



Conflicts of Interest and the Big Four: Towards a Mandatory Complete Auditor Rotation

Doha Harrag*

PhD Candidate in Economics and Management,
Interdisciplinary Research Laboratory on Organisations,
Chouaib Doukkali University,
El Jadida, Morocco.

Issam El Filali

Lecturer-Researcher (HDR) at ENCG-EL JADIDA,
Interdisciplinary Research Laboratory on Organisations,
Chouaib Doukkali University,
El Jadida, Morocco.

Abstract: This article examines the impact of complete auditor rotation within audit firms on the quality of audit engagements and the management of conflicts of interest. The findings demonstrate that rotation significantly enhances auditor independence by fostering fresh perspectives and mitigating the risk of compromise due to excessive familiarity with clients. This practice strengthens professional vigilance and reinforces the perceived objectivity of the audit process. However, it also poses substantial operational challenges, including discontinuities in engagement monitoring, extended adaptation periods to new environments, and temporary productivity declines. Furthermore, the transition costs comprising training and the onboarding of new auditors represent a considerable burden for firms. The findings indicate a general consensus around an optimal rotation period of two to three years, balancing renewal with continuity. The study also underscores the importance of effective internal management of audit assignments, accounting for skill sets and sector-specific expertise, to maximize the benefits of rotation while minimizing its drawbacks.

Keywords: Auditor rotation; conflicts of interest; risk; transparency; independence

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INTRODUCTION

Financial transparency is an essential pillar of trust in the business world. It guarantees investors, regulators and stakeholders reliable and accurate information on the financial health of companies. However, several recent financial scandals involving the Big Four have highlighted flaws in external auditing and reignited the debate on auditor independence. Among these scandals was the Evergrande case in 2024, where Price Waterhouse was banned from practicing for six months and fined for failures in its audit of the property developer. In 2023, KPMG Was penalized due to inadequate management practices of Carillion's accounts, which led to the construction company's bankruptcy. Similarly, in 2020, Wirecard went bankrupt after the discovery of massive accounting fraud that had gone undetected by Ernst & Young.

*Correspondence concerning this article should be addressed to Doha Harrag, PhD Candidate in Economics and Management, Interdisciplinary Research Laboratory on Organisations, Chouaib Doukkali University, El Jadida, Morocco. E-mail: harragdoha@gmail.com

In this context, mandatory auditor rotation is a measure introduced to strengthen the independence of firms, limit conflicts of interest and improve audit quality. However, its effectiveness remains a matter of debate: some see it as a mean of improving objectivity and financial transparency, while others fear a loss of expertise and increased costs for companies. It is therefore essential to examine the real impact of total auditor rotation on financial transparency. These issues raise a central question: **could the requirement for full internal auditor rotation mitigate conflicts of interest and enhance the transparency and independence of financial audits?**

To answer this question, we believe it is relevant to conduct a qualitative study on the perceptions of the various players involved in financial auditing, including external auditors working in the Big Four firms and internal auditors and managers within companies. Based on this analysis, using a semi-structured interview survey, we seek to study the impact of total internal rotation on reducing conflicts of interest, mitigating risks, and improving the transparency and independence of financial auditing. We will begin by developing the academic debate on mandatory rotation, its advantages and limitations, then we will present our research methodology. Finally, we will conclude with a presentation and analysis of the results.

1. Financial audit and top firms involved: the Big Four

External financial auditing is an independent examination of a company's financial statements conducted by an external auditor or statutory auditor. It aims to verify the accuracy and compliance of financial reports with applicable accounting standards, thereby ensuring the transparency and reliability of financial information. This auditing framework is governed by strict regulations, including legislative texts and professional bodies such as Morocco's Law 15-89, which regulates the accountancy profession. The Moroccan Chartered Accountants Association (Ordre des Experts Comptables – OEC), established in 1993 under the supervision of the Ministry of Economy and Finance, oversees compliance with professional standards and ethics.

