Do Audit Partner Rotation and Tenure Influence Accruals Quality: Evidence from Australia

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Current Version: June 2025

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Abstract

This study examines the impact of audit partner rotation and tenure on accruals quality following the mandatory audit partner rotation policy in Australia. We analyse the population of 25,756 client-year Australian companies from 2004 to 2023. The sample is classified into three groups: firm-years following mandatory rotation of audit engagement partner, voluntary rotation of audit engagement partner, and auditor switch (i.e., partner rotation with firm rotation). Only a minority of firm-year observations (17 percent) are subject to mandatory partner rotation, while most firms either voluntarily rotate audit partners before the five-year mandatory limit (55 percent), or rotate partners following an audit firm switch (28 percent). We find no change in audit quality in the year immediately following either mandatory or voluntary partner rotation for continuing audit firm clients, nor during the subsequent partner tenure (i.e., tenure years 2 to 5). Similarly, while we do not observe an improvement in audit quality in the year following an audit firm switch, quality does significantly improve during the subsequent partner tenure for the firm switch group. Our main findings hold for cross-sectional analysis using audit firm size, audit client size and complexity, and partner experience. Overall, our results suggest that audit quality remains consistent over audit partner tenure for continuing clients. However, audit quality improves following an audit firm switch. Policymakers might consider implementing targeted quality control policies for audit engagements following auditor switches.

Keywords: auditing; audit quality; auditor rotation; audit partner tenure.

I. INTRODUCTION

Regulators have long been concerned about the detrimental effect of lengthy audit partner tenure on audit quality due to the independence threat (i.e., arising from the development of personal relationships between an auditor and their client), and the 'loss of critical perspective' (i.e., partners' professional judgment, scepticism, or analytical abilities that are weakened as tenure increases). Though long audit partner tenure can foster a better understanding of the client which enables the audit partner to perform a more effective and efficient audit (i.e., client-specific knowledge), mandatory audit partner rotation and a cooling-off period before an audit partner can again lead the engagement are a popular quality control policy used across most international jurisdictions. The main objective of this paper is to evaluate whether the mandatory audit partner rotation policy is effective by assessing financial reporting quality over partner tenure under the five-year mandatory rotation rule.

To evaluate the effectiveness of the mandatory audit partner rotation policy, we explore the following two research questions: (1) whether audit clients' financial reporting quality varies immediately after mandatory audit partner rotation, voluntary audit partner rotation and audit firm switches; and (2) whether audit clients' financial reporting quality varies over the maximum partner tenure of 5 years.[1] We focus on these two aspects for a more complete understanding of whether the benefits of partner rotation (i.e., obtaining 'fresh-perspective' and increased independence after a mandatory audit partner rotation) outweigh the costs (i.e., loss of client-specific knowledge after 5 years tenure). Minimal variation in audit quality over audit partner tenure under the mandatory partner rotation regulation would align with regulators' goals. We perform our analysis during the period 2004 to 2023, during which the five-year partner rotation policy was mandatory in Australia.

[1] In the mandatory audit partner rotation setting, the impact of long audit partner tenure (i.e., more than five years) on audit quality cannot be observed.

Financial reporting quality plays a crucial role in conveying valuable information to investors. For example, the temporary timing differences between cash flows and earnings may prevent investors from understanding firms' actual financial performance. Accruals accounting for such temporary timing differences allow earnings to more actually reflect the economic reality and improve future cash flow prediction (Dechow, Kothari, and Watts 1998; Dechow and Dichev 2002; Kim and Kross 2005; Kothari, Leone, and Wasley 2005). Hence, accruals quality is a key aspect of financial reporting quality, and poor accruals quality may reduce investors' ability to predict earnings over cash flow. Unintentional estimation errors and intentional manipulation impair the quality of accruals and reduce the relevance of accounting earnings in decision-making. We focus on accrual quality because alternative proxies that rely on restatements or internal control weakness are not available in Australia (DeFond and Zhang 2014; Lennox and Wu 2018; Simnett, Carson, and Vanstraelen 2016).

Prior studies undertaken during the current mandatory partner rotation regulatory environment provide mixed evidence for the relation between mandatory audit partner rotation and accruals quality. Several studies find higher financial reporting quality in the year immediately following audit partner rotations consistent with the incoming partner bringing a 'fresh-perspective' (e.g., Lennox, Wu, and Zhang 2014; Laurion, Lawrence, and Ryans 2017). In contrast, some studies find no evidence of a change in quality following audit partner rotations (e.g., Gipper et al. 2021; Chi et al. 2009) and other studies find a decline in quality in the years immediately following audit partner rotation consistent with there being a 'learning curve' effect (Litt, Sharma, Simpson, and Tanyi 2014; Kuang, Li, Sherwood, and Whited 2020). Dodgson et al. (2020) identify a quality control policy used by large audit firms in the U.S. where the incoming partner "shadow" the outgoing audit partner, which is likely to mitigate against declining quality in the first year of a new partner's tenure. Studies evaluating audit quality and tenure under the current rotation rule find the 5-year period is short enough to

prevent auditor capture or complacency (e.g., Gipper at al. 2021). Most research exploring partner rotation and audit quality, particularly U.S studies, focus on large clients audited by Big 4 auditors.

To empirically investigate whether and how financial reporting quality varies after audit partner rotation, as well as throughout the rotation cycle, we use a longitudinal dataset from the Australian audit market covering the period 2004-2023. The advantages of our dataset include the following: First, Australia is unique in having a long history of disclosing audit partners' names in audit reports. Second, the requirement to disclose the audit partner name in Australia enables us to collect information for the whole market, whereas prior studies using U.S. data can only focus on part of the market (e.g., companies identified in the SEC comment letters) with a clear bias towards larger clients and larger Big 4 auditors Third, mandatory rotation after 5 years was mandated in Australia from 2004. Fourth, in Australia, non-mandatory engagement partner rotation is more common than mandatory engagement partner rotation. Therefore, this setting enables us to examine whether the relationship holds for both mandatory and non-mandatory engagement audit partner rotation.

Our sample consists of 25,756 client-year observations of Australian companies over the period 2004–2023. Within this sample, we identify 1,573 (17%) mandatory engagement partner rotations, 5,167 (55%) voluntary engagement partner rotations, and 2,668 (28%) audit firm switches. These descriptive statistics suggest that the majority of the population is not subjected to the mandatory audit partner rotation policy. These statistics are similar in both the Big 6 and non-Big 6 samples. However, mandatory rotation is more common for large clients (i.e., ASX300 companies) and less common for smaller clients.

Our regression analyses provide evidence that partner tenure is unrelated to accruals quality for the mandatory rotation group. In other words, accruals quality does not exhibit any particular pattern over the five-year tenure period, suggesting accruals quality is not

significantly different over the five-year tenure period. The results remain consistent regardless of whether the first tenure year of the incoming audit engagement partner or the final tenure year of the outgoing audit engagement partner is used as the reference category. Consistent with Gipper et al. (2021), these results show that audit quality is unrelated to partner tenure and mandatory rotation, probably suggesting that audit firms manage rotations to mitigate disruptions and audit failures (Dodgson et al. 2020). In the case of non-mandatory engagement partner rotation, our results are generally similar to those of the mandatory rotation sub-sample.

We find that partner tenure is positively associated with accruals quality following audit firm switches, in contrast to the findings for the mandatory or non-mandatory partner rotation groups. We also find that compared to accruals quality in the first tenure year (i.e., year t), accruals quality significantly improves from the second tenure year to the fifth tenure year (i.e., from year t+1 to t+5) after an auditor switch.[2] In cross-sectional analyses, we provide evidence that our main result hold by audit firm size, audit client size, and complexity, or partner experience. We also find lower accruals quality in the first year after audit firm switches is more pronounced for non-Big 6 auditors, non-ASX300 clients, and less experienced audit partners.

This study makes several contributions to the field. First, our study contributes to the ongoing debate on the relevance of mandatory audit partner rotation policy. Unlike prior research that uses short time windows, our longitude data from 2004 to 2023 enables us to more comprehensively evaluate audit quality among clients subject to mandatory (5 years) and voluntary (<5-year) partner rotation. Gipper et al. (2021) observe a substantial number of within firm rotations in their predominantly large client sample are non-mandatory (38 percent) and likely occur for many reasons and "have different properties and economic trade-offs

[2] We find similar results when the accruals quality in the last tenure year of the outgoing audit engagement partner is used as the reference category.

compared with planned mandatory transitions ….” Thus, future research needs to carefully distinguish between mandatory and non-mandatory partner rotations and cannot assume that the number of early rotations is negligible” (p. 324). Our results reveals that less than one-quarter of the population of companies (22 percent) are subject to mandatory partner rotation after 5 years. Our study accordingly explores the effect of voluntary and mandatory audit partner rotation on audit quality and well as the impact of audit partner tenure on audit quality following both voluntary and mandatory audit partner rotation. Our results demonstrate uniform quality around voluntary and mandatory audit partner rotation, which suggests the current policy which prevents long partner tenure is effective in maintaining audit quality.

Second, prior research has primarily focussed on Big N auditors and finds consistent audit quality following partner rotation, which is explained, in part, by quality control procedures within the Big N, i.e., ‘relationship partner’ (e.g., Dodgson et al 2020; Gipper et al. 2021). Such policies are less likely to exist in smaller audit firms due to resource constraints and so important contribution of this study is that we also focus on the non-Big N auditors. Similarly, prior research has not investigated the impact of audit partner rotation on audit quality for small client segments. Thus an important contribution of this study is to measure the impact of partner rotation and auditor tenure on audit quality among non-Big 6 auditors and small client segments.

The rest of the paper is organized as follows. Section II reviews relevant literature and develops hypotheses to be tested. Section III describes the research methods. Section IV presents the results, and Section V concludes.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Background Information

Audit partner rotation is a quality control policy legislated across major international jurisdictions. In U.S. in the early 1970s, the AICPA Practice Section mandated periodic audit partner rotation after seven years of tenure, with a two-year ‘‘cooling-off’’ period before the auditor became eligible to resume the role of lead audit partner for the same engagement. After the introduction of SOX in 2002 (i.e., SOX section 203) the engagement and review partners were required to rotate off an engagement after serving five consecutive years, followed by a 5 year ‘‘cooling-off’’ period. It was not until 2017 that the U.S. mandated disclosure of the audit partner's name. European Union currently requires partner rotation every seven years and a cooling-off period of three years. Both the U.K. and Canada has a five-year-on, five-year-off policy.

