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# Implications of Auditors' Rotation in Financial Audit Reporting

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## Abstract

*The purpose of this paper is to study the implications of auditors' rotation on financial audit reporting in the case of companies listed on the Bucharest Stock Exchange in the period 2011-2021. It was analyzed the relationship between the rotation of audit firms and the audit opinion, the impact on the audit cost, as well as the effects on the key audit matters.*

*The regulatory framework has been modified at the same time for the key audit matters and the rotation of auditors, and it is therefore interesting to examine how they associate with each other. Using the descriptive statistical analysis method mainly oriented towards graphical analysis, it is illustrated that the rotation of audit firms leads to improved reporting in audit by reducing the number of modified opinions, respectively increasing the number of KAM communicated in the audit report. Finally, the change of auditor does not lead to substantial changes in the audit fees, which is why such a decision is not determined by considerations of reduction of audit costs, but rather by other reasons.*

**Key Words:** audit rotation; audit opinion; audit fees; key audit matters; financial audit reporting;

**JEL Classification:** M42, M48

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## Introduction

The need for auditing has been explained by various theories, most of which have been associated, at some level, with the risk of misinformation and asymmetrical information faced by investors due to the different issues pursued by the management of the audited entities. The studies concluded that the need for auditors derives from the need to reduce the risk of misinformation of the third parties interested in the financial statements. (Smieliauskas et al. 2020; Salehi, 2011)

Since the audit report is the result of the financial audit process, and therefore represents the channel of communication between auditors and users of the company's financial statements (Ji, 2019), the audit profession has gone through changes to reduce information asymmetry. These reforms included, among other things, the introduction of ISA 701 and the mandatory rotation of auditors.

The main purpose of this article is to explore the implications of auditors' rotation on the financial audit report. We have conducted an analysis of the relationship between the rotation of audit firms and the audit opinion, the impact on the audit cost, as well as the effects on the reporting of key audit matters. The regulatory framework has been changed at the same time for the reporting of KAM and the rotation of auditors, and it is therefore interesting to examine how they associate with each other. The rotation of auditors and the reporting of key audit matters have been the subject of prior investigations, but there are still many that have not been covered.

## 1. Literature review

The European audit reform aimed to restore investor confidence in the financial statements of European companies, and in particular public interest entities, by strengthening the governance, competence of the auditor and the quality of the audit, as well as by increasing the independence of the main stakeholders involved in the audit process. The (mandatory) rotation of audit firms have been, and still is, intensely debated, but there is no clear consensus among academia whether changing auditors leads to improved quality of financial audit reporting.

Most studies focused on the correlation between key audit matters and the fees charged by auditors, the impact that their communication has on investors' perceptions, as well

as the factors influencing the reporting of key audit matters, respectively the number of KAM communicated. (Calixto de Sousa, 2018; Köhler et al., 2020; Lennox et al., 2021; Christensen, Glover, & Wolfe, 2014; Pinto & Morais, 2019; Pinto et al., 2020; Sierra-García et al., 2019; Velte & Issa, 2019; Chersan, 2018; Porumbăcean et al., 2021; Bunget et al. 2021; Grosu et al. 2020; Porumbăcean et al., 2022).

Regarding the effects of auditor rotation on audit opinion, there are several studies which reveal mixed results. Firth et al. (2012a) found that entities for which the rotation of auditors has been manifested often have a higher incidence of modified audit opinions compared to entities for which the financial auditor has not been changed. There are also studies that have documented a positive association between auditor rotation and audit quality (Kim et al., 2015), but without being able to establish a relationship between the rotation of audit firms and the audit opinion (Bulucea, 2020). Another part of the literature looked at the correlation between auditor rotation and audit fees. For example, Gutierrez et al. (2018), Liao et al. (2019), Reid et al. (2019) and Burke et al. (2021) note that the new disclosure requirements for key audit matters did not affect audit fees. However, Li et al. (2019) sees a significant increase in audit fees after the new reporting requirement for key audit matters was implemented in New Zealand. Pinto and Morais (2019) document a positive association between audit fees and the KAM number.

Key audit matters are a relatively new research topic in the field of accounting and auditing and, therefore, studies on the correlation between KAM and the rotation of audit firms have proven to be very limited. It is noted that the number of KAM releases is associated with the complexity of the firm, the type of industry, the profitability, the risk of litigation of auditors, the quality of corporate governance, as well as the rotation of auditors (Pinto & Morais, 2019; Wuttichindanon & Issarawornrawanich, 2020; Verho, 2021; Porumbăcean & Tiron, 2021). There are authors who say that different key audit matters are more likely to be communicated when auditors rotate (Hsiao-Lun Lin & Ai-RuYen, 2022). However, auditors may continue to report the same KAM when determining that there is no change in areas that require significant attention. Rousseau and Zehms (2020) illustrate the effect of auditor and audit firm style regarding the KAM reporting. They found that partners make unique judgments to report key audit matters, which contradicts the concern that

standardization at the audit firm level leads to the creation of certain patterns for reporting the key audit matters. However, the findings of Rousseau and Zehms (2020) also suggest that KAM reporting may not have comparability between partners, both at the level of the same audit firm and at the level of different audit firms. Thus, the rotation of auditors can affect both the number of key issues communicated and their category. Verho (2021) studied the effects of the rotation of audit firms on the number of KAM at EU level and found that their number increases when the audit firm rotates.