Within the framework of agency theory, external auditing is seen as a key mechanism for reducing information asymmetry between managers (agents) and shareholders (principals). Several studies suggest that the presence of an external auditor limits accounting manipulations (Almutairi, Dunn, & Skantz, 2009); (DeBoskey & Jiang, 2012); (AOUINA et al., 2019).

Among the main actors in external auditing are the "Big Four" firms, which dominate the global market for financial auditing and consulting. These are Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG. Recognized for their expertise and international reach, these firms work with large corporations and institutions, providing a wide range of services, from statutory audits to advisory functions. Their influence on the profession is considerable, particularly in terms of harmonizing accounting practices and attracting top talent in the sector.

However, their dominant position raises concerns about their independence and potential conflicts of interest. The combination both audit and consulting services can lead to bias, as the firm may be tempted to overlook anomalies to preserve a lucrative commercial relationship. Such situations jeopardize the objectivity of audits and call into question the public's trust in the integrity of financial reports.

Several scandals have exposed shortcomings in the Big Four's independence. Notably, in the Wirecard case of 2020, Ernst & Young failed to detect a €2 billion gap in the German fintech's accounts (La Tribune, 2023). This led to substantial shareholder losses and raised serious concerns about audit reliability. Five auditors were fined and subjected to disciplinary actions. In response, some reforms have been proposed to reinforce auditor independence, including the separation of audit and consulting services to reduce conflicts inherent in the current business model. This initiative aims to restore investor and regulatory trust.

In this context, it is crucial to reflect deeply on the implementation of complete auditor rotation before the firm's mandate with the audited company expires. This approach seeks to strengthen the independence and objectivity of audits while mitigating risks of collusion and complacency. Moreover, it offers a fresh and impartial perspective on a company's practices, potentially bringing to light irregularities that might otherwise remain undetected.

2. Mandatory Internal and External Auditor Rotation

Mandatory auditor rotation requires that the lead signing partners responsible for auditing a company's financial statements be removed from the engagement after a specified period—commonly referred to as a “cooling-off period”—during which they cannot be reassigned to the same client on behalf of the firm. This period varies from one jurisdiction to another :

- European Union: Directive 2014/56/EU imposes mandatory audit firm rotation after 10 years, with possible extensions up to 20 years under certain conditions.
- United States: The Sarbanes-Oxley Act of 2002 requires rotation of the lead audit partner every 5 years, but not of the entire firm.
- Morocco: The Moroccan regulatory framework also imposes periodic auditor rotation, typically every 3 years with a 4-year latency period, as regulated by the OEC.

Rotation entails replacing the auditor at the end of a defined engagement period. It is one of the measures introduced in response to the financial scandals of the early 2000s involving audit firms. Nevertheless, its impact on audit quality and auditor independence remains ambiguous and is closely linked to the debate over auditor tenure.

Auditor rotation is a subject of controversy. While it may offer a new perspective that enhances audit quality and independence, it can also result in a loss of institutional knowledge, potentially diminishing audit effectiveness. These concerns are often tied to the auditor's limited familiarity with the client's systems in the early years of the rotation (Wamba & Tagne, 2014).

The fact that most companies retain the same audit firm for decades is problematic, as it increases the risk of over-familiarity between the external auditor and the client. This can lead to reduced auditor vigilance, as the engagement becomes routine, less challenging, and may lose its critical edge (Arel, Brody, & Pany, 2005).

According to (Carcello & Nagy, 2004), differences in views regarding auditor tenure and rotation reflect the complexity of this issue. To a large extent, the matter falls within the economic dimension of the contractual relationship between auditor and client each party aims to maximize gains while minimizing transaction costs associated with changing auditors.

(Vanstraelen, 2000), in a Belgian study, found that the longer the auditor-client relationship, the more likely an auditor is to issue a going concern opinion usually starting from the third year. Conversely, (Ghosh & Moon, 2005) argue that a long-term audit relationship enhances audit quality and strengthens the informativeness of financial statements.

Many scholars argue that internal rotation is the only effective measure to mitigate familiarity risk and improve audit quality without incurring the disadvantages of more frequent external auditor rotation (Horton, Livne, & Pettinicchio, 2021); (Said & Khasharmeh, 2014).