In the context of emerging countries, Audit reports in China disclose the names of both the review partner and engagement partner and after 2003 the China Securities Regulatory Commission (CSRC) and the Ministry of Finance required the review and engagement partners to be rotated every five years or, in the case of newly listed companies, at the end of the second year following the initial public offering (IPO). In India, audit partner's name is voluntarily disclosed within the auditor's report, as per the guidelines set by the Institute of Chartered Accountants of India (ICAI). The Companies Act 2013 of India mandates audit firm rotation after a maximum of two five-year terms if the audit firm is a partnership and after one five-year term if the audit firm is a sole proprietorship. Taiwan and Brazil also have a mandatory audit partner rotation after 5 years. For many decades, the audit reports in Taiwan have required disclosure of audit firm and audit partner names. Finally, South Africa requires mandatory audit partner rotation after five years, followed by a cooling-off period of two years.

In Australia, Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (CLERP 9) which became effective from July 1, 2004 required, for the first time, mandatory partner rotation every five years, with a 2 year ‘‘cooling-off’’ period. The

legislative requirement for the auditor to sign the audit report in their own name as well as in the name of the audit firm has existed since the 1970s (s324 (10) of Australian Corporations Act).[3] In New Zealand, PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* requires the engagement audit partner to rotate after a maximum of 7-year time-on period, with a 5 year colling off period.

Literature Review

Few studies have explored the influence of audit partner tenure and audit partner rotation on audit quality, largely because until recently, few international jurisdictions have publicly disclosed the audit partner's name. Utilising the unique public disclosure of the audit partner's name prior to the introduction of mandatory audit partner rotation in 2004, researchers in Australia and Tiawan were able to investigate the impact of long partner tenure on audit quality. Audit quality in Australia was found to decline with long audit partner tenure (>7 years) consistent with loss of critical appraisal and reduced independence over time (e.g., Hamilton et al. 2005; Carey and Simnett 2006), quality was found to improve immediately after partner rotation consistent with a 'fresh eyes' benefit in Australia (Fargher, Lee, and Mande 2008), but decline in the early years of audit partner tenure in Taiwan (Chi and Huang 2005). It is noteworthy that Carey and Simnett (2006) report the deterioration in audit quality with long tenure is specifically associated with non-Big 6 audit firms.

Mandatory partner rotation was introduced in most international jurisdictions in the early 2000s. Since then, it has not been possible to examine the impact of long audit partner tenure (i.e., beyond five years) on audit quality. Instead, researchers have investigated whether financial reporting quality varies before and after audit partner rotation, in order to understand

[3] For periods beginning on or after January 1, 2019 to pre-December 31, 2023, the cooling-off period increased from two to three years (APESB 2017), with the minimum cooling-off period is being increased to five years from December 2023.

the influence of mandatory partner rotation policies. However, few studies have considered variations of financial reporting quality throughout the length of the maximum 5-year audit partner tenure following partner rotation.

Litt, Sharma, Simpson, and Tanyi (2014) empirically test if there is an association between audit partner rotation and the quality of audit clients' financial reporting on a sample of 527 US public companies. Because the partner's continued engagement with their client and the year of partner rotation was not observable from public documents at the time of the study, the authors identify audit firm switched in the period 2000 to 2004 and made the assumption that all partners serve the full 5 years of tenure. The main analysis tests variation in audit quality before and after the assumed date of rotation, five years after the firm switch. The authors find financial reporting quality during the first two years with a new audit partner (years 6 and 7) is lower relative to the final two years with the outgoing partner (years 4 and 5), especially for large and complex clients and for clients of non-Big 4 auditors. A clear limitation of the methodology is the assumption all audit partners serve for five continuous years following an audit firm switch.

Daugherty et al. (2012) investigated partners' perception of mandatory partner rotation and cooling-off periods drawing on 178 semi- structured interviews with US audit partners. Consistent with theory, partner perceive both a positive (improves independence) and negative (reduced client-specific knowledge) impact on audit quality. Partners interviewed believe they require up to three years tenure on new engagements to fully understand a new client, which suggests lower quality in the early years of tenure. There were noteworthy concerns of an indirect and unintended effects due to partners' quality of life being impacted by regulations, particularly when physical relocation was required.

Drawing on semi-structured interviews with 20 US audit firm partners, Dodgson et al (2020) identify a quality control process in the five of the largest public accounting firms in the

US whereby the new audit partner is introduced to the audit in the period preceding rotation. The policy of introducing the incoming partner as a non-decision-making partners ('relationship partner') in the year/s preceding rotation will likely contribute to a smooth partner transition by maintaining continuity in the client relationship and maintain audit quality through knowledge transfer.[4] It is unclear from the study if this quality control policy is adopted by non-Big 4 audit firms. Lennox, Wu, and Zhang (2014) examine the impact of mandatory partner rotation on audit quality measured using proprietary data on audit adjustments on the population of listed firms obtained from the Chinese Bureau of the Ministry of Finance for the period 2006–2010. Overall results indicate that mandatory rotation has a beneficial effect in the partner's final year of tenure before rotation occurs, and in the subsequent year when the new partner is appointed. Specifically, there is evidence of a higher frequency of audit adjustments (i.e., the proxy for audit quality) during the departing partner's final year of tenure, as well as during the incoming partner's first year of tenure following mandatory rotation. The outgoing partner appears to be motivated to detect and correct client misstatements in their final year of tenure to avoid embarrassment of the incoming partner detecting prior period deficiencies in their first year of tenure. In addition, the finding is consistent with established theory that the incoming partner bring a fresh perspective in their first year of tenure.

Laurion, Lawrence, and Ryans (2017) investigate the relation between audit partner rotation on audit quality (proxied using (i) Restatements, (ii) Write-Downs and Special Items, (iii) Allowances), using a small subsample of 568 rotations and non-rotations U.S. public firms where audit partner name and year of rotation could be identified in SEC comment letter correspondence during the period 2006 to 2014. The authors find enhanced quality through increases in both restatement discoveries and announcements and deferred tax valuation

[4] Gipper et al. (2021) similarly shows that Big 6 audit firms dedicate additional partner time to minimize disruption from mandatory rotation by having the incoming partner "shadow" the outgoing partner. Similarly, Bedard and Johnstone (2010) provide evidence that new partners invest additional effort to gain client knowledge in the first year on the engagement.

allowances following partner rotations, which supports the view that partner rotations provide "fresh-look" at the audit engagement. Important limitations of this methodology are that the researchers cannot always distinguish between voluntary rotation and mandatory rotation, and the small sample reflects firms that are larger and more economically significant.

Kuang, Li, Sherwood, and Whited (2020) investigate the relation between audit partner rotation and audit quality (proxied using restatements two years before and after rotation) on a sample of 171 mandatory rotations in the U.S. identified through a word search of over 1.3 million proxy statement, 8-K filings and comment letters between 2003 and 2019. Contrary to the ''fresh look' expectation, the authors find "limited evidence that audited financial statements are more likely to be materially misstated (i.e., subsequently restated) in the initial year(s) following mandatory audit partner rotation than in the terminal year(s) of partner tenure" A limitation of the study is the small sample which the authors acknowledge contains larger companies that have longer audit firm tenure than the average U.S. public company.

Gipper, Hail, and Leuz (2021) investigate the relation between audit partner rotation and audit partner tenure on audit quality (proxied using (i) Absolute Accruals (ii) Restatement and internal control weaknesses (iii) PCAOB Inspection Finding or an Audit Firm Inspection Finding) on a sample of around 67 percent of Big 6 clients (predominantly larger clients) in the 2008 to 2014 period using a proprietary dataset from the Public Company Accounting Oversight Board (PCAOB). Audit quality is <u>not</u> found to be associated with partner tenure and mandatory rotation, with one exception being the announcements of restatements, which are more frequent in the first two years after rotation (consistent with Laurion et al. 2017). The authors conclude that "*for the average Big 6 client engagement, mandatory rotation appears to be short enough or the U.S. audit environment robust enough to prevent auditor capture or complacency*" (p. 323). A limitation of the study is the sample which comprises predominantly Big 6 auditors and their larger clients.

Chi et al. (2009) investigate the impact of audit partner rotation audit quality (proxied using absolute and signed abnormal accruals) for a sample of Taiwanese companies whose audit partners were subject to mandatory rotation within the same audit firm in 2004. The authors find no support mandatory audit partner rotation enhancing audit quality. Specifically, the authors find audit quality of the sample of companies subject to mandatory partner rotation in 2004 is not significantly different from the audit quality of companies not subject to mandatory partner rotation in 2004. Contrary to expectations, audit quality of companies subject to mandatory partner rotation in 2004 is significantly lower than the audit quality of these same companies one year earlier. A potential limitation of the study's conclusion is it was undertaken in the first year of the mandatory partner rotation legislation and more than 20 years ago, well before Taiwanese audit firms had established systems and processes around mandatory partner rotation as we subsequently identified in Daugherty et al. (2012) and Gipper at al. (2021).

A considerable body of research has explored the influence of audit partner rotation following an audit firm switch on audit quality. Early studies find that clients that switch audit firms are more likely to receive a clean opinion from the successor auditor consistent with a reduction in audit quality (Smith 1986; Krishnan 1994). Lennox (2000) support this point by providing evidence that audit clients are effectively engaging in opinion shopping to avoid receiving an unfavourable audit opinion. Other studies find the market reacts positively when client switch to Big N or specialized auditors (Knechel, Naiker, and Pacheco 2007; Chang, Cheng, and Reichelt 2010). For example, Knechel et al. (2007) use market response (i.e., cumulative abnormal returns) as a proxy for perceived audit quality and examine the market response to switches to or from audit firms that are industry specialists. For switches between Big 4 auditors, they find that the perceived audit quality is higher (lower) when the successor auditor is (not) an industry specialist. For switches from a specialist Big 4 auditor to a non-Big

4 auditor, they find a decline in perceived audit quality. More recent studies examine whether Big N auditors provide higher quality audits by exploiting the setting of Big N auditors' acquisitions of non-Big N auditors (Jiang, Wang, and Wang 2019). This study finds that audit quality improves after audit clients switch to Big N auditors due to the exogenous shocks of Big N acquisitions. In contrast, audit firm switches between non-Big N auditors have little impact on audit quality when mergers or acquisitions are among non-Big N auditors. In general, this stream of literature suggests that audit quality is not uniform and tends to vary systematically with changes in audit firms.

