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PROFESSIONAL ACCOUNTANTS PERCEPTION ON MANDATORY AUDIT FIRMS ROTATION AS A PANACEA TO REGAINING PUBLIC CONFIDENCE IN AUDIT PRACTICE IN NIGERIA.

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ABSTRACT
The current study assesses the effect of mandatory Audit firm Rotation from the perspective of the professional Accountants in the big four Audit firms in Nigeria and in tertiary institutions in the South east Geopolitical zone of Nigeria on how it affects performance of financial institutions in Nigeria using FirstBank Nigeria PLC. as a study base. The three major factors bothering on mandatory rotation of Audit firms; Audit independence, Audit quality and audit cost were examined and data for this study were gathered through a questionnaire survey using Likert five point scaling. Analysis of variance (ANOVA) was used in testing the null hypotheses formulated. The results reveals the rejection of the three null hypotheses, which invariable means that the mandatory Audit firm Rotation impacts significantly on audit independence, quality and cost. It was also noted that the cost of mandatory Audit from Rotation outweighs its benefits. We therefore recommended among other things. That rotation of the lead partners rather than mandatory rotation should be enforced, revisiting of the policy already been implemented in Nigeria financial sector and the strengthening of the various corporate governance mechanism such as audit committee among others.

INTRODUCTION

In a free market, credible financial information is a necessity for companies. One important way for securing credibility in the chain of financial reporting is through statutory auditing. High quality auditing requires that the auditor is objective and competent. However in the last decade there have been some major corporate scandals such as Enron in the United States, Pamalat in Italy (Portes Simon and Hatherly, 2008). More recently, the scandals at Cadbury and Unilever in which auditors played central roles merely confirm existing impressions (Nigeria Accountant July/Sept, 2007).

In the search for people that could be held responsible; the auditors' roles are always mentioned. Politicians, media and academic are quick to blame the audit profession for not doing their job as the society could expect. After the global financial crises in 2008-2009, where some large banks were forced to file for bankruptcy, the debate once again bloomed up. Now there was no doubt that auditors were to some extent, accountable for the crisis, because no one had pointed out that banks assets balance sheet was filled with complicated assets. This raised a lot of questions from the public and politicians as a consequence of this, the European Union thought that it was time to act and auditor independence was lifted up on the agenda. The debate on the propriety of mandatory rotation of audit firms by companies has again been emphasized. The strategy was conceived to be a solution to possible familiarity threat between the personnel of the audit firms and the client.

Indeed, the central Bank of Nigeria (CBN) in its efforts to promote compliance to code of best practices by all players in the financial sector, has made rotation of auditors every ten years a rule for financial institutions in Nigeria (Nigeria Accountant April/June, 2007)

In the wake of the catastrophic global financial crisis (GFC) regulators around the world are seeking to understand what went wrong, apportion blame and strengthen regulatory mechanism. Although, the Global

Financial crisis was not foremost an accounting crises. Accounting and audit failure appears to have played a secondary but significant role. As gatekeepers of financial markets, auditors occupy a position of public trust, however, the big four accounting firms failed to highlight the underlying fragility and latent weaknesses in the financial system (E.U commissioner, lessons from the crises, 2010) as a result, unlike the post-Enron, the role of auditors and in particular mechanism for improving auditor independence are again under scrutiny by regulators with the possibility of mandatory audit firm rotation.Nigeria auditors seem to lack independence which has been attributed to the inability of auditors to distance themselves from overbearing board or management so as not to incur their wrath and put their appointment at risk. Many suggested that audit firms be rotated every three years. In fact the Central Bank of Nigeria in its efforts to promote compliance to code of best practices by all players in the financial sector has made rotation of auditors every ten years a rule for financial institutions in Nigeria (Nigeria Accountant April/June 2007).

After the occurrence of co-operate scandal, mandatory audit firm rotation is often suggested as one way to increase auditor independence, since it is important for stakeholders to be able to rely on the audited financial statements. How do the academics, professional bodies, audit firms and investors view mandatory audit firm rotation? Hence this study on the perception of professional Accountants on mandatory audit firm rotation in Nigeria.

1.3 Objective of the Study

The main objective of the study is to ascertain if mandatory rotation of audit firms is a solution to audit failure in Nigeria. While the specific objectives are

i. To ascertain whether rotation of Audit firm will enhance auditor's independence in financial institutions in Nigeria.

ii. To determine the extent mandatory rotation of audit firms will enhance audit quality in financial institutions in Nigeria.

iii. To explore the effect of mandatory audit firm rotation on the cost of audit in financial institutions in Nigeria.

1.5 Hypotheses of the Study

HO_1: Mandatory Audit firm rotation in Nigeria dose not significantly affects auditor's independence in financial institutions in Nigeria.

HO_2: Mandatory Audit firm rotation in Nigeria has no significant relationship with audit quality in financial institutions in Nigeria.

HO_3: Mandatory rotation of audit firms in Nigeria has no significant effect on audit cost in financial institutions in nigeri

LITRATURE AND THEORETICAL REVIEW

Conceptual Review

History of Mandatory Audit Firm Rotation

Auditor rotation has been debated in the U.S for more than 45 years (Myers et al.., 2003). It was first proposed in the United States in 1976 in the Metcalf report. It was subsequently considered and rejected by the Cohen commission.

This debate on the propriety of mandatory rotation of external auditors by companies assumed greater prominence following corporate failures across the globe especially Enron and world com in the USA and Palmalate in Italy. The dissolution of Arthur Anderson (AA) and the enactment of the sarbanes Osxley (SOX) Act (2002) by the USA congress, the debate was further fueled by the recent global financial crisis (from 2007 to 2009) and collapse of the Nigerian capital market in 2008. SOX Act aimed to protect investors by improving the accuracy and the reliability of corporate disclosure including fighting auditor's independence requirement.