Also, the study conducted by Sierra-García et al. (2019) shows that auditor rotation is one of the independent variables of communicating key audit matters. However, the study found that there is no significant association between auditor rotation and the KAM number.

## 2. Research method

The purpose of the study is to analyze the implications of auditor rotation at the level of audit reporting, both in terms of changes in the auditor's opinion, in audit costs and key audit matters. Therefore, through this study we investigate the correlation between:

- the auditor's rotation and the auditor's opinion;
- auditor rotation and audit cost;

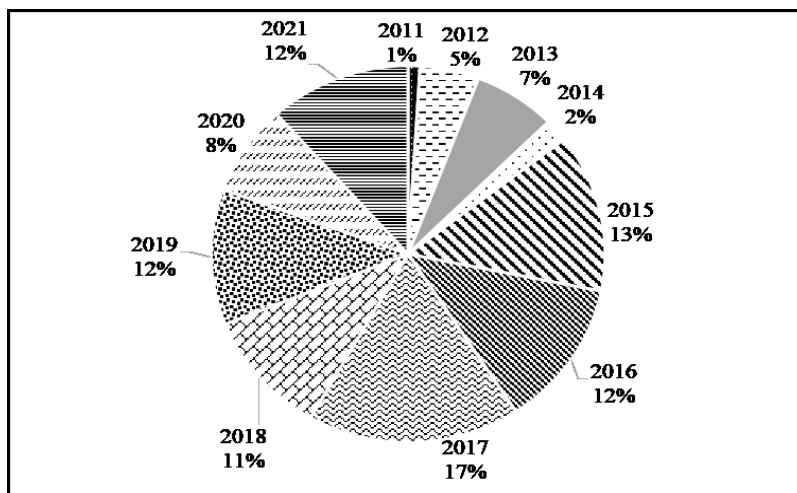
- auditor rotation and key audit matters reported in the audit report.

Each of these liaison relationships is analyzed by methods of graphical descriptive analysis, plus a series of F-tests, assessing the extent to which the auditor's rotation factor generates significant differences in the auditor's opinion and in the audit cost.

### Data collection and sample analysis

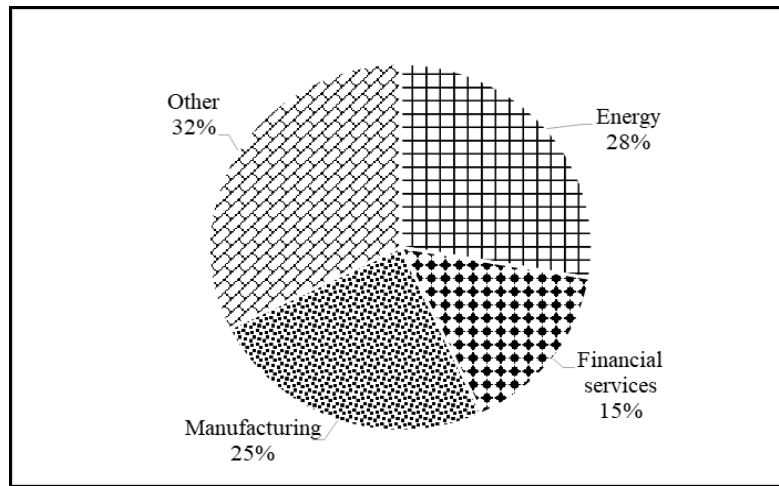
The analysis is based on a set of data extracted from the Audit Analytics database, for the period 2011-2021. The extracted sample considers the limitation of the analysis to a set of Romanian economic entities listed on the regulated market of the Bucharest Stock Exchange. The selected entities are those about which there is data available in Audit Analytics that reveals the decision to change the financial auditor, summing up a total of 103 observations. These annual observations refer to the change of financial auditor decided by 66 Romanian economic entities listed on the stock exchange. This information shall be disclosed either in the annual report made available by each economic entity or through the audit report issued and made available by the auditor. In the case of this sample, no change of auditor resulted from reasons related to complaints about the independence of the old auditor or for other reasons directly attributable to the audited entities.

**Figure no. 1. Distribution of auditors' rotation**



Source: Authors' projection

**Figure no. 2. Distribution of the sample by sectors**



Source: Authors' projection

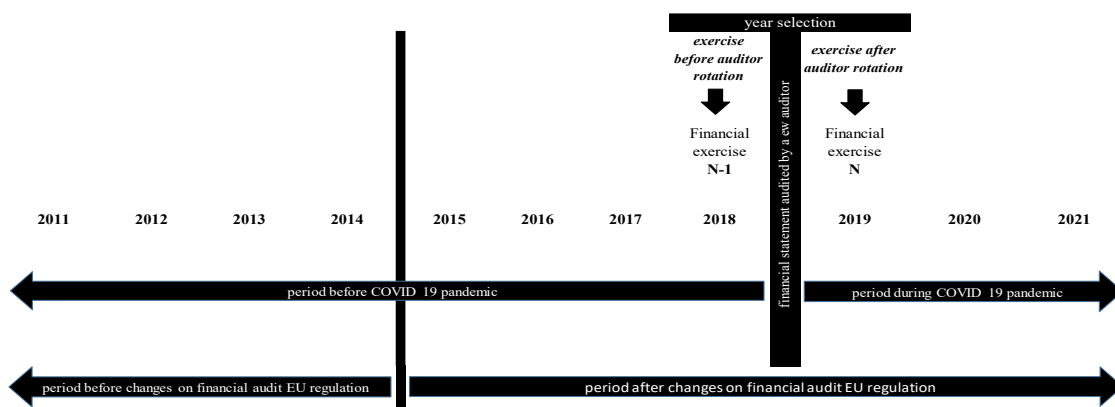
Out of a total of 66 cases of change of auditor, only 7 of them reported problems regarding the going concern, which shows that even in severe conditions, such as the COVID 19 pandemic, no negative effects were determined at the level of the economic entities listed on the Bucharest Stock Exchange.