Hypotheses Development

Mandatory audit partner rotation after 5-years is a quality control process which was introduced because of concerns that audit quality would decline over an auditor's tenure. Supporters of the policy argued that after longer tenure the client relationships may impact a partner's independence and time may erode a partner's capacity for critical appraisal (Carey and Simnett 2006). In addition, managers who become familiar with the audit procedures used by a specific audit partner might exercise discretion in areas overlooked by the audit partner, potentially engaging in more accrual-based earnings management (i.e., lower accruals quality). An important argument supporting regulation limiting the tenure of the audit partner is that the incoming partner brings a fresh perspective to the audit and is, therefore, more likely to detect and correct financial reporting problems (Lennox et al. 2014). At the same time a potential cost of the policy is a reduction in audit quality in the initial years because of a loss of client specific knowledge. However, this risk is thought to be mitigated by other audit firm quality control processes such as second partner review, continuity of field staff, the carrying forward of working papers, partner familiarity with existing audit methodology and client databases (Carey and Simnett 2006).

In the early 2000s, the rotation of the audit partner after 5-years was legislated across most international jurisdictions. Limited variation in audit quality in the first year following partner rotation would be welcomed by policy makers because it would imply a balance between the cost (loss of client specific knowledge) and benefit (fresh perspective) under the policy of mandatory partner rotation. However, research has yielded mixed results as to the impact of mandatory partner rotation and audit quality. One explanation is that prior research treats partner rotation as random events, yet engagement partner rotations is likely to be more of an ongoing or gradual process with the implementation of associated quality control mechanisms, as opposed to a single discrete event in time. Another explanation, particularly for research undertaken in the U.S, is the limitation associated with the small subsamples subject to analysis that comprise predominantly Big 6 auditors and their larger audit clients.[5] The main international studies using larger data sets find improved quality post partner rotation in China (Lennox et at 2014) and lower quality post partner rotation in Tiawan (Chi et al. 2009). Prior research has not clearly distinguished between mandatory (after 5 years) and voluntary (<5 years) partner rotation, nor have researchers undertaken a comprehensive examination of variation in audit quality using population data and comparing Big 6 and non-Big 6 auditors or comparing large and small audit clients. In the absence of empirical consensus on the impact of audit partner rotation, we posit the following non-directional hypothesis stated in null form:

H1: Audit partner rotation is unrelated to accruals quality.

Prior research undertaken before audit partner rotation was mandatory generally finds support for a decline in audit quality after long tenure (>5 years) (e.g., Fargher, Lee, and Mande 2008; Carey and Simnett 2006; Hamilton et al. 2005). but the deterioration in audit quality with long tenure is more likely for non-Big 6 auditor (Carey and Simnett 2006). Since the early

[5] Audit partner data became avaialbe in the U.S. following the introduction of PCAOB Rule 3211, which requires the disclosure of audit engagement partners in Form AP for audit reports issued on or after January 31, 2017.

2000s, mandatory partner rotation legislation ensures that partner tenure cannot exceed 5 years. It is there unclear if there is variation in audit quality over the maximum 5-year partner tenure. One argument is that auditor partners with longer tenure are more likely to detect unintentional estimation errors in areas that are inherently complex and require a high degree of judgment, resulting in higher accruals quality. This implies audit quality improves over time. The counter argument is the auditor loses the capacity for critical appraisal over time and the auditors independence from management is erodes which reduces independence over time. This implies audit quality declines over time.

The only study to empirically test the influence of partner tenure on audit quality through the maximum 5 years tenure window finds no consistent evidence of a change in audit quality over the maximum 5-years tenure (see Gipper at al. 2021). The authors conclude the 5-year period is therefore short enough to prevent auditor capture or complacency. We accordingly posit the following non-directional hypothesis stated in null form:

H2: Audit partner tenure is unrelated to accruals quality.

The literature presents mixed evidence regarding the impact of audit firm switches on audit quality. While some studies document a decline in audit quality following a firm switch, which is often attributed to the loss of client-specific knowledge and/or opportunistic opinion shopping, other studies report an improvement in audit quality post-switch, suggesting that a fresh perspective and enhanced auditor independence may positively influence audit outcomes. Accordingly, we also explore whether audit firm rotation is associated with accrual quality.

III. METHODOLOGY

Research Models

To empirically examine the effect of mandatory audit partner rotations and audit partner tenure on audit clients' financial reporting quality, as specified in our Hypothesis 1: The

mandatory audit partner rotation is unreleated to accruals quality (i.e., accruals quality at year t-1 and AQ at year t), and our Hypothesis 2: Audit partner tenure is unrelated to accruals quality (i.e., accruals quality at year t, t+1, t+2, t+3, t+4), we follow prior literature and estimate the following ordinary least squares (OLS) regression model (Francis and Yu 2009, Francis and Michas 2013; Lennox et al. 2014; Gipper et al. 2021):

$$Accruals\ Quality_{it} = \beta_0 + \beta_1 PARTNER\ TENURE_{it} + CONTROLS + \varepsilon_{it} \quad (1)$$

Where *Partner Tenure* is a continuous count variable reflecting the number of years (one to five) the lead partner has spent on the engagement.

To further analyse the time dynamics, we replace *PARTNER TENURE* with a series of indicator indicators in Equation (1), and estimate the following model:

$$Accruals\ Quality_{it} = \beta_0 + \beta_1 Tenure\ Year\ 2_{it} + \beta_2 Tenure\ Year3_{it} + \beta_3 Tenure\ Year4_{it} + \beta_4 Tenure\ Year\ 5_{it} + CONTROLS + \varepsilon_{it} \quad (2)$$

Tenure Year 1 serves as the reference category and is dropped from the model (i.e., no coefficient estimate). The coefficients on β_1 to β_4 measure the incremental effects of a particular year in the tenure cycle.

Sample Construction

Our sample includes publicly listed firms in Australia between 2004 and 2023. Our sample period begins in 2004 as this is the first year *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9) became effective. CLERP 9 requires mandatory partner rotation every five years, with a 2 year ‘‘cooling-off’’ period. Our sample ends in 2023 as this is the latest full year of data available at the time of writing this paper. We collected audit reports of listed firms from multiple sources including the Connect4 database, Morningstar DatAnalysis database, ASX website, and individual firms’ websites. We merged the audit report data with the governance data from SIRCA and Connect4’s Boardroom

database, and firm financial data from the Morningstar DatAnalysis database. We exclude observations with headquarters not in Australia, audit opinions not signed in Australia, and reporting currency not in Australian dollars. We also exclude financial sector observations and those with missing financial or auditor information. This results in a final sample of 25,756 firm-year observations from 3,192 individual clients.

Table 1 Panel A provides a breakdown of the sample by year. For each year, we present figures for within-firm partner rotations, distinguishing between those that occur within the five-year tenure cycle (mandatory) and those that occur before reaching the five-year limit (non-mandatory). There are 1,573 mandatory rotations, accounting for around 6 percent of the yearly client-year observations, and 5,167 non-mandatory rotations, accounting for around 20 percent of the yearly client-year observations. Therefore, mandatory engagement partner rotations account for 23 percent of all within-firm partner rotations in our sample while the remaining 77 percent of the rotations take place before the five-year term limit. In comparison, Gipper et al. (2021) report 62 percent (38 percent) of within-firm partner rotations are mandatory (non-mandatory) in their sample using US PCAOB data. We also observe 2,668 instances of audit firm switches, which account for around 10 percent of the yearly client-year observations. This ratio is higher than 2 percent audit firm switches in PCAOB sample reported in Gipper et al. (2021).

In Table 1 Panel B and Panel C, we also report a breakdown of the sample within Big 6 and non-Big 6 firms. The statistics observed in both the Big 6 and non-Big 6 samples are quite similar to those in the full sample. In the Big 6 sample (Panel B), mandatory engagement partner rotations account for 24 percent of all within-firm partner rotations, while 76 percent of the rotations take place before the five-year term limit. In the non-Big 6 sample (Panel C), mandatory engagement partner rotations account for 22 percent of all within-firm partner rotations, while 78 percent of the rotations take place before the five-year term limit.

We also split out sample into large and small sub-samples (i.e., ASX300 and non-ASX 300). In untabulated results, we show that for those large firms (i.e., ASX300), mandatory engagement partner rotations take place more frequently, with mandatory engagement partner rotations accounting for 32 percent of all within-firm partner rotations, while 68 percent of the rotations take place before the five-year term limit.

<Insert Table 1>

IV. RESULTS

Descriptive Results

Table 2 Panel A provides descriptive statistics for the main variables used in the regression analyses. The average audit firm tenure is around 6.1 years, and the average audit partner tenure is around 2.35 years. The average *M_ROT* is 0.061, meaning that about 6 percent of firm-year observations in our sample are in the first year of tenure after a mandatory rotation, and another 5.8 percent of firm-year observations in our sample are in the final year of tenure before a mandatory rotation. The average *ABSDA* and *ABSTA* are 0.192 and 0.210, these figures are consistent with prior Australian studies (Carson, Simnett, Soo, and Wright 2012; Carey and Simnett 2006; Coulton, Taylor, and Taylor 2005; Monroe and Hossain 2013). We also report that Big 4 firms account for 37.9 percent of our sample, and second-tier audit firms (BDO and Grant Thornton) account for 20.8 percent of our sample. On average, 68.7 precent of observations report a loss in the current year.

<Insert Table 2>

We also report descriptive statistics for Big 6 and non-Big 6 samples in Table 2 Panel B. Audit clients of Big 6 firms report lower absolute value of discretionary accruals (0.159 vs. 0.238) and total accruals (0.169 vs. 0.269) when compared to those of non-Big4 firms. In

contrast, audit firm tenure (6.758 year vs. 5.058 year) and audit partner tenure (2.360 year vs. 2.346 year) are both higher in clients of Big 6 audit firms than non-Big 6 firms. Mandatory audit partner rotations occur more frequently for audit clients of Big 6 firms as the *M_ROT* (0.066 vs. 0.054) is higher in the Big 6 firm sample. Audit clients of Big 6 firms also report a much lower loss rate compared to that for clients of non-Big 6 firms (59.4 percent vs. 81.8 percent).