Mandatory Audit Firms Rotation (MAFR) was considered by congress as a possible regulatory tool. However they opted for mandatory audit partners' rotation. Congress determined that further information was required in relation to the impact of MAFR. Section 207 of SOX required General Accounting Office (GAO) in USA to undertake a detailed study of the potential effects of MAFR. Therefore, the most prudent course at this time is for the security and exchange commission (SEC) and the public company oversight board (PCAOB) to monitor and evaluate the effectiveness of the act requirement to determine whether further revision, including mandatory audit firm rotation (MAFR) may be needed to enhance auditor independence and audit quality to protect the public interest (PCAOB2011)
There are two views on the issue of mandatory rotation of external auditors one derived from the auditing profession and the others from regulators.
Proponents of mandatory auditors' rotation base their argument on auditor independence concerns from the following three aspects.

1. Over familiarity threat
2. Close personal relationship
3. Reduced investors confidence

The first two reasons would increase the risk for audit failures for long tenure audits. The last reason would have an adverse consequence on investors' efficient capital markets.
A long term auditor client relationship hinders the auditors' ability to develop creative and innovative audit programmes due to complacency or over familiarity (Carey and Samnet 2006). Mandatory audit rotation would decrease the auditors excessive reliance on prior years working papers and would reduce their emphasis on doing what is necessary to retain the client (the AFL – Cw 2003)

Close ties to their clients make auditors lose their independence, objectivity and professional skepticism. For example the metcaff committee report (US Senate 1976) expressed concern about the effect of long tenure on auditor judgment. The report noted:

> "Long association between a corporation and an accounting firm may lead to such close identification of the accounting firm with the interest of its clients management that truly independent action by the accounting firm becomes difficult. One alternative is mandatory change of accountants after a given period of years (US senate 1976)"

The conference board (2003) argues that mandatory auditor rotation would increase investors confidence since a new auditor not only bring a 'fresh look' to the clients accounting practices but also provides a check on former auditors audit work, knowing that another audit firm would check his work within a specified period would encourage the incumbent auditor to work more diligently and "might be less likely to succumb to management pressure (GAO 2003). Imholf (2003) claims that shareholders would be willing to pay a premium for the benefits of mandatory auditor rotation if audit firms raises audit fees in such a regime.

Arguments against Mandatory Auditors Rotation

Opponents of mandatory auditors rotation however, stress the costs associated with mandatory auditor rotation are twofold:

1. Increased audit failure due to loss of client – specific knowledge and
2. High start up cost.

De Angelo (1981) identifies learning Curves that give incumbent auditor a comparative quality advantage. Continuity of an audit is said to reduce risk due to a familiarity with the clients system and an understanding of risk associated with the clients business/ industry environment (financial reporting commission, Ryan commission reporting 1992).

2.1.4Countries with Experience of Rotation of Audit Firms

In Italy, since 1974, a periodical rotation of auditing firms has been required for listed companies. The obligation of mandatory rotation of audit firm originally imposed upon listed companies, has been extended over the last 30 years to other companies. The audit engagement may be retained every three years and the same public accounting firm may serve as auditor for maximum of nine years. The new 2005 bill proposes an extension of the maximum term to 12 years. (Kousay et al 2014).
In Brazil, the rule was adopted in 1996 for banks motivated by events involving fraud and the bankrupting of two major banks and it was later also enforced for listed companies in 1999. The rotation period is of five years.

In South Korea, legislation passed through National Assembly on 21st November 2013 made rotation mandatory for companies listed in Korean stock exchange. (KSE) or registered with Korea Securities Dealers Automated Quotations (KOSDAQ) to change auditors every six years starting in 2006. Exceptions are foreign subsidiaries, companies listed on foreign exchange (NYSE, NASDAQ, and London Stock Exchange Only) (Kousay and Hussein 2014)

In Singapore and India, the rule is enforced only for specific companies. In Singapore for banks maximum of five years in India the rotation is already applicable for banks every five years, privatized insurance companies and Government Companies. Some other countries, in particular with regard to Austria, Spain and Canada, had enforced the rule and subsequently dropped it. From 1989, Spain had a system of mandatory audit firm rotation. Spanish audit law under 8-4 of the lay de Auditoria de Acentas (audit law) and 204. 1 of corporation law, states that a company's auditor could not be re-appointed once the period of his appointment a minimum of three years and a maximum of nine years has concluded. The system ceased in 1995. Rotation is not currently being considered in Canada. Until 1991, only Canadian banks were required to rotate their auditors of record. In 1991 banking law was amended and the mandatory audit firm rotation requirement was abandoned. (Kramer e tal 2011)

In Austria, the commercial law of 2004 required a mandatory audit firm rotation every six years with a minimum time lag of three years before the previous auditor can be reappointed. However, the implementation of this rule was postponed awaiting developments at European Union(EU) level and in 2005 it was finally drooped.

Mandatory auditors rotation increases the start up costs for both auditors and the clients. It would increase the initial year audit cost by at least 20 percent for the audit firm and it will increase audit selection costs and audit support cost by at least 17% for public companies. Auditors will be destructed from their primary task of conducting audit and turn their focus more on seeking potential clients(knechel etal,2007).

The AICPA (2004) has also expressed concern on mandatory auditor rotation because it is likely to increase start up cost making it more difficult to perform a timely audit and also increase audit failures. BDO Seidman (2003) contends that mandatory auditor rotation might in fact creates a disincentive for audit firms to acquire specialization because they would not be able to target specific clients segment any more under mandatory audit rotation regime.

