms can find ways of becoming more effective and efficient with technology, I think that will be a structural change in the profitability of the industry. [As an industry we need] to see how we can take people out of the audit process and use technology more (AP09)

AC05a believed that, over time, the increased costs absorbed by audit firms would result in fees rising but this was not a consensus view; it appears most APs are doubtful that costs will be recouped by real fee increases. If the audit firm, for whatever reason, lost the client before the full rotation period was served (i.e. before the 10-year tenure limit), there was a realistic possibility of not recovering the initial investment in the client. This was described as having implications for the sustainability of the industry and maintaining audit quality in the long-term (AC10; AP02; AP09).

That additional time and effort must be expended by an auditor dealing with a new client was common knowledge among all the respondents and begs the question: why are audit committees reluctant to agree to a fee increase for the new auditor to recover some of the initial costs attributed to MAFR? AC chairs were of the view that the costs of rotation must be borne exclusively by the auditor because any additional costs are the result of a change in auditor, rather than a change in the auditee's business model, operations and risk profile. The audit committees' logic seems reasonable but it runs the risk of contributing to a situation where the quality of an audit is compromised because of fee pressures imposed on the auditor. Fee pressure and the incentive to retain a client to recoup initial investments is a threat to independence as the auditor is incentivised to acquiesce to client positions on financial reporting matters. Audit committees, contrary to their intentions (or the objective of MAFR), may be putting audit quality at risk by refusing to pay higher audit fees after a mandatory rotation. Whereas Kamarudin et al. (2022) conclude that audit firms may compensate for the costs of MAFR by increasing fees across all their clients, our findings show that audit committees will not allow this and are very reluctant to grant fee increases.

4.2. Recommendations to minimise the costs of MAFR

All interviewees were requested to suggest how the "switching costs" of MAFR could be mitigated while retaining or enhancing the "fresh perspective" benefit. Firstly, to minimise the effects of losing the incumbent auditor's client-specific knowledge, AC chairs stressed the importance of maintaining expertise "on their side of the engagement". The importance of a technically competent AC chair and CFO was emphasised by all respondents because these are the key individuals who engage with the audit firm. Auditors shared these views:

> … you need to have experienced hands-on, non-executives and audit committee – and a very experienced audit committee chair, [together with] divisional audit chairs that sit under him … he knew [the business] inside out … they were absolutely critical to me getting on top of all of the issues (AP05)

It may be necessary to allow some flexibility around the timing of a mandatory rotation to avoid situations where the rotation occurs soon after the appointment of a new AC chair or CFO. This is a matter for the audit committee to plan for, seeing that the committee can anticipate the rotation period and ensure succession plans are in place.

Secondly, participants from both groups highlighted the importance of allowing sufficient time for competing audit firms to deliver their proposals to the AC and for the newly appointed auditors to familiarise themselves with their new clients and conduct a "proper handover" (AP03) with the incumbent auditor.

> … we got appointed on the 10th of October for a March year-end, with no staff on the planning board, no prior files to start from. You've got zip. And you've got a reporting deadline that is [in] May that following year. So, there was no ways it was ever going to happen without huge effort from both [parties]. It was extremely hard. (AP03)

Thirdly, "auditor shadowing" was a common suggestion. This is where the incoming audit firm is included in some manner during the final year audit of the outgoing firm. One partner (AP10) explained that this process "gives you the opportunity to get up that learning curve much quicker" and bridge the familiarity gap as the new auditor. Another AP (AP04) even suggested that the outgoing partner can dedicate time to review the incoming auditor's audit work before finalising the first-year audit. This will facilitate a more managed handover and transfer of knowledge from one audit team to the other. However, impracticality and costs were raised by interviewees as considerable barriers to implementing these suggestions:

> … I can only imagine the cost involved to do [all that work] and not getting paid … [and if paid appropriately] the process would just become enormously expensive (AP01)

Finally, the most common recommendation from APs was to plan the engagement well in advance and dedicate sufficient staff to the first-year engagement. Concerns about the profitability of engagements in the early years were, however, re-iterated. Some APs (e.g. AP07 and AP10) suggested that much of the financial strain on the auditors would be relieved if audit committees realized the benefits of allowing higher fees to accommodate the set-up and investment costs incurred by the new audit firm.

5. Concluding discussion

MAFR is touted as a regulatory intervention which safeguards auditor independence and provides a "fresh perspective" with the objective of bolstering audit quality and public confidence in the assurance process. Opponents, however, claim that they are highly disruptive, costly and unnecessary. Furthermore, they claim that MAFR will impair audit quality.