Testing of Hypotheses

Accruals Quality and Audit Partner Rotation

Table 3 reports the multivariate results examining accruals quality immediately following audit partner rotation in three subsamples, namely the subsample of observations after mandatory rotations (i.e., where audit partner rotations occurs in the year 5), the subsample of observations after non-mandatory rotations (i.e., where audit partner rotations occurs before the year 5), and the subsample of observations after audit firm switches.

To test H1 (Audit partner rotation is unrelated to accruals quality), we estimate Model 2 using the subsample after mandatory rotations, and present regression results in in Columns 3 and 4. Specifically, we report the individual tenure year coefficients from the year-by-year tenure cycle model. Using tenure year 1 as the base period, we find that the coefficients on tenure years 2 to 5 are not significant. We conclude that financial reporting quality does not significantly change in tenure year 2-5, compared to that in tenure year 1. In other words, we find no change in audit quality in the year following either mandatory partner rotation. This is contradicted finding in Lennox et al. (2014) using Chinese data that immediately following mandatory partner rotation there is an increase in quality audits, likely because of a 'fresh-perspective' or greater independence (Lennox et al. 2014). Our results support H1 that mandatory partner rotation is unrelated to accruals quality.

To test H2 (Audit partner tenure is unrelated to accruals quality), we estimate Model 1 using the subsample after mandatory rotations. Specifically, in Model 1, we use the financial reporting quality in the tenure year 1 after audit partner rotation as the baseline (i.e., tenure year 1 is dropped from the model), and test whether audit clients' financial reporting quality throughout audit partner tenure cycle (i.e., report quality at year 2 to 5), compared to the financial reporting quality in tenure year 1. Regression results are presented in Columns 1 and 2. We find that the coefficients on *P_TENURE* are not significantly associated with *ABSDA* and *ABSTA* at the 0.01 level. These results are consistent with our H2 that audit partner tenure is unrelated to accruals quality after mandatory partner rotation. These results also align with evidence reported in Gipper et al. (2021).

We also report regression results for the sample after non-mandatory partner rotations in Columns 5-8. Results are similar to that in the mandatory rotation sample. We report that the coefficients on *P_TENURE* are not significant in Columns 5 and 6 (Model 1). The coefficients on tenure years 2 to 5 are not significant in Columns 7 and 8 neither (Model 2). These results suggest that non-mandatory partner rotation is unrelated to financial reporting quality. Also, financial reporting quality does not significantly vary throughout the tenure cycle after non-mandatory rotations.

<Insert Table 3>

Audit Firm Switches Analyses

Given the fact that we do not find variation in audit quality following audit rotation (or over auditor tenure) in both the mandatory rotation and non-mandatory sub-samples, we also perform another test to examine accruals quality variation after audit firm switches. In prior auditing literature, audit firm switches may provide significant fresh-look benefits (Kim and Yi 2009), but it can also disrupt the auditing process (Kwon et al. 2014; Cameran et al. 2015,

Patterson, Smith, and Tiras 2019). Therefore, it is still unclear whether the change of audit partner, due to the change of audit firm, may cause financial reporting variations.

Based on a sample of 9,728 observations after audit firm switches, we present the following findings in Table 3 Columns 9-12. we find that the coefficients on *P_TENURE* are negative and significant, indicating that accruals quality is improved as audit partner tenure increases. We also report in Columns 11 and 12 that the coefficients on tenure years 2 to 5 are negative and significant, suggesting that audit partners can provide both higher discretionary accruals and total accruals after audit firm switches. In sum, these results generally suggest that for audit engagements after audit firm switches, accruals quality significantly improves from the second year. These results highlight the costs of engaging a new audit firm (i.e., losing client-specific knowledge), as the new audit firm may have to make a substantial investment to understand their new client. However, this detrimental first-year effect on audit quality can be promptly remedied from the second year.

Accruals Quality Relative to That in the Final Year Before Partner Rotation

In Table 3, we examine our research question, whether audit clients' financial reporting quality varies after audit partner rotation, by using the first year after audit partner rotations or audit firm switches as the baseline. To provide a clearer view on how financial reporting quality varies throughout the audit partner tenure cycle, we also examine the research question by comparing the financial reporting quality throughout the tenure cycle to that in the final year before partner rotation or audit firm switches (i.e., report quality at years 1 to 5 relative to that before rotation or audit firm switches). Results are presented in Table 4. Consistent with our findings reported in Table 3, we show that audit firm switches improve audit quality in Years 2-5 (Columns 9-12). Also, as long as the audit firm remains the same, new audit partner makes no difference to the financial reporting quality after mandatory rotation (Columns 1-4).

However, after voluntary rotation, financial reporting quality improves in Years 2-5 when compared to that in the final year before the rotation.

In general, these findings support the view that mandatory partner rotations are not related to accruals quality. However, financial reporting quality is relatively higher in tenure year 1-5 after audit firm switches, compared to that in the final year before audit firm switches. These findings are not unexpected as auditors often need time to familiarize themselves with the audit client in their first year of appointment.

<Insert Table 4>

Effect of Partner Rotation and Tenure on Accruals Quality in Full Sample

In Table 3, we perform our analyses in three groups (mandatory rotations sample, non-mandatory rotation sample, audit firm switch sample). To provide a more comprehensive view on how audit clients' financial reporting quality is affected by audit partner rotation and tenure, we also perform our analyses in the full sample, by controlling for mandatory rotations (*M_ROT*) and non-mandatory rotations (*NM_ROT*), and other control variables we included in Model 1 and 2. In this case, the baseline is the financial reporting quality in the first year after audit firm switches. We present our results in Table 5. In Columns 1 and 2 (Model 1), we find that the coefficients on *P_TENURE* are negatively and significantly associated with both *ABSDA* and *ABSTA* at the 0.01 level, suggesting that relative to accruals quality provided by audit partners in the first year after audit firm switches, accruals quality is higher as audit partner tenure increases. The coefficients for *M_ROT* and *NM_ROT* are also negative and significant, suggesting higher financial reporting quality after either mandatory or non-mandatory rotations relative to the that in the first year after audit firm switches. In Columns 3 and 4 (Model 2), we report that the coefficients on tenure years 2 to 5 are negative and significant, suggesting that financial accruals quality from years 2 to 5 (irrespective of whether

it follows mandatory rotations, non-mandatory rotations, or audit firm switches) is higher than that in the first year after audit firm switches. In general, we show increased accrual quality over partner tenure, but it is majorly driven by the low accrual quality in the first year after audit firm switches. These results are consistent with our main findings reported in Table 3 and 4 that partner tenure is unrelated to accruals quality after either mandatory or non-mandatory partner rotations.

<Insert Table 5>

Sub-sample Analyses

In this section, we examine the relationship between accruals quality and audit partner rotation or tenure across various sample partition settings. We perform these split-sample analyses to provide additional insights into whether partner tenure and mandatory rotation influence accrual quality through different channels (i.e., whether such relationships are more or less pronounced in certain situations). For each partition, we separately estimate our audit partner rotation models (Model 1 and 2), including all the respective control variables and fixed effects. Specifically, we examine whether the associations between mandatory audit partner rotation (and over the 5 years of audit partner tenure) and accruals quality are pronounced within three subsamples (i) mandatory *vs.* voluntary rotation (ii) Big 6 *vs.* non-Big 6 auditors (iii) AXS 300 *vs.* non-ASX 300 audit clients.

In Table 6, we split the sample by audit firm size (i.e., Big 6 *vs.* non-Big 6). We conjecture that Big 6 auditors are exposed to higher litigation and reputation risk, and they are more likely to strictly monitor and prohibit opportunistic managerial activities, and the influence of audit partner rotations on accrual quality may be less salient (Khurana and Raman 2004; Choi et al. 2008; Francis and Wang 2008). In Panel A, we present results for the comparison between Big 6 and non-Big 6 auditors in the mandatory rotation sample. We find that the coefficients on *P_TENURE* are not significantly associated with accruals quality in

both Big 6 and non-Big 6 samples, and coefficients on tenure year 2-5 are not significantly associated with accruals quality in both Big 6 and non-Big 6 samples. Therefore, our main result that audit partner tenure is unrelated to accruals quality after mandatory partner rotation holds in both the Big 6 and non-Big 6 sub-samples.

In Panel B, we present results for the comparison between Big 6 and non-Big 6 auditors in the non-mandatory rotation sample. We find that the coefficients on *P_TENURE* are significantly and negatively associated with accruals quality in only the Big 6 sample (but not in the non-Big 6 sample). Also, the coefficients on tenure year 4 are negative and significant associated with accrual quality in the Big 6 sample. Therefore, we provide some evidence that Big 6 auditors' engagement accruals quality improves as audit partner tenure increases, especially in the fourth tenure year, after non-mandatory rotations.

In Panel C, we present results for the comparison between Big 6 and non-Big 6 auditors in the audit firm switch sample. We find that the coefficients on *P_TENURE* are significantly and negatively associated with accruals quality in only the non-Big 6 sample (but not in the Big 6 sample). Also, the coefficients on tenure year 2-5 are negative and significant associated with accrual quality in the non-Big 6 sample, while one the coefficients on tenure year 2 is negative and significant associated with accrual quality in the Big 6 sample. Therefore, we provide strong evidence that accrual quality significantly increases over audit partner tenure year for those audit engagements audited by non-Big 6 auditors after audit firm switches.

<Insert Table 6>

In Table 7, we split the sample by audit client size (i.e., ASX300 vs. non- ASX300). On the one hand, the influence of mandatory audit partner rotations on accrual quality may be more salient for large audit clients (ASX300), because large audit clients usually are under the spotlights and exposed to public scrutiny. Auditors, therefore, are more likely to strictly monitor

and prohibit opportunistic managerial activities for these large clients. On the other hand, it is possible that external auditors already carry out rigorous audit procedures for these large audit clients, and the financial reporting quality for these large audit clients are high already. In this case, we may not be able to observe the influence of mandatory audit partner rotations on accrual quality.

In Panel A, we present results for the comparison between ASX300 and non- ASX300 audit clients in the mandatory rotation sample. We find some evidence that financial reporting quality for large clients improves after mandatory partner rotation, as indicated by the result that coefficients on *P_TENURE* are significantly and negatively associated with *ABSTA* (but not for *ABSDA*) only for ASX300 sample.