(Lennox, Wu, & Zhang, 2014), examining the Chinese context where audit partner renewal is mandated every five years, found that mandatory partner rotation improves audit quality in the year immediately following the rotation, due to the fresh perspective brought by the new partner. However, (De vue avec le Gouverneur, 2014) notes that Chi et al. (2009) did not observe any improvement in audit report quality under this policy. Furthermore, (Horton et al., 2021), in a study on the Italian context, concluded that in a dual rotation system, internal partner rotation is the only approach that significantly enhances both audit quality and investors' perceptions.

On the other hand, premature rotation can generate additional costs and disrupt continuity in understanding the company's operations. It is therefore essential to weigh the benefits of rotation against its drawbacks to determine whether it truly addresses governance and transparency concerns.

3. Debates on Mandatory Auditor Rotation

Whether mandatory or voluntary, and whether applied to the lead auditor, the signing partner, or the audit firm, the concept of auditor rotation occupies a central position in both academic and professional debates. (Margolis, Frisina, & Walton, 2011) note that the earliest discussions on the advantages and limitations of mandatory audit firm rotation date back to the 1930s, following the McKesson & Robbins fraud scandal.

Proponents of external rotation argue that long-term engagements can foster familiarity between auditors and clients, thereby compromising auditor independence and audit quality ((Dopuch, King, & Schwartz, 2001); Vanstraelen, 2000). Others suggest that mandatory rotation improves perceived independence in the eyes of investors and regulators (Ewelt-Knauer, Gold, & Pott, 2013).

Raiborn et al. (2006) provide several arguments supporting mandatory audit firm rotation. They emphasize the need to change audit teams to curb the development of personal relationships between auditors and clients. New auditors are generally less influenced by management pressures, allowing them to more easily detect and report questionable accounting techniques or risky procedures. Thus, audit quality is maintained throughout the engagement. Investors also favor auditor rotation (Cameron, Pierce, Banko, & Gear, 2005), believing it enhances auditor independence. Some research further indicates a preference for changing audit firms rather than just audit partners (Moody et al., 2003);

(Gates et al., 2007).

While firm rotation can bring a fresh perspective and energize the audit market by fostering greater objectivity and professional skepticism, this practice has been heavily criticized. A major drawback is the reduced technical competence that often accompanies a change in auditors, which frequently results in audit failures during the initial years of engagement. High transition costs also pose significant challenges, particularly due to the need for adaptation to the specific characteristics of the audited company. Scholars such as (Carcello & Neal, 2000); (Walker, Shenkir, Barton, et al., 2002); (George, 2004) argue that most deficiencies occur within the first three years of the new engagement, often due to the auditors' lack of familiarity with the company's environment, which hinders their ability to detect accounting errors or fraud. As a result, many firms express opposition to mandatory rotation, claiming that it increases the risk of audit failure (Financial Reporting Council, 2010; Capitol Federal Financial Inc., 2011).

(Agoglia & Brazelc, 2009) also point out that neither changing the audit team nor the audit firm alone is sufficient to reduce client pressure. The theoretical arguments for and against mandatory audit firm rotation may be summarized as follows:

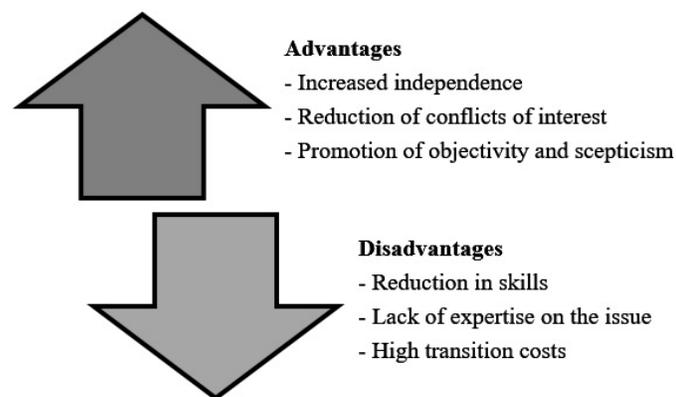


Figure 1 *Advantages and Disadvantages of Mandatory Auditor Rotation*

Source: Authors' compilation

Scientific research has highlighted a variety of arguments both for and against mandatory auditor rotation, whether internal or external. At this stage, it seems appropriate to conduct a study to evaluate perceptions of internal auditor rotation and its effectiveness by analyzing its impact on audit quality, particularly regarding transparency and independence, and drawing conclusions based on empirical findings.