Rotation In Nigeria

In Nigeria, following the consolidation of the banking sector of the economy from 89 to 25 and now 24 mega money deposit banks, by the nation's apex regulatory bank – Central Bank of Nigeria (CBN) to augment their capital base, there was need to institute corporate best practices in these banks including the rotation of external auditors to comply with international standards - shamsudden Usman the then Deputy Governor of the CBN (Ujah, 2006). To give backing to these efforts and safeguard auditors' independence the CBN incorporated external auditor rotation in its code of corporate governance for banks post consolidation.

Article 8.2.3 of the code states that "the tenure of the auditor in a given bank should be for a maximum period of ten years after which the audit firm shall not be reappointed in the bank audit after a period of another ten years.

In 2009, the CBN took over the running of five mega money deposit banks in Nigeria. The Union Bank of Nigeria PLc, Afribank Plc, Inter Continental Bank Plc, Oceanic Bank Plc and Fin Bank Plc. The reasons advanced by the apex regulatory bodies were weak capital base eroded by non-performing loans and insider abuses. The CBN then gave the banks, up to 31st December 2010 to comply with the code on rotation for all banks auditors that have served for a period of ten years as at 31st December 2010.

Auditors Independence

An auditor must at all times perform his work objectively and impartially and free from influence by any consideration which might appear to be in conflict with his requirement. He must be in a position to give honest and unbiased opinion at all times (Okezie, 1995). The auditors' opinion is furnished for the purpose of adding justified credibility to financial statements which are primarily the representations of management. The auditors' independence lends credence to the financial statement.

However, whether the auditor has the independence to report the detected material misstatements hinges on the tradeoff between the auditor's incentives to please the client for potential tenure quasi-rents and his incentives to protect his reputation and avoid litigation costs overtime. Mautz and Sharaf (1961) stated that the auditor must be aware of the various pressures, some obvious some subtle, which tend to influence (their) attitude and thereby erode slowly but surely (their) independence. In most cases the greatest threat to independence is a slow, gradual, almost casual erosion of honest disinterestedness. Morere et al (2006), introduced the term 'Moral seduction' to describe how, overtime, clients exert a gradual accumulation of pressures to encourage complacency among practitioners such that auditors will be more likely to slant their conclusions. Grant Thornton acknowledge in their submission to the PCAOB (2011) that no partner wants to be the one to lose a significant or long standing relationship. Supporters of the MAFR argue that MAFR improves independence in fact as the limited duration of any client engagement lessons the pressure monetary and other incentives for auditors to sacrifice their independence and reputation in order to keep the client. The decrease of auditor independence cannot go on indefinitely since the auditors reputation concern, professional standards, quality control systems and the potential litigation threat force the auditor to maintain a minimum level of auditors independence and objectivity.
In US v Arthur Young Binger C.J highlighted the importance of audit independence as thus

> *"By certifying the public records that collectively depict a corporation's `financial status, the independent auditor assumes a public responsibility transcending any employment relationship with the client. This special function owes ultimate allegiance to the corporations' creditor and stockholders as well as to the investing public. Thus a public watchdog function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public".*

Two Forms of Audit Independence exist: Independence in fact or mind and independence in appearance.

- Independence Of Mind Or Fact: The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and profession sceptism.
- Independence in Appearance: The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude emerging all the specific facts and circumstances that a firm's integrity, objectivity or professional sceptism has been compromised.

The importance of independence in fact and appearances is highlighted by Burger C.J in Aurthur Vs US. It is therefore not enough that financial statement be accurate, the public must also perceive them as being

accurate, to public faith in the reliability of corporation financial statement depends upon the public perception of the outside auditor as an independent professional.

Audit Quality

One common definition of audit quality is provided by DeAngelo (1981) as the market assessed joint probability that a given auditor will both (a) discover a breach in the clients accountancy system and (b) report the breach. The probability that the auditor will report The detected misstatement is defined by DeAngelo (1981) as audit independence. Therefore audit quality is an increasing function of an auditor's ability to detect accounting misstatements and auditors independence as assessed by the market.

Franze (2003) opined that audit quality is the way auditors' conduct the audit in accordance with generally accepted auditing standards (GASS) to provide reasonable assurance that the audited financial statement and related disclosure are:

1. Presented in conformity with GAAP and
2. Are not materially misstated due to errors or fraud

There is a difference between the definition of audit quality based on perceived and actual audit quality. Perceived audit quality based on users consideration of financial statements, whereas the actual quality refers to the ability of auditors to detect and report accounting misstatements.

However, users of financial statement do not have access to the gathered evidence during the audit process and audited information, and thus they cannot judge the quality of the actual audit directly (EKO Suprapto et al 2013)

Other measurements of audit quality are by understanding the results of the audit, have traditionally viewed the presence of negative outcomes (Such as restatements, litigations, discretionary accruals, accounting conservatism) or having certain positive outcomes (Such as issuing going concern opinions.)