In Panel B, we present results for the comparison between ASX300 and non- ASX300 audit clients in the non-mandatory rotation sample. We find that the coefficients on *P_TENURE* are significantly and negatively associated with accruals quality only in the non-ASX300 sample (but not in the ASX300 sample). Therefore, we conclude that our main results mainly hold in the small audit client sample, highlighting that small audit clients may benefit more from the mandatory audit partner rotation policy.

In Panel C, we present results for the comparison between ASX300 and non-ASX300 in the audit firm switch sample. We find that the coefficients on *P_TENURE* are significantly and negatively associated with accruals quality in only the non-ASX300 sample (but not in the ASX300 sample). Also, the coefficients on tenure year 2-5 are negative and significant associated with accrual quality in the non-ASX300 sample. Therefore, we provide strong evidence that accrual quality significantly increases over audit partner tenure year for those engagements with small size audit clients after audit firm switches.

<Insert Table 7>

In Table 8, we split the sample by partner experience, using the median time since audit partners registered as Charter Accountant or CPA in Australia. For our sample, we find that the median year of audit partner experience is 11 years. Therefore, we coded audit engagement with partner experience more than 11 years as the experienced partner sample, others as the newer partner sample. Experienced audit partners are more likely to provide consistent high-quality audits, and less likely to be influenced by audit partner rotations or audit firm switches.

In Panel A, we present results for the comparison between audit engagements performed by more experienced and less experienced audit partners in the mandatory rotation sample. We find no evidence that financial reporting quality improves after mandatory partner rotation in either more experienced or less experienced audit partner samples, as indicated by the result that coefficients on *P_TENURE* are not significantly associated with accrual quality in both sub-samples.

In Panel B, we present results for the comparison between more experienced and less experienced audit partners in the non-mandatory rotation sample. We find that the coefficients on *P_TENURE* are significantly and negatively associated with accruals quality only in the less experienced audit partner sample (but not in the more experienced audit partner sample). Therefore, we conclude that our main results mainly hold in the less experienced audit partner sample, highlighting that small audit clients may benefit more from the mandatory audit partner rotation policy.

In the comparison between more experienced and less experienced audit partners after audit firm switches (Panel C). We find that the coefficients on *P_TENURE* are significantly and negatively associated with accruals quality in only the less experienced audit partner samples. Also, the coefficients on tenure year 2-5 are negative and significant associated with accrual quality in this sample. These results suggest that accrual quality significantly increases

over audit partner tenure year for those engagements performed by less experienced partners after audit firm switches.

<Insert Table 8>

V. CONCLUSION

To gain a deeper understanding of whether the 5-year mandatory audit partner rotation policy is effective in enhancing financial reporting quality over audit partner tenure, this paper examines the influence of partner rotation and tenure on accruals quality. If the benefits of partner rotation (i.e., obtaining 'fresh-perspective' and increased independence after a mandatory audit partner rotation) outweigh the costs (i.e., loss of client-specific knowledge after 5 years tenure), we would expect to observe improved accruals quality after mandatory partner rotation and over audit partner tenure. Using a large cross-section of Australian publicly listed audit clients over the period 2005–2023, we do not find evidence that, on average, mandatory rotation of engagement partners results in higher accruals quality. This finding contrasts Lennox et al. (2014) who find using Chinese data that immediately following mandatory partner rotation there is an increase in quality audits, likely because of a 'fresh-perspective' or greater independence (Lennox et al. 2014).

In addition, we also examine whether accruals quality varies over the tenure cycle. We find that accruals quality is relatively higher in tenure year 2-5 compared to that in tenure year 1 only in the audit firm switch sample. In cross-sectional analyses, we provide evidence that our main result that mandatory partner rotations is not related to accruals quality holds by audit firm size, audit client size and complexity, or partner experience. We also find the result that accruals quality in the first year after audit firm switches is lower is more pronounced for non-Big 6 auditors, non-ASX300 clients, and less experienced audit partners, suggesting that lower

accruals quality is more likely to occur just after audit firm switches for small audit firm, small audit clients, and newer audit partners.

This study contributes to the literature by showing that the mandatory audit partner rotation policy influences audit clients' accruals quality. However, policy makers shall consider additional quality control regulations for the majority of companies that do not engage an auditor for the maximum 5-year period. Our study should help regulators, policy makers, practitioner, and financial statement users better understand the effectiveness of mandatory audit partner rotations. We acknowledge that our study is subject to limitations. For example, our financial reporting quality measures cannot encompass all dimensions of reporting quality. This is because some commonly used audit quality proxies are either not available for Australian firms or are unsuitable for the sample period.

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Appendix A: Variable Definitions

Dependent Variables		
ABSDA	=	The absolute value of discretionary accruals scaled by average total assets
ABSTA	=	The absolute value of total accruals scaled by lagged total assets
Variables of Interest		
P_TENURE	=	The number of consecutive years that the audit partner manages the engagement, and ranges from 1 to 5.
TENURE YEAR (1 to 5)		Indicator variables: 1 if it is the tenure year (1 to 5), and zero otherwise.
A_TENURE	=	The number of consecutive years that the audit firm manages the engagement
Control Variables		
M_ROT	=	An indicator variable: 1 if the partner is in the first year of tenure in year t (due to mandatory rotation of the former partner at the end of year t), and 0 otherwise.
NM_ROT	=	An indicator variable: 1 if the partner is in the first year of tenure in year t (due to non-mandatory rotation of the former partner at the end of year t), and 0 otherwise.
SIZE	=	The natural logarithm of total assets.
ROA	=	Return on assets, calculated by income before extraordinary items scaled by total assets.
LEV	=	The ratio of total liabilities to total assets.
PERFORM	=	Operating cash flow scaled by total assets.
QUICK		The ratio of current assets less inventories to current liabilities.
CATA	=	The ratio of current assets to total assets.
ZSCORE		The probability of bankruptcy using the Zmijewski (1984) model
LOSS	=	An indicator variable: 1 if the client firm incurs a loss in the current year, 0 otherwise.
LNAGE	=	The natural logarithm of the company age in years since listing date.
BUSY	=	An indicator variable: 1 if the firm's fiscal year end falls on June, and zero otherwise.
OCF	=	An indicator variable: 1 if the cash flow from operations is positive, and zero otherwise.
BIG4	=	An indicator variable: 1 if the audit firm is a Big 4 auditor, 0 otherwise.
SEC_TIER	=	An indicator variable: 1 if the audit firm is BDO or Grant Thornton, 0 otherwise.
LNAF	=	The natural logarithm of audit fees.
LNNAS	=	An indicator variable: 1 if the auditor provides non-audit service.

Table 1: Number of Observations and Engagement Partner Rotations/Audit Firm Switches by Year

Panel A: Full Sample

Year	Mandatory Rotation	Percent	non-Mandatory Rotation	Percent	Audit Firm Switches	Percent	Total
2005	47	5%	120	11%	97	9%	1,044
2006	78	7%	116	10%	107	10%	1,106
2007	178	15%	166	14%	156	13%	1,156
2008	56	4%	409	30%	272	20%	1,345
2009	49	3%	290	20%	134	9%	1,467
2010	62	4%	200	14%	162	11%	1,432
2011	61	4%	306	22%	172	12%	1,411
2012	96	7%	348	24%	188	13%	1,454
2013	93	6%	327	22%	145	10%	1,475
2014	69	5%	289	20%	128	9%	1,427
2015	66	5%	369	26%	106	8%	1,397
2016	93	7%	302	22%	162	12%	1,392
2017	80	6%	347	25%	99	7%	1,392
2018	87	6%	324	23%	101	7%	1,415
2019	81	6%	309	22%	97	7%	1,420
2020	87	6%	311	23%	134	10%	1,380
2021	113	9%	169	13%	144	11%	1,326
2022	86	7%	238	18%	120	9%	1,317
2023	91	7%	227	16%	144	10%	1,400
Total	1,573	6%	5,167	20%	2,668	10%	25,756

Panel B: Big 6 Sample

Year	Mandatory Rotation	Percent	non-Mandatory Rotation	Percent	Audit Firm Switches	Percent	Total
2005	32	5%	83	13%	51	8%	657
2006	59	9%	72	11%	59	9%	667
2007	102	15%	113	16%	86	12%	698
2008	39	5%	286	35%	139	17%	815
2009	28	3%	183	21%	62	7%	862
2010	41	5%	129	15%	91	10%	871
2011	39	5%	185	22%	63	7%	858
2012	52	6%	226	24%	135	14%	932
2013	70	8%	181	19%	71	8%	933
2014	42	5%	189	22%	52	6%	870
2015	47	6%	251	29%	44	5%	851
2016	59	7%	197	24%	63	8%	834
2017	51	6%	201	24%	38	5%	827
2018	47	6%	189	23%	51	6%	823
2019	47	6%	172	21%	46	6%	808
2020	52	7%	165	22%	42	6%	745
2021	73	10%	84	12%	44	6%	696
2022	54	8%	126	19%	46	7%	678
2023	61	9%	106	15%	52	8%	688
Total	995	7%	3,138	21%	1,235	8%	15,113

Panel C: non-Big 6 Sample

Year	Mandatory Rotation	Percent	non-Mandatory Rotation	Percent	Audit Firm Switches	Percent	Total
2005	15	4%	37	10%	46	12%	387
2006	19	4%	44	10%	48	11%	439
2007	76	17%	53	12%	70	15%	458
2008	17	3%	123	23%	133	25%	530
2009	21	3%	107	18%	72	12%	605
2010	21	4%	71	13%	71	13%	561
2011	22	4%	121	22%	109	20%	553
2012	44	8%	122	23%	53	10%	522
2013	23	4%	146	27%	74	14%	542
2014	27	5%	100	18%	76	14%	557
2015	19	3%	118	22%	62	11%	546
2016	34	6%	105	19%	99	18%	558
2017	29	5%	146	26%	61	11%	565
2018	40	7%	135	23%	50	8%	592
2019	34	6%	137	22%	51	8%	612
2020	35	6%	146	23%	92	14%	635
2021	40	6%	85	13%	100	16%	630
2022	32	5%	112	18%	74	12%	639
2023	30	4%	121	17%	92	13%	712
Total	578	5%	2,029	19%	1,433	13%	10,643