RESEARCH METHODOLOGY

Choosing an appropriate methodology is essential to effectively answering the research question. The epistemological positioning represents a key step in the research process, as it reflects the scientific perspective and the framework through which knowledge is constructed. In our case, it highlights the factors influencing the choice of internal auditor rotation among the Big Four firms within the Moroccan context.

The methodological approach adopted in this article is qualitative and follows a hypothetico-deductive logic. Semi-structured interviews were conducted with 40 auditors working in Big Four firms, as well as company executives based in Morocco. For the qualitative study, we developed an interview guide to conduct semi-structured interviews. This method offers researchers flexibility, allowing them to adjust the guide according to participants' responses and personal experiences. Such interviews are a valuable tool for establishing contact with professionals, whether in written form, by telephone, or through electronic communication.

The interview method is particularly effective in exploring and understanding the practice of audit rotation, as it provides a powerful research instrument to reveal, analyze, and evaluate phenomena.

The interview guide was structured based on insights from our literature review and was divided into three main sections:

- Parameters related to general information about the interviewees
- Parameters related to perceptions of full internal auditor rotation
- Parameters assessing the impact of rotation on audit transparency and quality

ANALYSIS AND DISCUSSION OF RESULTS

The qualitative data analysis was conducted using NVivo 15 software, which allowed for detailed structuring of the discourse derived from the semi-structured interviews. The responses from the 40 participants were imported into NVivo individually as case files. An initial open coding phase enabled the identification of nine preliminary categories, developed inductively based on lexical and thematic recurrences observed in the transcripts. These codes were defined by unit of meaning and validated through dual cross-reading to enhance coding reliability.

In a second phase, axial coding was performed to structure these nine codes around three central themes:

- Structural characteristics of interviewee profiles
- Perceptions of mandatory internal rotation
- Impact of rotation on audit quality and the reduction of conflicts of interest

This process provided a coherent thematic framework, facilitating a cross-sectional interpretation of the shared views among respondents. The use of NVivo enhanced the traceability, transparency, and analytical rigor of the study.

The sample consisted of 40 participants, split between external auditors from the Big Four and internal auditors within various companies. The interviews were carried out in March 2025. Prior to their participation, all individuals were clearly informed about the purpose of the study and the ethical precautions taken. Informed consent either verbal or written was obtained in accordance with standard ethical practices for qualitative research. Throughout the research process, strict attention was given to preserving both anonymity and confidentiality.

The distribution is illustrated by the figure below, which shows the number of interviews conducted by organizational category. This diversity in profiles ensures a richness of perspectives and complementary experiences, essential for a comprehensive understanding of how mandatory auditor rotation is perceived.

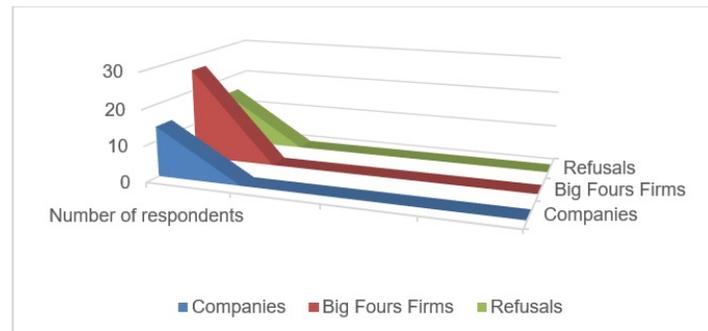


Figure 2 *Number of Respondents by Organizational Category*

Source: Authors' compilation

Furthermore, the references extracted from the interview transcripts via NVivo revealed a strong thematic density around the three central themes. These themes were used as a framework to interpret the data, as shown in the frequency graphs of the thematic codes below.