Cost Of Audit

These costs involve both that of the auditor and the client. From the auditors point of view, start up costs can be considered. They are generated by familiarization with clients accounting procedures. This is necessary in order to reach a sufficient knowledge of the audit firm. On the other hand, the client must devote resources to make the first audit possible in terms of assistance and material resources. These are explicite costs that an auditor change involves. Implicit cost includes costs of specific assests developed during the past engagement. (Arrunadu and Pas-ares (1997) explain that first time through cost will include explicit time spent by the auditor in the following areas:

- Familiarity with company accounting procedures and internal control
- Assessment of continuity of procedure and accounting policies adopted by the company.
- Review of historical accounts, components and opening balances
- Review of tax structure and exposures
- Creation of permanent archive of background information and knowledge

Theoretical Framework

De Angelo Theory

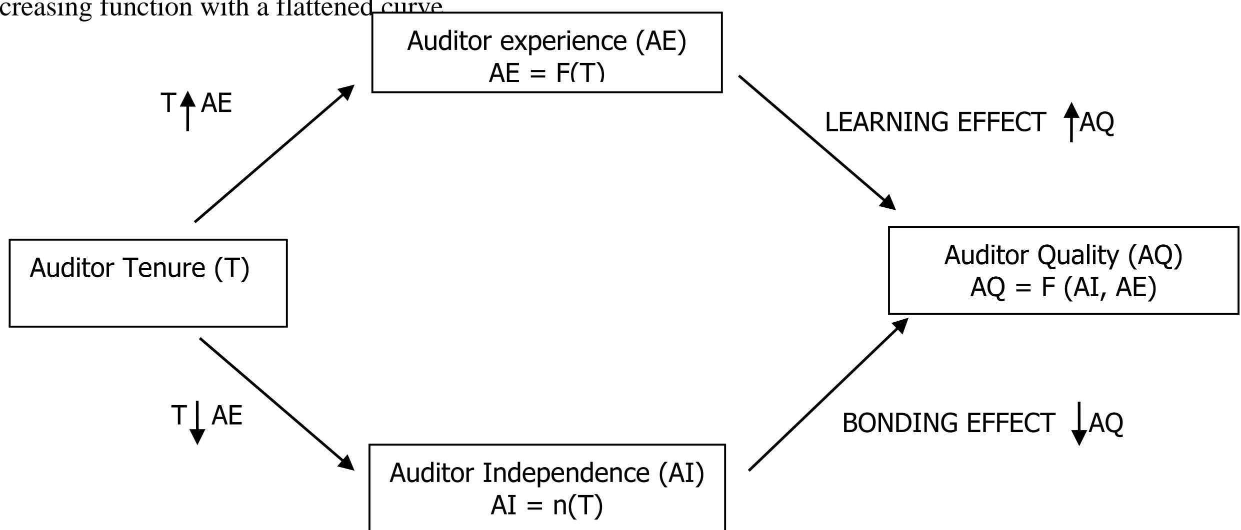
This research work that examines MAFR in line with audit independence, quality, and cost hinges on the well accepted theory by DeAngelo (1981), who defines audit quality as the joint probability for an auditor to discover a breach (Competence) and report the breach discovered (independence). The competence to discover a breach depends on the auditor's experience on the clients system , business , industry environment and the auditor experience (AE) is an increasing function of auditor tenures (T), as suggested by the argument against mandatory auditor rotation. Whether the auditor has the independence to report the detected material and misstatements hinges on the auditors' resistance to the economic incentives to earn potential

future quasi-rents and his incentives to protect his reputation overtime. Therefore auditor independence (AI,) is a decreasing function of T, as indicated by the argument for mandatory auditor rotation. Consequently, T affects audit quality (AQ) both Ai and AE as illustrated by figure 1.

Audit experience AE increases the auditors' ability to detect both intentional and unintentional material misstatements in the financial statements, thus improving audit quality. This positive force related to AE can be referred to the learning effect which measures AQ but the incremental effect decreasing over time (Learning effect/AQ) this is consistent with the 'learning curve that give the incumbent auditor a competitive advantage (DE Angelo 1981; Chen and manes 1985). The learning curve was initially introduced by a German psychologist Hermann Ebinghaus in 1885: a more detailed description of learning curves was provided by psychologist Arthur Bills in 1934. Learning is most difficult for the initial years and the increase of the information is sharpest after initial familiarity and gradually even out in later years, suggesting that each successive audit engagement contains less new information. Consequently, the relation between auditor tenure and audit quality can be approximated as a flattened curve after it reaches its maximum point.

On the other hand, the extended personal relationship to the extent of developing bonds of loyalty or emotional relationship will consciously or subconsciously impact the auditors independence and objectivity, causing the auditor to fail to maintain an attitude of objectivity and professional skepticism (Carey and Sunneth 2006). This negative force associated with audit independence (AI) can be termed bonding effects which decreases audit quality, (AQ), overtime (Bonding effect/AQ).

The bonding effect indicates:
That AI is initially high and then gradually decreases, but the decrease of AI eventually evens out at a later stage. Thus, the relation between auditor tenure and audit quality can be approximated by a convex decreasing function with a flattened curve.



Relation Between Audit Tenure And Audit Quality

The Stakeholder Model

Another theory considered here is the stakeholder model since we considered it to be more appropriate to our study than the agency theory. The implementation of mandatory audit rotation would not only affect the audit firms, it would also have influence on the audited company's different stakeholders. The audited company would for instance be affected by higher audit cost in the earlier years of the arrangement (ICAEW, 2002) and this would have an effect on the financial statements as well as on the stakeholder decision that has been based on the audited information.