Table 2: Descriptive Statistics

Panel A: Full Sample

Variable	N	mean	SD	p25	Median	p75
ABSDA	25,756	0.192	0.295	0.045	0.098	0.202
ABSTA	25,756	0.21	0.374	0.032	0.083	0.210
A_TENURE	25,756	6.055	4.502	3	5	8
P_TENURE	25,756	2.354	1.367	1	2	3
M_ROT	25,756	0.061	0.239	0	0	0
NM_ROT	25,756	0.201	0.400	0	0	0
SIZE	25,756	3.398	2.178	1.851	3.057	4.684
ROA	25,756	-0.448	1.267	-0.391	-0.105	0.035
LEV	25,756	0.49	1.123	0.077	0.269	0.519
PERFORM	25,756	-0.231	0.674	-0.238	-0.056	0.054
QUICK	25,756	4.44	5.289	0.876	1.879	5.973
CATA	25,756	0.452	0.298	0.198	0.400	0.683
ZSCORE	25,756	0.165	0.331	0	0.001	0.075
LOSS	25,756	0.687	0.464	0	1	1
LNAGE	25,756	2.419	0.787	1.946	2.485	2.996
BUSY	25,756	0.854	0.353	1	1	1
OCF	25,756	0.343	0.475	0	0	1
BIG4	25,756	0.379	0.485	0	0	1
SEC_TIER	25,756	0.208	0.406	0	0	0
LNAF	25,756	11.389	1.273	10.477	11.094	12.064
LNNAS	25,756	6.046	5.360	0	8.527	10.649

Panel B: Big 6 vs. non-Big 6 Sample

	Big 6 Sample				non-Big 6 Sample			
Variable	**N**	**Mean**	**SD**	**Median**	**N**	**Mean**	**SD**	**Median**
ABSDA	15,113	0.159	0.25	0.085	10,643	0.238	0.343	0.119
ABSTA	15,113	0.169	0.305	0.072	10,643	0.269	0.448	0.105
A_TENURE	15,113	6.758	4.806	6	10,643	5.058	3.817	4
P_TENURE	15,113	2.36	1.347	2	10,643	2.346	1.395	2
M_ROT	15,113	0.066	0.248	0	10,643	0.054	0.227	0
N_M_ROT	15,113	0.208	0.406	0	10,643	0.191	0.393	0
SIZE	15,113	4.131	2.277	3.851	10,643	2.357	1.509	2.260
ROA	15,113	-0.303	1.031	-0.051	10,643	-0.653	1.518	-0.191
LEV	15,113	0.444	0.867	0.322	10,643	0.555	1.406	0.194
PERFORM	15,113	-0.141	0.555	-0.022	10,643	-0.359	0.796	-0.115
QUICK	15,113	3.960	4.954	1.622	10,643	5.123	5.662	2.493
CATA	15,113	0.428	0.281	0.379	10,643	0.485	0.318	0.436
ZSCORE	15,113	0.131	0.293	0.001	10,643	0.213	0.373	0.001
LOSS	15,113	0.594	0.491	1	10,643	0.818	0.386	1
LNAGE	15,113	2.483	0.792	2.565	10,643	2.328	0.770	2.398
BUSY	15,113	0.823	0.381	1	10,643	0.898	0.302	1
OCF	15,113	0.442	0.497	0	10,643	0.202	0.402	0
LNAF	15,113	11.852	1.339	11.608	10,643	10.732	0.800	10.597
LNNAS	15,113	7.523	5.283	9.809	10,643	3.949	4.733	0

Table 3: Effect of Partner Tenure on Accruals Quality (Tenure Year 1 Accruals Quality as The Baseline)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
VARIABLES	Mandatory Rotation Sample-ABSDA	Mandatory Rotation Sample-ABSTA	Mandatory Rotation Sample-ABSDA	Mandatory Rotation Sample-ABSTA	Voluntary Rotation Sample-ABSDA	Voluntary Rotation Sample-ABSTA	Voluntary Rotation Sample-ABSDA	Voluntary Rotation Sample-ABSTA	Audit Firm Switch Sample-ABSDA	Audit Firm Switch Sample-ABSTA	Audit Firm Switch Sample-ABSDA	Audit Firm Switch Sample-ABSTA
P_TENURE	-0.000	-0.002			-0.003	-0.003			-0.010***	-0.011**		
	(-0.046)	(-0.493)			(-1.527)	(-1.082)			(-2.918)	(-2.432)		
TENURE YEAR 1 (baseline)												
TENURE YEAR 2			0.005	0.002			-0.003	0.000			-0.037***	-0.065***
			(0.518)	(0.173)			(-0.438)	(0.027)			(-4.253)	(-6.046)
TENURE YEAR 3			0.002	-0.005			-0.008	0.003			-0.032***	-0.053***
			(0.142)	(-0.396)			(-1.114)	(0.401)			(-3.122)	(-4.018)
TENURE YEAR 4			-0.003	-0.001			-0.009	-0.015			-0.037***	-0.049***
			(-0.250)	(-0.069)			(-1.129)	(-1.594)			(-3.022)	(-3.032)
TENURE YEAR 5			0.002	-0.009			-0.010	-0.008			-0.044***	-0.053***
			(0.165)	(-0.513)			(-1.158)	(-0.716)			(-3.128)	(-2.713)
A_TENURE	-0.001	-0.003**	-0.001	-0.003**	0.000	-0.001	0.000	-0.001	0.001	0.001	0.001	0.001
	(-1.063)	(-2.275)	(-1.063)	(-2.272)	(0.477)	(-0.487)	(0.478)	(-0.495)	(0.334)	(0.190)	(0.396)	(0.273)
SIZE	-0.012**	-0.010*	-0.012**	-0.010*	-0.014***	-0.018***	-0.014***	-0.019***	-0.007**	-0.009**	-0.007**	-0.009**
	(-2.531)	(-1.961)	(-2.539)	(-1.960)	(-4.669)	(-5.036)	(-4.663)	(-5.052)	(-2.191)	(-2.115)	(-2.238)	(-2.190)
ROA	-0.066***	-0.140***	-0.066***	-0.140***	-0.068***	-0.140***	-0.068***	-0.140***	-0.076***	-0.132***	-0.076***	-0.132***
	(-3.716)	(-7.490)	(-3.716)	(-7.493)	(-8.354)	(-14.052)	(-8.352)	(-14.053)	(-9.624)	(-11.977)	(-9.630)	(-12.021)
LEV	0.007	0.038**	0.008	0.038**	0.019***	0.047***	0.019***	0.047***	0.007	0.038***	0.007	0.038***
	(0.574)	(2.253)	(0.575)	(2.251)	(3.079)	(5.100)	(3.077)	(5.099)	(1.128)	(3.925)	(1.124)	(3.907)
PERFORM	0.069*	0.193***	0.068*	0.193***	0.068***	0.188***	0.068***	0.188***	0.085***	0.185***	0.085***	0.186***
	(1.882)	(5.737)	(1.879)	(5.734)	(4.780)	(11.404)	(4.778)	(11.401)	(6.487)	(10.113)	(6.507)	(10.172)
QUICK	0.002*	0.001	0.002*	0.001	0.003***	0.002**	0.003***	0.002**	0.000	-0.000	0.000	-0.000
	(1.824)	(0.900)	(1.825)	(0.902)	(3.837)	(2.496)	(3.837)	(2.499)	(0.505)	(-0.438)	(0.554)	(-0.350)
CATA	0.129***	0.146***	0.129***	0.146***	0.085***	0.099***	0.085***	0.099***	0.114***	0.126***	0.114***	0.127***
	(5.571)	(5.534)	(5.574)	(5.532)	(6.608)	(5.993)	(6.606)	(5.984)	(7.691)	(6.679)	(7.718)	(6.728)
ZSCORE	0.179***	0.214***	0.178***	0.215***	0.150***	0.209***	0.150***	0.209***	0.132***	0.205***	0.131***	0.204***
	(6.674)	(6.066)	(6.667)	(6.067)	(9.444)	(9.919)	(9.447)	(9.923)	(7.860)	(9.526)	(7.814)	(9.471)
LOSS	-0.071***	-0.011	-0.071***	-0.011	-0.112***	-0.049***	-0.112***	-0.049***	-0.100***	-0.042***	-0.100***	-0.042***
	(-5.059)	(-0.707)	(-5.058)	(-0.710)	(-10.534)	(-4.647)	(-10.537)	(-4.640)	(-8.425)	(-3.313)	(-8.433)	(-3.319)
LNAGE	-0.003	-0.009	-0.003	-0.009	0.011**	0.014**	0.011**	0.014**	0.015***	0.014***	0.012***	0.008*

	(-0.429)	(-1.038)	(-0.422)	(-1.036)	(2.415)	(2.501)	(2.413)	(2.492)	(4.220)	(3.190)	(3.332)	(1.849)
BUSY	0.013	0.010	0.013	0.010	-0.007	0.001	-0.007	0.001	0.019***	0.020**	0.019**	0.019*
	(1.433)	(0.914)	(1.431)	(0.916)	(-0.925)	(0.141)	(-0.924)	(0.137)	(2.620)	(2.027)	(2.552)	(1.929)
OCF	-0.053***	-0.016	-0.053***	-0.016	-0.080***	-0.043***	-0.080***	-0.043***	-0.091***	-0.065***	-0.090***	-0.064***
	(-3.833)	(-1.004)	(-3.830)	(-1.011)	(-9.051)	(-4.234)	(-9.050)	(-4.215)	(-8.232)	(-5.233)	(-8.225)	(-5.206)
BIG4	-0.021**	-0.024**	-0.021**	-0.024**	-0.019**	-0.031***	-0.019**	-0.031***	-0.021***	-0.024**	-0.020***	-0.024**
	(-2.017)	(-2.005)	(-2.010)	(-2.003)	(-2.570)	(-3.427)	(-2.571)	(-3.416)	(-2.600)	(-2.532)	(-2.578)	(-2.497)
SEC_TIER	-0.012	-0.015	-0.012	-0.015	-0.016**	-0.021**	-0.016**	-0.021**	-0.026***	-0.021**	-0.026***	-0.020**
	(-0.860)	(-0.882)	(-0.862)	(-0.882)	(-2.140)	(-2.122)	(-2.137)	(-2.118)	(-3.393)	(-2.116)	(-3.362)	(-2.056)
LNAF	0.002	-0.001	0.003	-0.001	-0.005	-0.003	-0.005	-0.003	-0.011**	-0.012**	-0.011**	-0.012*
	(0.423)	(-0.104)	(0.431)	(-0.104)	(-1.123)	(-0.525)	(-1.122)	(-0.517)	(-2.390)	(-1.992)	(-2.365)	(-1.956)
LNNAS	-0.000	-0.001	-0.000	-0.001	0.000	0.000	0.000	0.000	0.001	0.002*	0.001	0.002*
	(-0.189)	(-1.142)	(-0.195)	(-1.143)	(0.540)	(0.276)	(0.536)	(0.289)	(1.147)	(1.879)	(1.139)	(1.863)
Constant	0.214***	0.221***	0.213***	0.220***	0.311***	0.224***	0.308***	0.219***	0.353***	0.307***	0.362***	0.333***
	(2.966)	(2.814)	(2.953)	(2.782)	(6.788)	(3.951)	(6.740)	(3.868)	(7.273)	(5.224)	(7.452)	(5.666)
Observations	3,946	3,946	3,946	3,946	11,592	11,592	11,592	11,592	9,728	9,728	9,728	9,728
R-squared	0.253	0.326	0.253	0.326	0.250	0.340	0.250	0.340	0.181	0.247	0.182	0.249
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.245	0.319	0.244	0.319	0.248	0.337	0.247	0.337	0.177	0.243	0.178	0.246