According to the **Figure no. 1**, most of the changes in auditors occurred in the financial years related to the period 2015-2018, the period before the COVID 19 pandemic. Most of the entities in the sample analyzed are part of the energy sector (28%), followed by the

manufacturing industry (25%), respectively financial services (15%), as one can see in **Figure no. 2**.

Starting from the period 2011-2021 considered in the selection of data from the Audit Analytics database, only the data related to the financial years whose financial statements were audited by a new auditor were retained for analysis. To ensure a comparative analysis, designed to provide indications of the implications of the auditor's rotation on audit reporting, data relating to the preceding financial year of each financial year whose financial statements were audited by a new auditor were also retained. The procedure is described in **Figure no. 3**.

**Figure no. 3. Selection of the year for the sample structure**



Source: Authors' calculations and projections

In order to better understand the effect of the COVID 19 pandemic on financial audit reporting in the context of the auditor change, we proceed to the classification of the selected years into clusters of periods, according to **Figure no. 3**. At the same time, we would like to examine whether there is a voluntary practice regarding the rotation of auditors, separating the period analyzed according to the date of adoption of the European directive that made changes to the European legislative framework on statutory audit. Data analysis consists of descriptive statistical analysis methods, mainly oriented towards the graphical analysis of the results obtained by clustering the data according to the analysis framework described in **Figure no. 3**.

### 3. Results and discussions

In this study we analyse the implications of the rotation of financial auditors on the audit opinion on the quality of the published financial statements, i.e., the impact on audit costs, as well as on the key audit matters disclosed by the auditor in the audit report. Consequently, the sample of firms and the financial years analysed are limited to the years in which it was decided to change the financial auditor, respectively the years preceding them.

Considering the adoption of the European directive for the revision of the legal framework regarding the statutory audit, we want to analyze the extent to which the auditor's

rotation represents a practice already implemented at the level of the companies listed on the Bucharest Stock Exchange. Taking into account the fact that the deadline for the implementation of the provisions of this Directive on rotation is variable, being conditioned both by the duration of the mandates before the entry into force of Directive 56/2014, respectively by the way in which each national jurisdiction has transposed the minimum duration of a mandate in the case of statutory audit of public-interest entities, in this way, we want to assess the extent to which the analyzed companies opt for a voluntary adoption of the auditor's rotation mechanism. At the same time, we aim through this analysis to identify the extent to which the change of auditor is a practice that is based on regularity in time and formal framework, by formulating at the level of firms' corporate governance policies that directly or indirectly address requirements in this direction.

#### Analysis of the sample

In **Table no. 1** we present the calculations relating to the elementary descriptive statistics at the level of the sample analyzed. Given the limited availability of the data used in the study, the analysis is carried out on two levels of discussion. In the first phase we analyze the implications of the auditor's rotation on the audit opinion and audit costs, in which case we consider a sample of 63 firms. The second level of analysis is limited to the initial sample, which excludes firms for which we do not have information on key audit matters.

	Sample size	Min.	Max.	Mean	Std. Dev.
Auditor opinion	65	0	1	0.31	0.465
Going concern	65	0	1	0.11	0.312
Total KAMs per audit report	24	1	4	1.92	0.974
Big accounting firm	65	0	1	0.51	0.504
Audit Fees	63	7.54	13.87	10.12	1.659

Source: Authors' calculations projections

We note that the sample analyzed consists of audit reports that present a modified audit opinion or an unchanged audit opinion. The average of 0.31 reveals that most audit opinions are unchanged, which shows a high quality of the published financial statements. On the other hand, the average of 0.11 of the variable "going concern" reveals that only a small part of the audit reports analyzed signaled a significant risk regarding the premise of the continuity of the activity of the audited firms. Therefore,

the quality of the financial statements does not raise a concern regarding the risk of insolvency, especially in the context of the effects of the COVID pandemic. However, the quality of financial statements raises a question mark regarding the relevance of accounting policies and respectively the ability of management, on the one hand, and of regulatory and professional bodies, to adjust in a timely manner the financial reporting framework, and especially to provide support to firms, through practical

guides, recommendations or clarifications on controversial issues raised in the sphere of the private environment.