The Stakeholders Model

The Stakeholders Model (Our own interpretation) stakeholders in the model may differ slightly in different literatures depending on the audit interpretation. Eight categories of interest that a company often is acknowledged to have some sort of connections with are owners, employees, customers, government and tax authorities, supplies, investors', political groups and lenders. The model assumes that a company strives to create a stable setting to its environment a sense of balance to achieve a satisfactory financial gain for the company. The relationship a company has with its stakeholder is a mutually dependent relationship and the reason for this is that there is an exchange of inter-alia information, services and products. Stakeholder requests for rewards that exceed the contributions that the company receives from them. According to the model, the company aims to satisfy stakeholder expectations but at the same time the company wants to fulfill its own aims as far as possible without getting into conflict with stakeholders. Consequently, this requires that the management occasionally have to make compromise and prioritize the stakeholder needs so that an appropriate balance emerges between their demand and the company's future development. For instance, the state contributes with education and infrastructure and in return they desire taxes and jobs opportunities. From the management point of view, it is important to have the stakeholders' confidence as they largely depend on the stakeholders, especially for financial aspect. This, together with stakeholders needs for accurate information from the company creates a demand for external auditing by an auditor (AX, Johnson and Kulllven, 2005).

Another aspect in relation to the stakeholders as discussed by Thomas Carrington (2009), he argued about the potential problem that management does not want to disclose information that might have a negative impact on the company and that this might lead to the stakeholders making wrong decision because they do not have access to their information. The intermediary of the information between the company and its various stakeholders, and from that perspective the audit will be a practical way to reduce this uncertainty (Thomas Carrington 2009). It is on this stakeholders' model that this research work is anchored on

2 Empirical Review

Empirical Evidence Supporting Mandatory Auditor Rotation

Empirical results supporting mandatory auditors rotation are relatively sparse

In an experimental study carried out in the US, interactions between managers who invest in assets open to risk and an auditor who reports on these assets were observed by Depuchi, King and Schwantz (2001) over a period of time they recommended external rotation of audit to prevent biasing by auditors as a result of familiarity thereby not revealing errors in financial reports. They also opined that the chances of auditors becoming bias reduce with rotation.

Daniels and Booker (2009) provide evidence concerning another user groups perceptions of independence in a rotation regime. They find that loan officers perceives auditors to be independent when rotation is mandatory.

Using Australian data, Carey and simnatt (2006) find that longer audit partner tenure is associated with a lower propensity to issue a going concern opinion and a higher probability to just beat earning benchmarks

More recently Davis et al (2009) applying a quadratic model, find that the propensity of using discretionary accruals to meet or beat analysts earning forecast decrease with tenure at the earliest years and this increases with tenure at the later years across 19 years from 1988 to 2006. Their results are consistent with regulators concern that auditors are involved in the numbers game with managers in manipulating earnings numbers to meet consensus forecast

Kramer, Georgakopoulas, Soturopoula and Vasilaou (2011) considered audit firm rotation, audit firm tenure and earning conservatism. This study aimed to contribute to the debate around the possibility of mandatory

audit firm rotation. Specifically it examines conservatism as an attribute of earning quality, which has not attracted particular attention in the auditor rotation research. Applying regression analyses on a sample, which consists of US firms for the period 1980-2006, their findings indicate that conservatism in reported earnings increases after the rotation of the audit firms.
O' Leary and Radich, (1996) surveyed 300 Australian companies and 180 audit partners on mandatory Audit firm rotation. It was observed that 63% of public listed companies and 37% of auditors considered mandatory audit firm rotation as a useful means of improving the perception of independence.
Camerm et al (2003) on their survey of managers, internal auditors, auditors and managerial accountants in Italy and 155 CPAS in USA corroborated O' Leary and Ratich 1996 by stating that mandatory auditor rotation results has positive effects on perceived independence.
Ebimbonel & Keretu (2010) on their survey on 172 auditors and investors concluded that mandatory audit firm rotation increases the quality of audit reports as well as the independence of auditors.
Kousey said and Hussen Khasharmeh(2014) on their survey on 102 auditors in Bahrian using ANOVA.to test hypotheses formulated concluded that mandatory rotation of auditors could safeguard auditors independence.

Empirical Evidence Opposing Mandatory Auditors Rotation

Reuz – Barbadilhi etal (2009) considered the impact of mandatory audit firm rotation on auditors independence in Spain. Employing a sample of 1326 financially distressed Spanish companies, the researchers examined the impact of rotation on audit reporting behaviour during the five years period between 1991-1994 and after 1995-2000 they opined that mandatory audit firm rotation (MAFR) does not improve auditor independence. MAFR was introduced in Spain in 1988 and subsequently repealed in 1995.
Greger and reghananda (2002) argued that rotation is unnecessary because market-based incentives such as threat of loss of reputation and litigation costs dominate the expected benefits from compromising auditors independence
Palmoose (1987,1991) and stice (1991) show that auditors face higher litigation risk in the earliest years of auditors client relationship. AICPA's quality inquiry committee of the SEC practice section finds that allegations of audit failure occur more frequently when the auditor – client relationships is at an early stage. AICPA (1992), Carcello and Nagy (2004) examine the audit tenure effect among companies with fraudulent financial reporting indentified in SEC Accounting and Auditing Enforcement Releases (AAERS). They concluded that the likelihood of fraudulent financial reporting is greater in the initial three years of audit tenure. The study made use of logistic regression.
While Ghosh and Moon (2005) document that the impact of reported earnings on (i) stock returns (ii) stock rankings and (iii) analysts one-year-ahead earnings forecasts is positively related to auditor tenure.
Gala, Lowe and Reckers (2007) sampling the opinion of seventy nine (79) masters in business Administration students in USA, recorded that rotation of audit firm on an incremental level influences the confidence of individuals in a financial statement that has been audited although the effect of audit partner rotation differs. Gates et al (2007) shows that investors confidence in the financial accounting quality in a regulatory environment with increased corporate governance cannot be influenced by explained auditors rotation
Jackson Modrich and Rroebuck (2008) carried out a research on the capital market of Australia examining 1750 companies between the years 1995 and 2003 the experience of an auditor is capable of making clients want to keep re-appointing an audit firm for engagement leading to an increase in the audit firms period of audit as well as reducing the possibility of having a going concern opinion
Mansy, Maxwell and miller (2004) according to an 8329 US surveys carried out between 1974 and 1998, question the expediency of audit firm rotation and stated negative capital market retort in the evaluation of market stock of risks intensive companies. According to the new audit learning curve, many restrictions on auditor tenure can limit the function of the learning effect. This weakens the auditors professional competence therefore, it does not give support to regulators implementing the mandatory auditors rotation requirement.