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 4: Effect of Partner Tenure on Accruals Quality (Using the Final Tenure Year Before Partner Rotation or Audit Firm Switches as The Baseline)

VARIABLES	1 Mandatory Rotation Sample-ABSDA	2 Mandatory Rotation Sample-ABSTA	3 Mandatory Rotation Sample-ABSDA	4 Mandatory Rotation Sample-ABSTA	5 Voluntary Rotation Sample-ABSDA	6 Voluntary Rotation Sample-ABSTA	7 Voluntary Rotation Sample-ABSDA	8 Voluntary Rotation Sample-ABSTA	9 Audit Firm Switch Sample-ABSDA	10 Audit Firm Switch Sample-ABSTA	11 Audit Firm Switch Sample-ABSDA	12 Audit Firm Switch Sample-ABSTA
P_TENURE	0.001	0.001			-0.004**	-0.003			-0.009***	-0.012***		
	(0.513)	(0.309)			(-2.304)	(-1.203)			(-4.271)	(-4.352)		
Before rotation/switches (baseline)												
TENURE YEAR 1			0.007	0.011			-0.010	-0.008			-0.010	-0.026
			(0.793)	(1.058)			(-1.346)	(-0.856)			(-0.726)	(-1.439)
TENURE YEAR 2			0.011	0.013			-0.014*	-0.006			-0.038***	-0.073***
			(1.095)	(1.142)			(-1.766)	(-0.630)			(-2.805)	(-4.240)
TENURE YEAR 3			0.007	0.006			-0.020**	-0.003			-0.034**	-0.061***
			(0.656)	(0.480)			(-2.297)	(-0.250)			(-2.411)	(-3.478)
TENURE YEAR 4			0.002	0.010			-0.019*	-0.021*			-0.041***	-0.063***
			(0.136)	(0.597)			(-1.896)	(-1.745)			(-2.841)	(-3.383)
TENURE YEAR 5			0.008	0.002			-0.020*	-0.014			-0.047***	-0.062***
			(0.567)	(0.093)			(-1.916)	(-1.086)			(-3.036)	(-3.210)
Observations	5,207	5,207	5,207	5,207	16,170	16,170	16,170	16,170	11,692	11,692	11,692	11,692
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.249	0.320	0.248	0.320	0.243	0.334	0.242	0.334	0.185	0.246	0.185	0.247
Cluster Tenure Cycle	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5: Effect of Partner Rotation and Tenure on Accruals Quality (Full Sample)

VARIABLES	(1) Full Sample-ABSDA	(2) Full Sample-ABSTA	(3) Full Sample-ABSDA	(4) Full Sample-ABSTA
P_TENURE	-0.006***	-0.007***		
	(-3.202)	(-3.091)		
YEAR 1 AFTER AUIDT FIRM SWITCH (baseline)	-	-	-	-
TENURE YEAR 2			-0.038***	-0.056***
			(-4.582)	(-5.669)
TENURE YEAR 3			-0.036***	-0.049***
			(-4.275)	(-4.770)
TENURE YEAR 4			-0.039***	-0.054***
			(-4.230)	(-4.894)
TENURE YEAR 5			-0.040***	-0.053***
			(-4.230)	(-4.558)
M_ROT	-0.014*	-0.016*	-0.039***	-0.053***
	(-1.954)	(-1.719)	(-3.897)	(-4.238)
NM_ROT	-0.010*	-0.013*	-0.034***	-0.048***
	(-1.886)	(-1.868)	(-3.874)	(-4.555)
A_TENURE	-0.001**	-0.002***	-0.000	-0.001
	(-2.254)	(-2.805)	(-0.990)	(-1.313)
SIZE	-0.011***	-0.013***	-0.011***	-0.013***
	(-5.251)	(-5.081)	(-5.287)	(-5.130)
ROA	-0.072***	-0.137***	-0.072***	-0.137***
	(-12.710)	(-19.247)	(-12.721)	(-19.291)
LEV	0.013***	0.043***	0.013***	0.043***
	(3.107)	(6.410)	(3.108)	(6.402)
PERFORM	0.075***	0.188***	0.075***	0.188***
	(7.659)	(15.988)	(7.659)	(16.010)
QUICK	0.002***	0.001	0.002***	0.001*
	(3.359)	(1.612)	(3.414)	(1.679)
CATA	0.104***	0.117***	0.103***	0.117***
	(11.010)	(9.646)	(10.997)	(9.624)
ZSCORE	0.145***	0.208***	0.145***	0.207***
	(13.471)	(14.435)	(13.445)	(14.397)
LOSS	-0.099***	-0.039***	-0.099***	-0.039***
	(-13.895)	(-5.292)	(-13.894)	(-5.278)
LNAGE	0.012***	0.012***	0.010***	0.009***
	(4.499)	(3.603)	(3.793)	(2.725)
BUSY	0.007	0.011	0.006	0.010
	(1.240)	(1.602)	(1.205)	(1.561)
OCF	-0.080***	-0.047***	-0.080***	-0.047***
	(-12.915)	(-6.649)	(-12.882)	(-6.596)
BIG4	-0.019***	-0.026***	-0.019***	-0.027***
	(-3.674)	(-4.277)	(-3.727)	(-4.346)
SEC_TIER	-0.020***	-0.019***	-0.019***	-0.019***
	(-3.834)	(-2.907)	(-3.763)	(-2.827)
LNAF	-0.007**	-0.007*	-0.007**	-0.007*
	(-2.331)	(-1.761)	(-2.303)	(-1.725)
LNNAS	0.000	0.001	0.000	0.001

	(1.087)	(1.078)	(1.087)	(1.080)
Constant	0.317***	0.260***	0.336***	0.290***
	(10.293)	(6.869)	(10.777)	(7.513)
Observations	25,266	25,266	25,266	25,266
R-squared	0.219	0.298	0.220	0.299
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES
Pseudo R2	0.218	0.297	0.218	0.298

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 6: Big 6 Auditors versus Non-Big 6 Auditors

Panel A: Big6 vs. non-Big6 in Mandatory Rotation Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	BIG6 Mandatory Rotation Sample-ABSDA	BIG6 Mandatory Rotation Sample-ABSTA	BIG6 Mandatory Rotation Sample-ABSDA	BIG6 Mandatory Rotation Sample-ABSTA	non-BIG6 Mandatory Rotation Sample-ABSDA	non-BIG6 Mandatory Rotation Sample-ABSTA	non-BIG6 Mandatory Rotation Sample-ABSDA	non-BIG6 Mandatory Rotation Sample-ABSTA
P_TENURE	0.001	0.000			-0.002	-0.009		
	(0.487)	(0.132)			(-0.410)	(-1.082)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			0.008	0.007			-0.002	-0.019
			(0.790)	(0.658)			(-0.076)	(-0.746)
TENURE YEAR 3			0.009	0.007			-0.006	-0.025
			(0.825)	(0.550)			(-0.276)	(-0.932)
TENURE YEAR 4			0.003	0.006			-0.006	-0.021
			(0.231)	(0.381)			(-0.224)	(-0.609)
TENURE YEAR 5			0.006	-0.004			-0.009	-0.040
			(0.404)	(-0.250)			(-0.298)	(-0.866)
Observations	2,613	2,613	2,613	2,613	1,418	1,418	1,418	1,418
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.251	0.311	0.251	0.311	0.241	0.356	0.239	0.355

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel B: Big6 vs. non-Big6 in non-Mandatory Rotation Sample

VARIABLES	(1) BIG6 Voluntary Rotation Sample-ABSDA	(2) BIG6 Voluntary Rotation Sample-ABSTA	(3) BIG6 Voluntary Rotation Sample-ABSDA	(4) BIG6 Voluntary Rotation Sample-ABSTA	(5) non-BIG6 Voluntary Rotation Sample-ABSDA	(6) non-BIG6 Voluntary Rotation Sample-ABSTA	(7) non-BIG6 Voluntary Rotation Sample-ABSDA	(8) non-BIG6 Voluntary Rotation Sample-ABSTA
P_TENURE	-0.004**	-0.004*			-0.002	-0.002		
	(-1.990)	(-1.656)			(-0.430)	(-0.282)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			-0.006	-0.004			-0.008	-0.007
			(-0.876)	(-0.496)			(-0.741)	(-0.481)
TENURE YEAR 3			-0.003	0.004			-0.013	0.003
			(-0.383)	(0.513)			(-0.953)	(0.182)
TENURE YEAR 4			-0.022***	-0.025***			0.014	-0.002
			(-2.807)	(-2.836)			(0.749)	(-0.070)
TENURE YEAR 5			-0.009	-0.008			-0.022	-0.017
			(-0.982)	(-0.816)			(-1.178)	(-0.602)
Observations	7,823	7,823	7,823	7,823	4,370	4,370	4,370	4,370
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.233	0.311	0.233	0.311	0.229	0.335	0.229	0.335