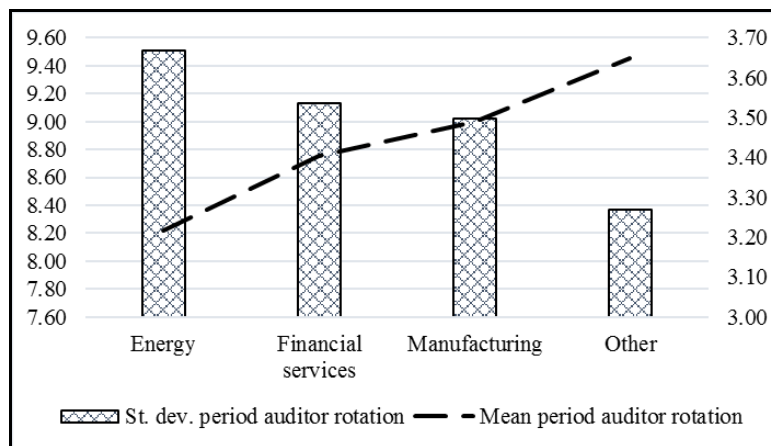
It should be noted that the average of 0.51 reveals that there is a relative balance at the level of the analyzed sample, from the perspective of the structure of the financial audit market in Romania (national audit firms, respectively international audit firms).

### Analysis of auditors' rotation

In *Figure no. 4* we represent the average of the rotation period of the auditors in the case of the

sample of analyzed companies. This graph shows relatively similar averages across different areas of activity, ranging from 8.4 to 9.6 years. However, it should be noted that the rotation period of the auditors appears to be longer in the case of firms operating in the energy sector, followed by the rotation period of the auditors in the case of firms operating in the financial sector and the rotation period of auditors operating in the manufacturing area. At the same time, we see a higher level of homogeneity regarding the rotation period of auditors in the case of firms operating in the energy sector.

**Figure no. 4. Differences regarding the rotation period of auditors**



Source: Authors' calculations and projections

All this information indicates that, for sectors of activity characterized by more complex business models, there is a tendency to postpone the change of auditors. As Kend & Nguyen (2020) or Rahaman & Chand (2021) remarked, such a situation can be attributed to the increased level of specialization of auditors required in the case of such a sector of activity, which is why even the number of auditors holding this specialization is more limited. This is also supported by Pinto & Morais (2019), who argued that some industries may be more difficult to audit than others, noting that due to the complexity of the business segment and the industry in which the client operates, auditors could issue more key audit issues than for other types of companies, idea also highlighted by Kend & Nguyen (2020) or Porumbacean & Tiron (2021).

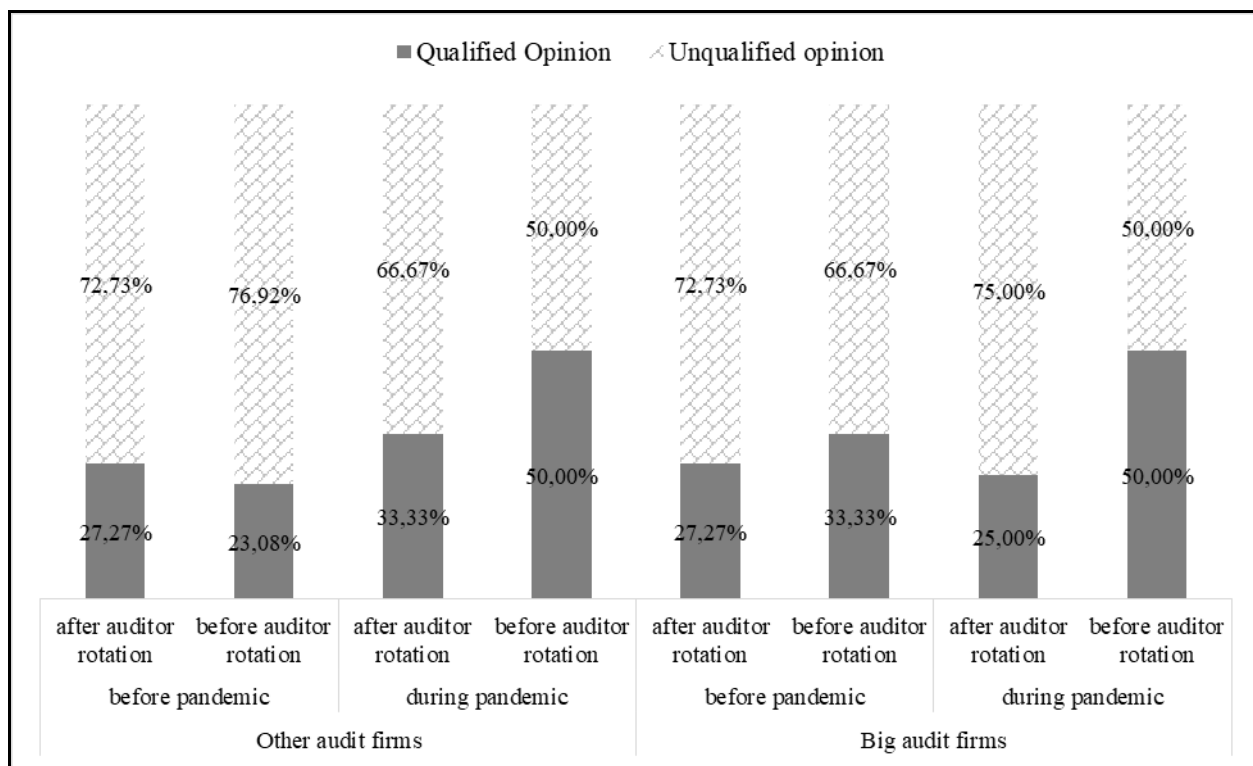
Also, the complexity of economic operations requires significant resources in the planning of audit activities,

including advanced skills to digitize audit processes (Bunget et al., 2021).