Dabia and Onwuchekwa (2013), studied and reported on the examination of shareholders perception on mandatory audit rotation in Nigeria. Using a survey method and concluded that there exists a negative relationship between mandatory audit rotation and shareholders confidence.

2.4 Summary of Reviewed Literature

A critical look at the materials reviewed in this study reveals that this issue of auditor's rotation has been debated for many decades now. It was first proposed in the USA in 1976 in the metcaft report. It assumed greater prominence following corporate failures across the globe especially by the Enron, world com in the USA and palmalet in Italy. It was further fuelled by the global financial crises from 2007 to 2009, collaps of the Nigeria capital market in 2008 and the subsequent incorporation of external auditor rotation in codes of corporate Governance for banks in Nigeria (Uja 2010)

The debate on mandatory rotation of auditors is still on with practitioners, (AICPA), legistaor, (Sabanes Oxley, 2002) and regulatory bodies (GAO 2003 trying to find a solution. In October 2010. The European Commission (EC) issued a green paper to address financial market regulatory reform in reaction to the 2008 global financial crises. The proposed regulations, issued in November 2011 included mandatory rotation of audit firms after six years (with an extension to nine if joint audits are used, with a cooling-off period of four years.

Proponents of mandatory auditor's rotation base their argument on auditor independence concern from the following aspects among others over familiarity threats;

- Close personal relationship
- Reduced investors confidence.

Opponents stress the costs associated with mandatory auditor rotation like increased audit failure due to loss of clients specific knowledge and high start up cost as negative effects of Audit firm Rotations.

It is agreed that a newly appointed auditor might fail because of lack of a thorough understanding of the client. Incumbent auditors can profit from their learning curve effect in the detection of a material error or breach (De Angelo, 1981). AICPA (1992) and Gerger and Raghunandem (2002) in corroboration argued that rotation is unnecessary because market based incentives such as threat of loss of reputation and litigation cost dominate the expected benefits from compromising auditor independence.

Studies by Daniel and Booker (2009), Carey and Sumnatt 2006 and Davis et al (2009) see rotation of audit firms as enhancing audit practice while studies by Reiz-Barbaditho et al (2009) Greger and Reghanander (2002). Gala, Lowe and Reckers (2007) are of the opinion that rotation of audit firms will negatively affect the audit practices.

METHODOLOGY

Design of the Study

The survey research design was adopted for this study. The primary source of data is based on survey methods using questionnaire in order to gather the information related to this study. The benefit of using this method is that the researchers can contact respondents who might be inaccessible (Copper and Schindler, 2003). In addition, the data are collected using primary source in order to gather the perceptions of the professional accountants in the big four audit firms in Nigeria and in academics.

Population of the Study

Since the study is on, the perception of professional accountants on mandatory rotation of audit firms as a panacea to regaining public confidence in audit practice in Nigeria. Efforts were made to confine the survey to a group professionally involved in audit practice or are experienced in auditing process. The staff of the big four auditing firm (KPMG, Deloithe and Touche, Price Waterhouse Coppers and Earnest and Young in Nigeria since most of the banks in Nigeria are audited by the big four, and professional accountants lecturering in tertiary institutions in the South East.

Since the study population is not known we consider it to be infinite population.

Sampling and Sampling Techniques

This deals with sample size. The sample size answers the question on how many are to be surveyed. A sample size is a fraction part of the population in every research study. A researcher is expected to chose a sample size this however, becomes absolutely necessary when the study population is not known and is relatively large like the one of this study. In view of this

The researcher chooses a sample size by using William Bill Golden (2004) formula for infinite population (which is appropriate for population greater than 50,000).

Which States:

$$SS = \frac{Z^2 P(1-P)}{e^2}$$

Where SS = Sample size

Z =Z-value 1.96 for a 95% (confidence level)

P = Percentage of population (picking a choice expressed as decimal.

e = Confidence interval expressed as decimal(here 0.04)

Note: **A Z –** values (cumulative Normal probability table) represent the probability that a sample will fall within a certain distribution

The Z – values for confidence levels are

90% confidence level = 1.645

95% confidence level = 1.96

99% confidence level = 2.576

$$SS = \frac{Z^2 P(1-P)}{e^2}$$

$$= \frac{1.96^2 \times .5(1-.5)}{(0.04)^2}$$

$$= \frac{3.8416 \times .5 \times .5}{0.0016}$$

$$= \frac{0.9604}{0.0016}$$

$$= 600.25 = \underline{\mathbf{600}}$$

3.6 Method of Data Analysis

The questionnaire was designed based on the research questions. The questionnaire was analyzed using mean and standard deviation. For the purpose of testing the hypotheses Analysis of Variance (ANOVA) technique was applied. Excel software helped us to transform the variable into a format suitable for analysis after which the statistical package for social sciences (SPSS) version 17 was utilized for data analysis. The internal consistency of the questionnaire reliability was measured using cronbachs coefficient Alpha statistical test.

4.2 Data Analysis

Reliability Test

A reliability test on the internal consistency of the questionnaire was carried out using cronbach's co-efficient Alpha statistics.