Much of the prior research on firm rotation is, however, based on inferential testing of quality surrogates and settings which only proxy for a situation where an auditor is changed because of a regulatory requirement. To deepen our understanding of the costs and benefits of MAFR, inform future research on the topic and provide practical recommendations to practitioners, we present the first study to interview AC chair and AP dyads recently involved in initial audit engagements following a mandated firm rotation.

Before introducing MAFR, the APs and AC chairs were, as expected, strongly opposed to the regulation. However, once experienced first-hand, they began to assess the cost–benefit trade-off of MAFR differently. While six of the nine AC chairs remained opposed to MAFR, most were impressed by the better-than-expected benefits of the fresh perspective offered by new auditors and their willingness to challenge management on key financial reporting assumptions. AC chairs also conceded that the costs of losing an incumbent auditor's knowledge were less than expected. By comparison, seven of the ten APs expressed support for MAFR after their experience with the regulation and believed the policy would improve public perceptions of independence. The APs did, however, raise concerns about the significant start-up costs their firms had been forced to absorb and the long-term implications of this reality for audit quality.

We acknowledge the potential for vested interests to introduce bias. Most notable is the understandable reluctance of both groups of respondents to admit that audit quality is ever compromised, either before or after a rotation. Auditors are conflicted when asked to assess the quality of their work or their independence from their clients. Likewise, audit committees are not completely neutral because they appoint new audit firms and are responsible for overseeing audit engagements. In addition, the researchers do not have the same authority as a regulator or court of law. While efforts were made to control for bias during the data collection stage of the study, the potential for audit partners and audit committee chairs to withhold information on the grounds of confidentiality or otherwise cannot be precluded. Nevertheless, an important finding of our study is that practitioners within the audit process demonstrate less opposition towards MAFR after having experienced it. Indeed, many interviewees' experiences caused them to support MAFR for the first time while some of those remaining opposed to the policy acknowledged how the unexpected benefits of the regulation had softened their resistance.

The reasons for growing support (or less opposition) towards MAFR are twofold. Firstly, the APs and AC chairs were genuinely surprised by the benefit to financial reporting quality resulting from the fresh perspective and challenge offered by the newly appointed audit firm and AP. AC chairs observed the incoming APs grappling with the complexities of their businesses to form their views on audit risk areas, key accounting estimates and the application of accounting standards. This effort was over and above that observed in past audit partner rotations. APs provide similar insights. We find evidence, provided by both AC chairs and APs, of a different audit approach being applied by the new auditor and a willingness to challenge client management on key accounting matters.

Secondly, while a primary argument against MAFR concerns the risk of losing the incumbent auditors' client-specific knowledge and expertise, the findings suggest that this risk is managed by the incoming audit firm and audit partner through an exceptional investment of time and resources. Overall, these findings suggest that the primary argument against MAFR concerning the loss of client-specific knowledge of the outgoing audit firm, often voiced by those inexperienced with MAFR in practice, may be overstated.

The benefits of MAFR experienced by the client have, however, come with a considerable financial cost to the audit firms. It appears that these costs are not recovered quickly or easily by the auditors either from additional guaranteed fees or efficiency gains. Instead, the costs of an initial engagement are understood as an investment in a new client with only an expectation of additional income over the MAFR period. There is a risk that this mindset could undermine auditors' independence and compromise audit quality if auditors feel economically compelled to retain a client for the maximum period allowed by the rotation rules.

That MAFR may fail in its objective to bolster auditor independence and, as part of this, audit quality will need to be tested in more detail with post-implementation reviews of MAFR several years after the first rotation. This can be complemented by a more detailed case study focused on one or two dyads where researchers with access to key personnel at auditees and audit firms' working papers can study exactly how the challenges in the initial years of an audit engagement are internalised and overcome by both parties to the engagement. An integral part of this will be resolving an apparent "tension" between the benefits of a "fresh perspective" offered by the new auditor and the insights which can be obtained from an incumbent with a deep understanding of the client and its industry.

Our respondents suggest that the former exceeds the latter but this may not always be the case. Examining those aspects of an audit which are most likely to become "stale" and benefit from the "fresh eyes" referred to by our ACs could provide insights into *how* MAFR improves audit practice and lowers the costs of changing audit firms. Conversely, determining the audit processes and judgement areas which require the most understanding of, and experience with, a client can help an incoming auditor plan the execution of an initial engagement better. A refined analysis of how innovation is introduced by a new auditor and how a loss of an incumbent's experience is addressed will also provide insights into assurance mechanics which, to date, have been largely overlooked by the academic literature.