### Implications of auditors' rotation on the audit opinion

In *Figure no. 5* we represent the implications of the change of auditors considering also the superimposed effect of the recent COVID 19 pandemic on the audit opinion. We note that differences generated by the auditor's rotation on the audit opinion are more visible during the pandemic crisis period. Thus, the change of auditor in the pandemic led to a decrease in the number of modified audit opinions by 25% in the case of big audit firms, respectively by 16.6% in the case of the others.

**Figure no. 5. Impact of auditors' rotation on audit opinion**



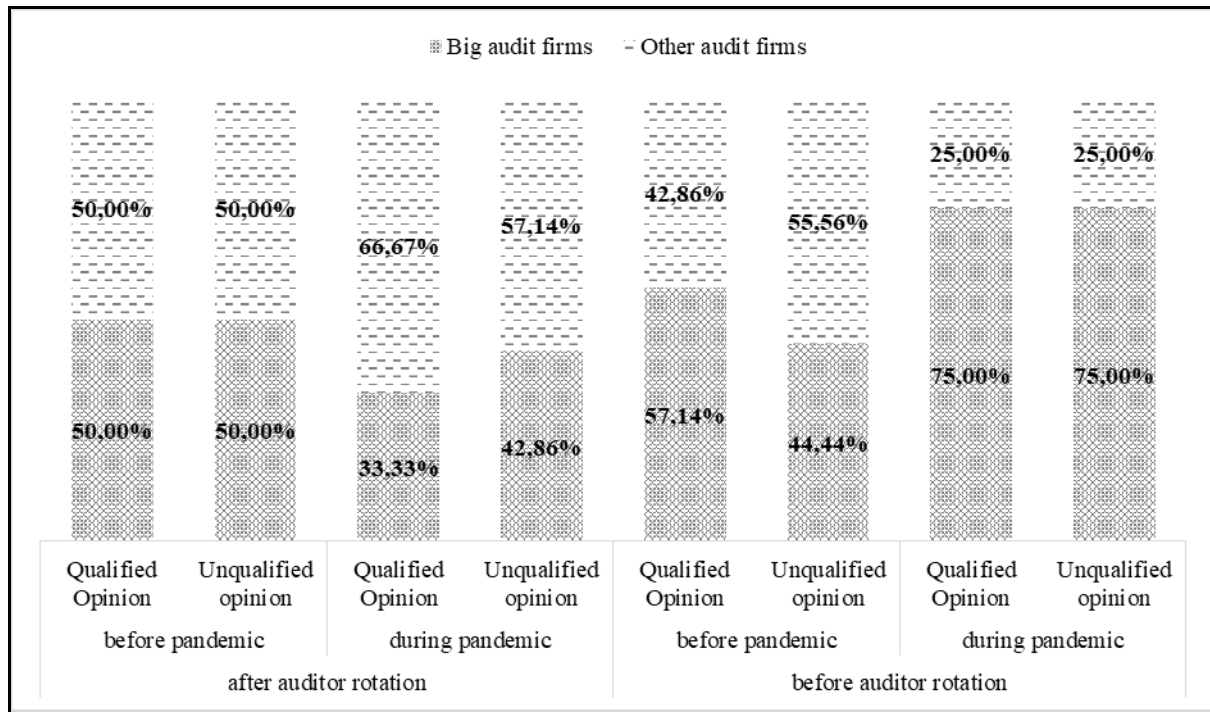
Source: Authors' calculations and projections

These differences may be justified based on better communication between the auditor and the client (Bunget et al., 2019).

As Rousseau and Zehms (2020) pointed out, each auditor has a personal style in the way of working, so both risk analysis and planning audit missions differ from one auditor to another. On the other hand, the analyzed data highlight the fact that the number of modified opinions has increased with the occurrence of the COVID 19 crisis. This can be justified against the background of a higher degree of economic uncertainty during the pandemic period, an aspect also demonstrated by Crucean & Hațegan (2021), who studied the effects of the COVID 19 pandemic on the companies listed on the BSE in the financial year 2019. Higher uncertainty leads to a lower level of accuracy of accounting estimates, which increases audit risk (Bunget et al., 2021). As the increase in economic uncertainty stemming from the restrictions imposed during the COVID 19 pandemic is causing systemic effects, it is expected that additional tests and audit procedures will identify less reliable accounting information.

In **Figure no. 6** we represent the frequency of opinion types (modified, respectively unmodified) expressed in the audit report in the case of selected firms. In this graph, we note notable differences in the audit opinion expressed by audit firms in the financial years affected by the COVID 19 pandemic, in the context of the auditor's change. The big audit firms issue modified audit opinions in a significantly lower proportion (33.33%), compared to other audit firms (66.67%). The experience and expertise of the big audit firms could be a cause of this situation, given that during the pandemic they had significantly greater resources than other audit firms in implementing the digitalization of audit processes, which has affected to some extent including the ability of auditors to plan missions and quantify audit risk, with implications for audit opinion. As mentioned in other articles "the big players in the financial audit market continuously invest in digitalization and emerging technologies, such as Blockchain, Big Data, Data Analytics, Cloud Accounting or RPA, which take over the redundant tasks within the audit activity and contribute to the increase of the yield, labor productivity and quality of the services offered" (Farcane & Deliu, 2020; Tiron-Tudor et al., 2021).

