Summary of Paper: Retain or Rotate: The Association between Frequent Auditor Switching and Audit Quality

What is this Study About?

The study investigates the impact of frequent auditor switching on audit quality, revealing that such behavior is associated with lower audit quality but can be mitigated by strong internal and external monitoring.

What are the major findings of the study?

Companies engaging in frequent auditor switches tend to experience lower audit quality, characterized by more financial misstatements and higher abnormal accruals. However, this negative effect on audit quality can be mitigated by stronger internal and external monitoring mechanisms, such as effective audit committees and comprehensive analyst coverage. Frequent auditor switching is often a tactic to obtain lenient financial reporting oversight, posing risks to the credibility of financial statements. These findings emphasize the need for careful regulation and oversight to curb the practice of frequent auditor switching, aiming to enhance overall audit quality and financial reporting integrity.

Why is the study important?

Frequent auditor switching can have negative consequences on audit quality, potentially undermining financial statement integrity and investor trust. By showing that robust internal and external monitoring can mitigate these adverse effects, the research offers practical insights for regulators, audit firms, and companies on enhancing audit practices and policies. The findings encourage the development of stricter guidelines and improved governance structures to reduce frequent auditor changes, thereby strengthening audit reliability and protecting the financial reporting process, crucial for maintaining market confidence and investor protection.