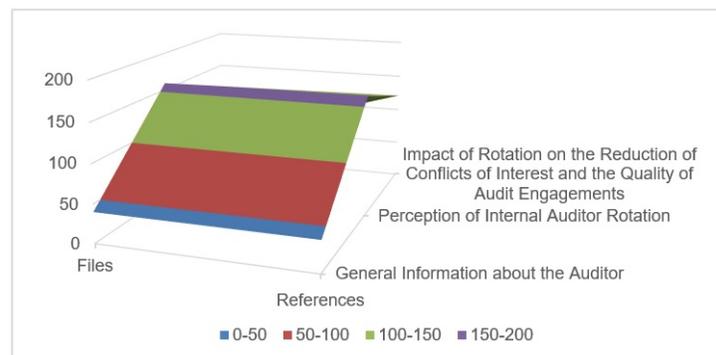


Figure 3 *Summary of References and Files by Theme (NVivo 15)*

Source: Authors' compilation

The interview analysis revealed broad consensus regarding the benefits of full auditor rotation, as highlighted

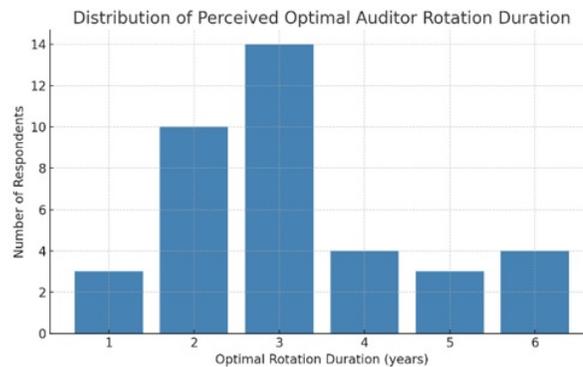


Figure 6 *Optimal Auditor Rotation Duration*

Source: Authors' compilation

This time frame appears to strike a balance between the need for renewal and the continuity required for in-depth understanding of audit files. Thus, it underscores the importance of balancing change with stability to maximize audit quality.

Ultimately, to optimize the benefits of rotation and limit its negative effects, audit firms must reconsider and reinforce their internal assignment and transition mechanisms. Implementing clear operational protocols, structured handover phases, and continuous training for managing transitions are key levers for improving the process. Establishing a rigorous yet adaptable organizational framework is therefore essential to ensuring effective rotation that enhances audit quality and stakeholder trust.

CONCLUSION

Mandatory auditor rotation is a crucial governance mechanism aimed at reinforcing the independence of audit professionals and preventing recurring conflicts of interest in long-standing relationships between auditors and their clients. In a context where the quality, reliability, and transparency of financial information are core expectations of stakeholders, this practice continues to generate significant debate in both academic and professional spheres.

Our literature review helped identify the main theoretical issues surrounding auditor rotation, highlighting the expected benefits in terms of independence, transparency, and professional vigilance, as well as the limitations noted by several researchers, including reduced learning effects, high transition costs, and increased risks during the early stages of a new audit mandate. These theoretical foundations provided a basis for constructing our empirical analysis and guiding our interpretation of the results.

Based on a series of semi-structured interviews conducted with external auditors, internal auditors, and company executives, our study revealed the ambivalent effects of auditor rotation. While it encourages beneficial renewal of perspectives and helps reduce certain cognitive biases, it also introduces operational constraints such as disrupted continuity, prolonged adaptation times, and potentially reduced productivity. These findings highlight the need to tailor rotation modalities to the specificities of audit firms and assignments, particularly through the definition of optimal durations and the reinforcement of internal assignment processes.

Future research could further explore the differentiated effects of rotation across various sectors or types of audit engagements, while also incorporating the perspective of audited entities to provide a more holistic view of the mechanism. Hence, rotation should not be treated as a one-size-fits-all solution but rather as a strategic tool whose impact depends heavily on the conditions of its implementation and its integration into a coherent and contextualized audit governance framework.

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