**Figure no. 6. The impact of auditors' rotation on the audit opinion, depending on the audit firm**



Source: Authors' calculations and projections

At the same time, the specialization of big audit firms, in the context of the COVID 19 pandemic, has provided a significant advantage in understanding economic operations and assessing the quality of audited financial statements, even by carrying out remote audit missions. These findings are also supported by Porumbăcean & Tiron (2022) who states that the audit procedures carried out by big audit companies are of a higher quality due to their investment in financial and human resources, access to state-of-the-art technology that gives auditors the opportunity to invest in the audit procedures performed.

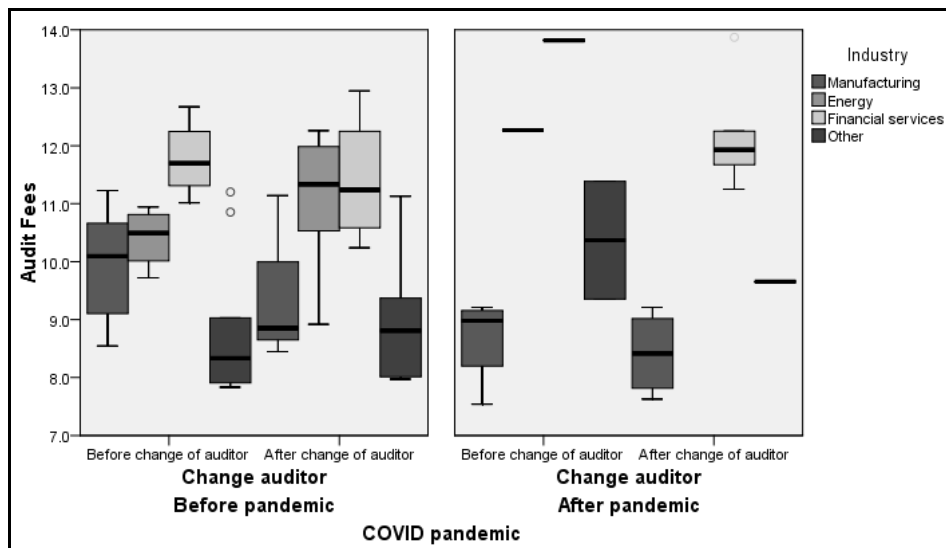
However, it should be noted that the results suggest a preference of economic entities to change auditors, moving from audit services provided by big audit firms to audit services provided by other audit firms.

### Implications of auditors' rotation on the audit fee

By *Figure no. 7* we want to outline the differences in audit costs, both in terms of the implications generated by the change of auditor and the superimposed effect of the

current COVID 19 pandemic. From the graph we note that only in the case of the analyzed companies, operating in the manufacturing sector, there is a relative decrease in the audit cost during the COVID 19 pandemic, compared to the previous period. Thus, the impact of the pandemic on the audit market is observed, through a decrease in audit fees, "most likely due to the intensification of activities to capitalize on the competitive advantage" (Bunget et al., 2021). At the same time, we note that notable differences generated by the change of auditor are found only in the case of entities operating in the energy sector, given that the high level of complexity of the business model requires a good knowledge of the operations and processes of the audited entity, and the audit firm needs a high level of expertise in terms of sectoral configuration, the legal framework and implications for financial reporting. This is also supported by Bunget et al. (2021), which argue that the fees charged in this industry must justify the effort made by the auditor to ensure the quality of the information presented in the financial statements, being correlated with the audit risk associated with the audited entity (Robu, 2014).

**Figure no. 7. Impact of auditors' rotation on the audit**



Source: Authors' calculations and projections

**Implications of auditors' rotation on audit reporting**

In this section we have analyzed the average number of key audit matters presented in the audit report. *Figure no. 8* shows insignificant differences generated by the current context of the COVID 19 pandemic. However, we note that in the period not affected by the COVID 19 pandemic restrictions, the number of key audit matters is significantly influenced by the change of auditor. Thus, with the change of auditor, an average number of 2.22 key audit issues increases compared to the average of 1.86 audit issues reported in the audit report for the year audited by the old audit firm. This result may indicate, for example, that the rotation of the audit firm increases the audit risk that the auditor associates with the audited entity. The increase in the number of key audit matters also suggests that the new auditor is more skeptical, which may lead to more analytical reporting.

According to the structured analysis of the literature conducted by Porumbăcean & Tiron (2021), the number of key audit matters is influenced by a number of measurable factors (type of auditor / audit partner, cultural factors, accounting estimates and their level of uncertainty, existence an audit committee within the company, the structure of the audit market, the audit fee, the level of regulation and supervision of the entity, the risk of the

company, the client industry, the accuracy of a more standard based accounting standard, the type of audit company, the audit opinion , the client's level of risk) and immeasurable (the uncertainty and level of understanding of the ISA 701 standard, the complexity and subjectivity involved in the accounting treatment, the auditor's litigation risk).