Table 5 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha based on standardized items	No. of Items
0.786	0.789	12

Source: Researcher's Analysis 2015

The internal consistency of the questionnaires reliability was measured by using cronbach's co-efficient Alpha statistical test as shown in the table above. The analysis indicates the average correlation among all the items that made up the scale. The results in the table shows that all indices obtained were considered high (0.786). A sample scale that shows alpha value above 0.70 is considered reliable (Bryman and Cramer, 2001). Therefore, the indices for the questionnaires reliability are generally considered adequate for this research.

Presentation of the Mean Scores and Standard Deviation from likert scales

Table 6 Descriptive Statistics

SCALE	VARIABLES	MEAN SCORE	STANDARD DEVIATION
1	Audit Independence	4	79.3
2	Audit Quality	4.4	93
3.	Audit Cost	4.1	87
	TOTAL **OVERALL MEAN/SD**	$\frac{\mathbf{12.5}}{\mathbf{3}}$ **4.17**	$\frac{\mathbf{259.3}}{\mathbf{3}}$ **86.4**

Source: Researcher's Computation 2015

The mean for scale 1 audit independence is 4, Audit quality has a mean of 4.4 and Audit cost is with a mean of 4.1. The overall mean for all the variable is 4.17 which indicates a very high level of awareness about the various effect of the variable on rotation of audit firms.
The standard deviation for Audit independence is 793, Audit quality 93, and audit cost 87 while the overall standard deviation is 86.4 which is very high. This means there is agreement among respondents about the effects of the Audit independence, audit quality and audit cost in rotation of Audit firms.

4.3 Test of Hypotheses

The hypothesis formulated in chapter one are hereby tested.

Decision Rule: Reject the null hypothesis if f- calculated is greater than f-tabulated otherwise accept.

4.3.1Test of Hypothesis One:

HO_1: Mandatory Audit firm rotation in Nigeria does not significantly affect auditors independence.

Table 2 Audit Independence Response Data was applied

Table 7: Analysis of Variances (ANOVA) for Hypothesis One

SSB SSW SST MSSB MSSW	3050450 7700 3058150 1016816.667 1925	f-ratio cal 528.2 f – tabulated 6.59 for F0.05 (3 level of degree of freedom 0.05	Decision Reject Null

Source: Researcher's Analysis 2015

4.3.2Test of Hypothesis Two:

HO_2: Mandatory Audit firm rotation in Nigeria has no significant relationship with audit quality in Nigeria.

Table 3 Audit Quality Response Data was applied

Table 8: Analysis of Variances for Hypothesis Two

SSB SSW SST MSSB MSSW	4632965 68514 4701482 1544322.667 17128.5	F – ratio 90.2 F – tabulated 6.59 Level of sign 0.05	Decision Reject null

Source: Researcher's Analysis 2015

4.3.3 Test of Hypothesis Three

HO_3: Mandatory rotation of audit firms in Nigeria has no significant effect on Audit cost.

Table 4 Audit COSI Response Data was applied

Table 9: Analysis of Variances for Hypothesis Three

SSB SSW SST MSSB MSSW	3837835.126 221641 4059476 1279278 55410	F – ratio 23.1 F-tabulated 6.59 Level of sign 0.05	Decision Reject null Hypothesis

Source: Researcher's Analysis 2015

4.4 Discussion of Findings

The analysis above have recorded the following

1. That mandatory rotation of audit firms in Nigeria will affect significantly auditors independence. The independence of auditors is a key factor in evaluating the reliability of auditors report. The implication of this is that

- It is the auditors independence that enhance the credibility of published financial reporting and values for several categories of stakeholders.
- The second implication directly involves the profession: the fruit of independence is the best way of demonstrating to the regulator and the public that the auditors are performing their task according to ethical principles such as objectivity and integrity. This finding is in agreement with **Vanstalem** (2000) and the prior work of **Defond** et al (2002), but inconsistent with the work of AICPA (2002), and Ruiz **Barbadillo** et al (2009).

2. The second hypothesis reveals the rejection of the null hypothesis: mandatory audit firm rotation in Nigeria has no significant relationship with audit quality in Nigeria. It is a well known fact that if independence of auditor is enhanced by mandatory rotation of audit firm quality of audit report would also improved. This is in agreement with the works of **DeAngelo** (1981), and inconsistent with the works of Jaskson et al and **Cameran** et al (2005) who argued that audit quality increases with audit firm tenure and tends to improve with extended auditors term and therefore mandatory Audit firm will not improve audit quality. We are of the opinions that although actual audit quality will not improve under mandatory Auditors firm rotation, the perception of audit quality may indeed improve.
3. The third hypothesis that deals on mandatory rotation of audit firms in Nigeria has no significant effect on audit cost was also rejected. This means that mandatory rotation of audit firms in Nigeria has a significant effect on audit cost. This is consistent with the works of, AICPA(2004)

It is augured that mandatory audit firm rotation will lead to increased audit fees and costs.

1. To win new audit engagements, audit firms frequently discount their fees. Moreover, it is common knowledge that a major requirement of audit exercise is adequate knowledge of the business of the client. This is concerned to the planning of the audit particularly because it covers such issues as general economic factors, industry conditions affecting the client business. The knowledge acquisition like all others is not cheap. Each time the external auditor is changed, the cost of acquiring such knowledge will be significant both in terms of time and money.

A critical issue that must be considered or addressed before deciding whether to rotate auditors is this issue of benefits (greater perception of independence) exceed the cost (possibly higher fees, spillover knowledge associated with long-term relationship).