Expanding the current study by approaching additional firms and their auditors is another opportunity for future research. Securing dyads to interview is difficult so our participants were mostly from the Big 4 firms and large listed companies. As a result, how smaller companies and audit firms experience MAFR is not specifically addressed. Similarly, how experiences with MAFR vary among sectors has not been covered. A notable limitation of the current study is its focus on the South African assurance market. More refined insights into the costs and benefits of MAFR can be generated by considering how regulatory, cultural or technical differences among jurisdictions influences the trade-offs of the advantages and disadvantages of firm rotation or other external regulatory developments.

Finally, we draw the readers' attention to recommendations from our interviewees for minimising MAFR switching costs. Three common recommendations were tabled. Firstly, to minimise the costs of losing an incumbent auditor's client-specific knowledge, companies need to plan their next MAFR so that an experienced AC chair and CFO are present during the years immediately before and after rotation. Secondly, the disruption and loss of auditor knowledge and expertise can be minimised by timing the rotation to allow the new auditor sufficient time to plan the audit, understand the client and shadow the incumbent firm at key stages during its final year. Thirdly, audit committees and APs should be encouraged to engage in honest conversations about the full cost of undertaking an initial audit engagement and regulators should consider how these costs can be recovered by audit firms.

Implementing these recommendations may go a long way to reducing the disruption of MAFR. However, it remains for future research to examine the efficacy of these proposals. These suggestions may not be practical in other settings. For example, if a similar MAFR policy were to be implemented in the US, the intense scrutiny of US audit partners' work by the PCAOB (e.g. see Ege et al., 2020; Johnson et al., 2019; Westermann et al., 2019) and high levels of audit litigation (see, Maksymov et al., 2020) may result in different costs and benefits to those reported within a South African context. Nevertheless, the advantages and disadvantages highlighted by this paper and the associated recommendations should be broadly applicable to an international audience interested in how external regulations impact audit practice and how practical steps can be taken to mitigate unexpected costs.

Data availability

Individual audit committee chair and audit partner responses are confidential.

Acknowledgement

The authors would like to thank participants at the various workshops, conferences and informal gatherings of Meditari Accountancy Research and the Centre for Critical Accounting and Auditing Research. We would like to acknowledge the helpful feedback from our anonymous reviewers, Wayne van Zijl, Linda De Beer, Danielle Cerbone and Dusan Ecim. Finally, we are grateful to Lelys Maddock for providing a "non-accountant's perspective" and proofreading this paper.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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Appendixes

Appendix 1. Guiding interview questions for the AC chairs

(1) Please describe your reasons for placing the audit out for tender, and why you hired a Big 4 or non-Big 4 audit firm.
(2) In comparison to the outgoing audit team, please describe any differences you observed between the knowledge, skills, and expertise of the senior engagement team personnel.
(3) In comparison to the outgoing audit team, please describe any differences you observed in the quality of their communications with you and the audit committee.
(4) After completing the audit engagement, describe your views on the quality of the key audit findings, extent of adjustments required, and the value-added by the new audit firm.
(5) Concerning the fees agreed with the new audit firm, did they vary from the audit fee charged in the prior year's engagement with the outgoing audit firm?
(6) Based on the feedback received from your senior financial management (particularly the CFO), how did their experience of this audit firm rotation compare with partner rotation?
(7) Describe your opinion on the MAFR regulations before your recent experience with a MAFR.
(8) Has your opinion changed after this experience of a MAFR? Why is this the case?
(9) Based on this experience, what specific policy or procedural recommendations would help regulators, auditors, or audit committees to mitigate any negative effects in future mandatory firm rotations?

Appendix 2. Guiding interview questions for the audit partners

(1) Please describe the tendering process followed to secure your appointment, and explain your opinion of whether Big 4 or non-Big 4 audit firms will secure more audits of exchange-listed companies due to MAFR.
(2) Considering this was an initial engagement (new client), what areas required the most audit emphasis (audit effort)?
(3) Did you budget additional staff time and plan additional audit work because it was an initial engagement?
(4) As engagement partner, how did the CFO (especially) and senior management at the client respond to dealing with a new audit firm?
(5) Does your audit firm apply different internal quality control procedures to new engagements? If so, please describe the procedures.
(6) Do you anticipate the audit fee for next year's engagement to be higher/lower/the same, and do you believe the audit committee will be open to allowing an increase in the audit fee?
(7) Describe your opinion on the MAFR regulations before your recent experience with a MAFR.
(8) Has your opinion changed after this experience of a MAFR? Why is this the case?
(9) Based on your experience, can you provide any specific recommendations in terms of policies or procedures which would help regulators, auditors, or audit committees to mitigate any negative effects in future mandatory firm rotations?