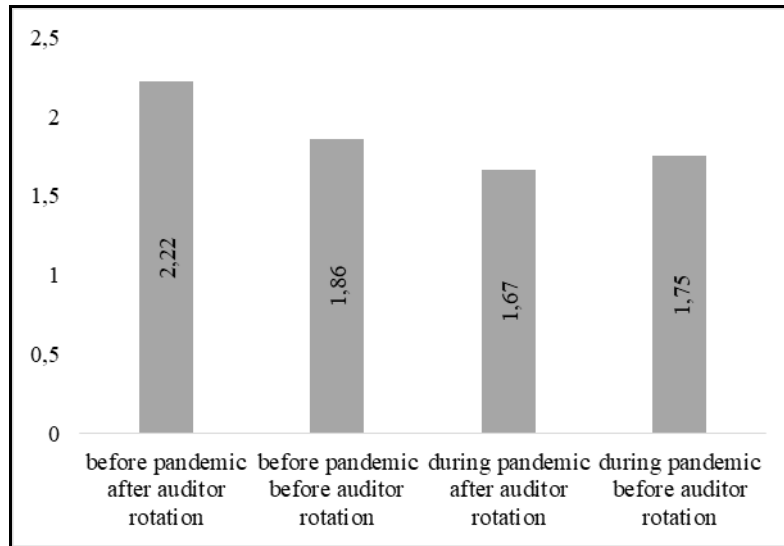
As can be seen from *Figure no. 1*, most of the auditor's changes were made for the financial years 2015-2018. This should be considered in the context of the adoption of the new standard on revenue recognition, IFRS 15, which as of January 1, 2018 has become mandatory for all reporting companies. based on international financial reporting standards. Thus, in the first years of application of the standard, a certain risk of uncertainty is expected in terms of its level of understanding at the level of accounting and auditing practitioners, an aspect also supported by Lau (2020), which admits that " measurement uncertainty is the major determinant of auditors reporting key audit issues related to accounting estimates and impairment of assets".

The above mentions are directly correlated with the complexity of the audited company, so that "more precise accounting standards lead to the communication of a larger number of KAMs" (Pinto and Morais, 2019).

On the other hand, the data analyzed show that the number of key audit matters reported in the audit report decreased in the pandemic compared to the period before

the pandemic. It can also be seen that with the change of auditor, they continued to decline during the COVID 19 crisis.

**Figure no. 8. The impact of auditors' rotation on key audit matters**



Source: Authors' calculations and projections

At the level of the analyzed sample, it should be noted that the audit report contains a relatively small number of key audit issues, given that only 8 audit reports record 3 or 4 key audit issues, out of a total of 23 such reports. included in the analysis of key audit aspects.

In **Table no. 2** presents the list of key audit matters communicated in the audit reports for which we have information on the auditor's opinion, audit cost and key audit matters. Overall, the data show a substantial change in the frequency of key audit matters in the audit reports as the auditor changes.

**Table no. 2. TOP 10 key audit matters**

Panel A- before auditor rotation			Panel B- after auditor rotation		
KAM topic	Occurrence	%	KAM topic	Occurrence	%
Revenue and other income	4	36.4	Allowance for credit losses	3	27.3
Property, plant, and equipment	3	27.3	Securities and financial instruments valuation	3	27.3
Policy changes	2	18.2	Revenue and other income	3	27.3
Allowance for credit losses	1	9.1	Business combinations	2	18.2
Business combinations	1	9.1	Contingent liabilities	2	18.2
Compliance with regulations	1	9.1	Depreciation and amortization	2	18.2
Consolidation	1	9.1	Property, plant, and equipment	2	18.2
Debt covenants	1	9.1	Asset retirement and environmental obligations	1	9.1
Deferred income taxes	1	9.1	Consolidation	1	9.1
Goodwill and intangible assets	1	9.1	Debt, quasi-debt, warrants & equity (BCF) security	1	9.1
<b>Total reports</b>		11	<b>Total reports</b>		12

Source: Authors' calculations and projections

On the one hand, audit reports for financial years prior to the change of auditor include the most common KAM (revenue recognition (36.4%), recognition and classification of fixed assets (27.3%) or changes in the level of accounting policies (18.2%). This result is also supported by De Vasconcellos et al. (2019), which considers that "the main key matters presented refer to the assessment of the recovery value of fixed assets, income, provisions and contingent liabilities, direct or indirect investments in related parties and the realization of deferred taxes, respectively tax recovery". Additionally, "the key audit matters presented are related to the impairment of goodwill and intangible assets, as well as the valuation of assets" (Kend and Nguyen, 2020). The opinion expressed by the two authors is directly correlated with the company's activity and the risk of significant misstatement, depending on the most vulnerable and uncertain areas audited, so that "it was assumed that the risks related to revenue recognition will generally be considered significant and, through therefore, they will be identified and communicated by the auditors as KAM" (Warzocha, 2018).