Summary of Findings

The research has considered the concept of MAFR to determine whether it would be an effective means of improving auditor independence in Nigeria. Although the "fresh look" and watchdog arguments may have merit, and there appear to be some evidence to support the **contention** that MAFR will improve independence in appearance by reducing perceptions of "coziness" on balance, the costs of MAFR would appear to outweigh the supposed benefits, of particular concern is the potential negative impact that MAFR would have on market competition, the already limited choice of audit firms specialization carears and audit committee effectiveness. Further, the research in relation to audit firm tenure and audit quality do not support mandatory audit firm rotation.

Considering the audit market in Nigeria, the big four firms Akintola Williams Deloitte and Touche, Pricewater House Coppers, kPMG professional services and Earnest and Young have dominated the financial sector of the Nigerian economy. The rotation of audit among these firms will whittle down not only competition but also lead to the growth of monopoly and high cost of audits.

Conclusion

From this study it has been revealed from the professional perspective that there is statistically significant relationship between audit firm rotation and audit cost.

Since professional accounting service have implications for the public interest, the retention of external auditors should, in our views, be determined chiefly by satisfactory performance on the job defined in terms of measured reliability of report, quality of services and cost efficiency. While mandatory rotation of auditors will certify statutory requirements, it would certainly increase cost of audit, give rise to oligopolist within the audit profession as well as discount performances as a critical deciding factor. The one year secured and renewable terms of external auditors, subject to performance, reinforces their confidence to discharge their duties without fear or favour. If the appointment and rotation of external auditors are made just issues of legality, public confidence will wane. It is in this respect that great premium ought to be placed on the sanctity of the professions self-regulatory measure of regular rotation of engagement partners.

Rebuilding the waning confidence of the public in the attestation function must go beyond the cosmetic measures of just rotating external auditors.

On 13th October 2010, the European Commission Issued the green paper which canvased various option for the reform of audit. A clear underlying concern in the green paper is the market concentration of the big accounting firms. In terms of the revenue or fees received, the total market share of big four audit firms for listed companies exceeds 90% in a vast majority European Union member states.

Implementation of Auditors firms rotation is not necessary given a number of hurdles, however we can better insulate auditors from clients pressure and shift their mindset to protecting the investing public.

5.3 Recommendations

Based on the findings and conclusion above we recommend the following.

- The Federal Government should strengthen the various corporate governance mechanism such as audit committees, compliance agencies and
- Encourage vocal voices by shareholders at annual and extra ordinary general meetings and establishment of audit firm oversight board or council as it is done in other countries as more feasible ways of protecting auditor independence rather than thinking that rotation alone can achieve the desired objectives.
- Lead partners rotation rather than audit firm rotation should be implemented.

- The MAFR already been implemented in Nigeria banks or financial sector should be revisited as the benefit can only be a perception and not a reality.
- The cost of mandatory audit firm rotation in Nigeria outweighs its benefits. Audit firm retention based on performance will obviate this avoidable cost.

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APPENDIX

Data Used

Table 2 Audit Independence Response

S/N	STATEMENTS	SD1	D2	U3	A4	SA 5	TOTAL
1.	Over familiarity as a serious threat to Audit Independence in Auditing Practice	50 50	40 80	10 30	150 600	200 1000	450
2.	Litigation and reputation as a tool for enhancing Auditors independence	30 30	100 200	20 60	120 480	180 900	450
3.	Lengthy tenure as having adverse effect on Auditors Independence and Quality.	40 40	20 40	140 420	100 400	150 750	450
4.	Client importance enhances Audit Independence	23 23	22 44	155 465	115 460	125 625	450

Source: Researcher's Computation 2015

Table 3 Audit Quality Responses

S/N	STATEMENTS	SD1	D2	U3	A4	SA 5	TOTAL
1.	Rotation would bring a fresh look to the clients. Accounting preparations	55 55	40 80	25 75	182 728	248 1240	450
2.	Rotation of Audit firms enhances Audit Quality in fact and perception	15 15	18 36	17 51	265 1060	135 675	450
3.	Mandatory rotation would increase Auditors willingness to resist pressure from management	21 21	27 54	24 72	138 552	240 1200	450

4.	Auditor with industry expertise (specialization) are more likely to give high quality audit	10 10	5 10	3 9	221 884	211 1055	450

Source: Researcher's Computation 2015

Table 4 Audit Cost Responses

S/N	STATEMENTS	SD1	D2	U3	A4	SA 5	TOTAL
1.	Rotation of Audit firms increases cost due to lost of client specific knowledge	6 6	14 28	10 30	205 820	215 1075	450
2.	Rotation of Audit Firm increases start-up-cost.	3 3	2 4	2 6	241 964	202 1010	450
3.	Audit firms annual fees affect quality	15 15	10 20	10 30	175 700	240 1280	450
4.	Rotation of Audits leads to competition in the Audit industry	56 56	150 300	4 12	140 560	100 500	450

Source: Researcher's Computation 2015

Data Analysis

Reliability Test

A reliability test on the internal consistency of the questionnaire was carried out using cronbach's co-efficient Alpha statistics.

Table 5 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha based on standardized items	No. of Items
0.786	0.789	12

Source: Researcher's Analysis 2015

Presentation of the Mean Scores and Standard Deviation from likert scales

Table 6 Descriptive Statistics

SCALE	VARIABLES	MEAN SCORE	STANDARD DEVIATION
1	Audit Independence	4	79.3
2	Audit Quality	4.4	93
3.	Audit Cost	4.1	87
	TOTAL **OVERALL MEAN/SD**	**12.5 / 3** **4.17**	**259.3 / 3** **86.4**

Source: Researcher's Computation 2015