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C: Big6 vs. non-Big6 in Audit Firm Switch Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	BIG6 Audit Firm Switch Sample-ABSDA	BIG6 Audit Firm Switch Sample-ABSTA	BIG6 Audit Firm Switch Sample-ABSDA	BIG6 Audit Firm Switch Sample-ABSTA	non-BIG6 Audit Firm Switch Sample-ABSDA	non-BIG6 Audit Firm Switch Sample- ABSTA	non-BIG6 Audit Firm Switch Sample-ABSDA	non-BIG6 Audit Firm Switch Sample- ABSTA
P_TENURE	-0.002	-0.012			-0.022***	-0.020*		
	(-0.183)	(-0.817)			(-2.860)	(-1.883)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			-0.031**	-0.060***			-0.049***	-0.082***
			(-2.240)	(-3.073)			(-3.214)	(-4.377)
TENURE YEAR 3			-0.014	-0.050			-0.071***	-0.088***
			(-0.637)	(-1.563)			(-3.413)	(-3.331)
TENURE YEAR 4			-0.019	-0.058			-0.073***	-0.077**
			(-0.654)	(-1.313)			(-2.758)	(-2.218)
TENURE YEAR 5			-0.013	-0.052			-0.096***	-0.098**
			(-0.336)	(-0.913)			(-2.982)	(-2.209)
Observations	4,463	4,463	4,463	4,463	4,579	4,579	4,579	4,579
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.183	0.252	0.184	0.254	0.158	0.223	0.158	0.226

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7: ASX300 versus Non-ASX300 Audit Clients

Panel A: ASX300 vs. non- ASX300 in Mandatory Rotation Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	ASX300 Mandatory Rotation Sample-ABSDA	ASX300 Mandatory Rotation Sample-ABSTA	ASX300 Mandatory Rotation Sample-ABSDA	ASX300 Mandatory Rotation Sample-ABSTA	non-ASX300 Mandatory Rotation Sample-ABSDA	non-ASX300 Mandatory Rotation Sample-ABSTA	non-ASX300 Mandatory Rotation Sample-ABSDA	non-ASX300 Mandatory Rotation Sample-ABSTA
P_TENURE	-0.004	-0.008***			0.002	0.001		
	(-1.300)	(-3.233)			(0.438)	(0.151)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			-0.014	-0.009			0.009	0.005
			(-1.296)	(-0.918)			(0.774)	(0.400)
TENURE YEAR 3			-0.022*	-0.013			0.010	0.001
			(-1.800)	(-1.319)			(0.779)	(0.091)
TENURE YEAR 4			-0.014	-0.022**			0.005	0.010
			(-1.157)	(-2.107)			(0.303)	(0.520)
TENURE YEAR 5			-0.015	-0.036***			0.003	-0.005
			(-1.121)	(-3.512)			(0.149)	(-0.195)
Observations	729	729	729	729	3,302	3,302	3,302	3,302
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.198	0.360	0.197	0.358	0.245	0.329	0.244	0.329

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel B: ASX300 vs. non- ASX300 in non-Mandatory Rotation Sample

VARIABLES	(1) ASX300 Voluntary Rotation Sample-ABSDA	(2) ASX300 Voluntary Rotation Sample-ABSTA	(3) ASX300 Voluntary Rotation Sample-ABSDA	(4) ASX300 Voluntary Rotation Sample-ABSTA	(5) non-ASX300 Voluntary Rotation Sample-ABSDA	(6) non-ASX300 Voluntary Rotation Sample-ABSTA	(7) non-ASX300 Voluntary Rotation Sample-ABSDA	(8) non-ASX300 Voluntary Rotation Sample-ABSTA
P_TENURE	0.004	0.007			-0.005**	-0.005**		
	(1.134)	(1.560)			(-2.233)	(-1.966)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			0.012	0.017			-0.010	-0.008
			(0.932)	(1.464)			(-1.525)	(-0.970)
TENURE YEAR 3			-0.001	0.000			-0.007	0.004
			(-0.073)	(0.022)			(-0.933)	(0.461)
TENURE YEAR 4			0.014	0.022			-0.016*	-0.025**
			(1.014)	(1.181)			(-1.808)	(-2.407)
TENURE YEAR 5			0.021	0.040*			-0.020**	-0.021*
			(1.162)	(1.653)			(-2.110)	(-1.836)
Observations	1,351	1,351	1,351	1,351	10,842	10,842	10,842	10,842
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.365	0.428	0.364	0.428	0.234	0.326	0.234	0.327

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C: ASX300 vs. non- ASX300 in Audit Firm Switch Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	ASX300 Audit Firm Switch Sample-ABSDA	ASX300 Audit Firm Switch Sample-ABSTA	ASX300 Audit Firm Switch Sample-ABSDA	ASX300 Audit Firm Switch Sample-ABSTA	non-ASX300 Audit Firm Switch Sample-ABSDA	non-ASX300 Audit Firm Switch Sample-ABSTA	non-ASX300 Audit Firm Switch Sample-ABSDA	non-ASX300 Audit Firm Switch Sample-ABSTA
P_TENURE	-0.026	-0.037			-0.017***	-0.018**		
	(-1.051)	(-1.543)			(-2.790)	(-2.154)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			-0.049	-0.063			-0.045***	-0.076***
			(-0.998)	(-1.477)			(-4.230)	(-5.613)
TENURE YEAR 3			-0.103	-0.137**			-0.049***	-0.072***
			(-1.528)	(-2.273)			(-3.230)	(-3.529)
TENURE YEAR 4			-0.079	-0.120			-0.061***	-0.075***
			(-0.931)	(-1.615)			(-3.070)	(-2.801)
TENURE YEAR 5			-0.109	-0.148			-0.075***	-0.087**
			(-0.994)	(-1.535)			(-3.029)	(-2.499)
Observations	557	557	557	557	8,485	8,485	8,485	8,485
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.105	0.174	0.106	0.177	0.175	0.236	0.175	0.239

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 8: Experienced Partners versus Newer Partners

Panel A: Experience vs. Newer in Mandatory Rotation Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Experienced Mandatory Rotation Sample-ABSDA	Experienced Mandatory Rotation Sample-ABSTA	Experienced Mandatory Rotation Sample-ABSDA	Experienced Mandatory Rotation Sample-ABSTA	Newer Mandatory Rotation Sample-ABSDA	Newer Mandatory Rotation Sample-ABSTA	Newer Mandatory Rotation Sample-ABSDA	Newer Mandatory Rotation Sample-ABSTA
P_TENURE	-0.001	-0.002			0.001	-0.002		
	(-0.144)	(-0.387)			(0.312)	(-0.336)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			0.010	0.010			0.002	-0.008
			(0.692)	(0.667)			(0.154)	(-0.465)
TENURE YEAR 3			0.007	0.010			-0.004	-0.021
			(0.439)	(0.595)			(-0.243)	(-1.122)
TENURE YEAR 4			-0.009	-0.010			0.010	0.009
			(-0.667)	(-0.521)			(0.466)	(0.358)
TENURE YEAR 5			0.003	-0.006			0.004	-0.012
			(0.183)	(-0.290)			(0.178)	(-0.388)
Observations	1,980	1,980	1,980	1,980	2,051	2,051	2,051	2,051
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.249	0.301	0.249	0.301	0.264	0.370	0.263	0.370

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel B: Experience vs. Newer in non-Mandatory Rotation Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Experienced Voluntary Rotation Sample-ABSDA	Experienced Voluntary Rotation Sample-ABSTA	Experienced Voluntary Rotation Sample-ABSDA	Experienced Voluntary Rotation Sample-ABSTA	Newer Voluntary Rotation Sample-ABSDA	Newer Voluntary Rotation Sample-ABSTA	Newer Voluntary Rotation Sample-ABSDA	Newer Voluntary Rotation Sample-ABSTA
P_TENURE	-0.001	-0.002			-0.006**	-0.006*		
	(-0.212)	(-0.487)			(-2.478)	(-1.810)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			-0.009	0.005			-0.006	-0.014
			(-1.137)	(0.420)			(-0.714)	(-1.519)
TENURE YEAR 3			-0.004	0.002			-0.008	0.002
			(-0.419)	(0.206)			(-0.910)	(0.158)
TENURE YEAR 4			-0.003	-0.014			-0.019*	-0.024*
			(-0.257)	(-1.116)			(-1.757)	(-1.787)
TENURE YEAR 5			-0.001	0.001			-0.030**	-0.029*
			(-0.052)	(0.067)			(-2.558)	(-1.774)
Observations	5,795	5,795	5,795	5,795	6,398	6,398	6,398	6,398
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.241	0.319	0.241	0.319	0.244	0.345	0.243	0.345

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C: Experience vs. Newer in Audit Firm Switch Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Experienced Audit Firm Switch Sample- ABSDA	Experienced Audit Firm Switch Sample- ABSTA	Experienced Audit Firm Switch Sample- ABSDA	Experienced Audit Firm Switch Sample- ABSTA	Newer Audit Firm Switch Sample- ABSDA	Newer Audit Firm Switch Sample- ABSTA	Newer Audit Firm Switch Sample- ABSDA	Newer Audit Firm Switch Sample- ABSTA
P_TENURE	-0.015*	-0.012			-0.024***	-0.029**		
	(-1.793)	(-0.972)			(-2.817)	(-2.521)		
TENURE YEAR 1 (baseline)			-	-			-	-
TENURE YEAR 2			-0.040***	-0.073***			-0.057***	-0.082***
			(-2.982)	(-4.154)			(-3.441)	(-4.026)
TENURE YEAR 3			-0.040*	-0.054*			-0.080***	-0.112***
			(-1.926)	(-1.929)			(-3.603)	(-3.877)
TENURE YEAR 4			-0.053*	-0.058			-0.091***	-0.109***
			(-1.920)	(-1.579)			(-3.076)	(-2.762)
TENURE YEAR 5			-0.073**	-0.067			-0.096***	-0.116**
			(-2.083)	(-1.324)			(-2.713)	(-2.525)
Observations	5,085	5,085	5,085	5,085	3,957	3,957	3,957	3,957
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster Firm	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo R2	0.175	0.251	0.175	0.254	0.176	0.225	0.177	0.228

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1