On the other hand, the audit reports for the financial years following the change in the auditor record substantial changes in the key audit matters reported by the auditors. Thus, the key audit matters address rather the issue of accounting estimates (27.3%), such as the assessment of receivables adjustments (27.3%), the valuation of financial instruments (27.3%), revenue recognition (27.3%) or the presentation of contingent liabilities (18.2%). This change in the ranking of key audit matters should also be considered in the context of the adoption of the new financial reporting standard IFRS 15. Given that most of the issues reported after the change of auditor are at the level of two credit institutions (Banca Transilvania SA and Patria Bank SA), respectively at the level of the main companies operating in the field of oil & gas extraction and electricity, the top of the most common key audit matters is not at all surprising.

It should be noted that the presentation of the issues considered relevant by the auditor regarding the top 3 KAM in the case of the two analysis panels is not significantly influenced by the restrictions introduced against the background of the current COVID 19 pandemic.

**Table no. 3. Key audit matters presented in the audit report for the financial year audited by the new auditor**

KAM Topic	before audit rotation	after audit rotation
Allowance for credit losses	1	2
Asset retirement and environmental obligations	1	
Business combinations	2	
Consolidation	1	
Contingent liabilities (Including litigation & restructuring)	2	
Debt, quasi-debt, warrants & equity (BCF) security	1	
Deferred income taxes		1
Depreciation and amortization	2	
Error corrections	1	
Going concern		1
Investment valuation - Securities and financial instruments	2	1
Long-lived assets	1	
Property, plant, and equipment	2	
Revenue and other income	3	
Uncertain tax positions	1	

Source: Authors' calculations and projections

However, we note from the information presented in **Table no. 3** the fact that the change of auditors during the pandemic outlined a limitation on the number of KAM that relate mainly to elements of accounting estimates used in the financial statements.

**Statistical testing of differences**

The final step in the analysis is to statistically test for significant differences in auditor turnover in terms of auditor

opinion and audit costs. In **Table no. 4** we present the results of the MANOVA test<sup>1</sup> performed for this purpose.

<sup>1</sup> Multivariate analysis of variance (MANOVA) is an extension of the univariate analysis of variance (ANOVA) which examines the statistical differences on one continuous dependent variable by an independent grouping variable.

**Table no. 4. MANOVA testing on the implications of auditor rotation**

Factor	Dependent variable	df	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power
Change auditor	Auditor opinion	1	0.609	0.440	0.016	0.609	0.119
	Audit Fees	1	0.227	0.637	0.006	0.227	0.075
Change auditor x COVID pandemic	Auditor opinion	1	0.000	1.000	0.000	0.000	0.050
	Audit Fees	1	0.011	0.917	0.000	0.011	0.051
Change auditor x Industry	Auditor opinion	3	1.580	0.210	0.111	4.741	0.382
	Audit Fees	3	0.601	0.618	0.045	1.804	0.163
Change auditor x Big4	Auditor opinion	1	0.865	0.358	0.022	0.865	0.148
	Audit Fees	1	0.010	0.922	0.000	0.010	0.051

Source: Authors' calculations and projections

The results of the MANOVA analysis show that the change of auditor does not significantly influence these elements that directly (auditor's opinion) or indirectly (audit cost) characterize the quality of the financial statements, given that the materiality threshold of 5 % is exceeded in the case of the probability of each calculated statistical F-test.

These results show that the voluntary adoption of the auditor's rotation is not homogeneous, economic entities approach this mechanism without outlining a pattern of decision-making behavior in this direction. It remains to be seen how this corporate governance mechanism will be understood by economic entities with the introduction of the obligation imposed by the new European Directive.

At the same time, we must note that the change of auditors at the level of the Romanian entities listed on the Bucharest Stock Exchange is not provided by internal policies, reason for which there is no defined regularity of the application of this mechanism.

Finally, we note that based on the sample analyzed, the change of auditor does not lead to substantial changes in the cost of audit, which is why such a decision is not determined by reasons to reduce audit costs, but rather for other reasons.

## Conclusions

The study uses a more recent approach to the literature on the implications of auditor rotation for audit reporting, both in terms of changes in auditor opinion, audit costs,

and key audit matters. Thus, the data of the companies listed on the Bucharest Stock Exchange from 2011 to 2021 regarding the financial years whose financial statements were audited by a new auditor were retained. In order to ensure a comparative analysis designed to provide indications of the implications of the auditor's rotation on audit reporting, data relating to the preceding financial year of each financial year whose financial statements were audited by a new auditor were also retained.

The results show that the auditor's rotation has several effects on audit reporting. First, there is a reduction in the number of modified opinions, an effect generated by a better communication between the client and the new auditor. Second, the data show that in a normal economic context, the number of key audit matters tends to increase with the change of auditor, while the occurrence of events such as the pandemic crisis leads to a decrease in the number of KAM due to the increasing of uncertainty. Finally, we note that based on the sample analyzed, the change of auditor does not lead to substantial changes in the cost of audit, which is why such a decision is not determined by reasons to reduce audit costs, but rather for other reasons.

As future research directions, we will consider the effect of limiting the mandates of financial auditors in each country of the European Union, as well as the evolution of the audit market because of measures aimed at reducing the concentration of big audit firms. We will also consider the evolution of aspects of rotation in an environment free of pandemic restrictions.

The change of the recent legislation provided by the Order of the President of ASPAAS no. 123 of April 28, 2022, by which a financial auditor should be included in the

composition of the Audit Committees of public interest entities, is expected to influence the rotation of auditors, but also on the quality of the audit process.

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