

Fresh-look effect of audit firm and audit partner rotations? Evidence from European key audit matters

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Many countries worldwide mandate the rotation of audit partners or audit firms to reinforce independence and professional skepticism. The European Union is a rare instance requiring audit firm and audit partner rotation simultaneously. By analysing 6,103 firm-year observations of non-financial firms from 29 European countries between 2018 and 2022, this study finds that audit firm rotations are associated with considerable changes in key audit matters, suggesting the existence of a fresh-look effect. In contrast, audit partner rotations appear to induce only limited variations in the key audit areas. Additional analyses reveal that the results are consistent across mandatory and voluntary rotations. Collectively, the findings suggest that audit firm rotations enable auditors to overcome institutional pressures toward standardisation within audit firms, while practical considerations such as the requirement of gradual rotation mechanisms within audit firms might limit individual audit partners' influence. This study adds to the inconclusive literature on the effects of (mandatory) audit partner and audit firm rotations. Further, the results contribute new insights into the consequences of the EU audit reform that has introduced mandatory audit firm rotation and provide evidence in favour of audit firm rotation requirements for other regulators.

KEYWORDS

audit firm rotation, audit partner rotation, auditor change, auditor switch, fresh look, key audit matters

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1 | INTRODUCTION

The purpose of auditing is to ensure that financial statements do not contain any material misstatements. Auditors constitute an important intermediary, as many stakeholders rely on the audited information (Watts & Zimmerman, 1986). However, despite the benefits of acquiring client-specific knowledge, long audit firm and audit partner¹ tenure may lead to overfamiliarity with the auditee and result in less critical appraisal. Similar audit strategies, over time, pose the risk of

missing novel irregularities and could enable management to predict the auditor's actions and obscure misstatements (Lennox & Wu, 2018). Moreover, relationships with the audited company might emerge over time and impair auditor independence (Carey & Simnett, 2006).

Audit firm and audit partner rotations could represent a mechanism to overcome these issues and lead to a fresh look² at the audit, which might, in turn, be associated with advantages such as improved audit quality (e.g., Corbella et al., 2015; Horton et al., 2021). A new

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audit partner is neither familiar with the management nor tied to the previous audit and, therefore, needs to independently set up the audit strategy and audit procedures from anew. The potential fresh-look effect of diverging judgements and focus areas compared to the previous audit partner (e.g., Favere-Marchesi & Emby, 2005) could allow for the detection of novel issues and prevent the prediction of the audit partner's actions. At the same time, i.a., gradual rotation mechanisms, shadowing practices of the new audit partner or isomorphic pressure towards standardisation within audit firms could prevent a fresh-look effect of audit partner rotations (e.g., DiMaggio & Powell, 1983; Gipper et al., 2021).

Audit firm rotations provide another avenue to reinforce a fresh look at the audit. As a completely new audit team takes over the audit, the impact might even surpass that of audit partner rotations. Moreover, audit firm rotations could overcome standardisation within the same audit firm and lead to new assessments. Conversely, standardisation could span across different audit firms and mitigate a new perspective on the audit. Furthermore, new audit firms might be inclined to maintain the focal areas from their predecessor, especially because new mandates are particularly challenging (e.g., Cameran et al., 2015). Thus, it is ex-ante unclear whether audit firm and audit partner rotations are associated with a fresh look. This study analyses changes in key audit matter (KAM) disclosure to determine whether a fresh look at the audit is realised.

Many regulators worldwide adopted audit partner or—less frequently—audit firm rotation requirements after corporate scandals to ensure an independent and fresh look (Ewelt-Knauer et al., 2013b; Lennox, 2014). However, prior literature is scarce and finds mixed evidence on the impact of (mandatory and voluntary) audit partner and audit firm rotations (e.g., Ewelt-Knauer et al., 2013a; Lennox & Wu, 2018). For instance, Horton et al. (2021) represent one rare exception by analysing Italy's mandatory internal and external rotation regime³ and find that only audit partner rotations lead to improved audit quality. In contrast, Duboisée de Ricquebourg and Maroun (2023) note that changes in KAM disclosure in South Africa are only attributable to audit firm rotations, while audit partner rotations have no effect. Therefore, further corroboration is necessary, particularly in a cross-country setting (Velte & Loy, 2018).

In the European Union (EU),⁴ key audit partners are permitted to audit the same company for a maximum of seven years, while some member states impose even shorter internal rotation regulations through derogation (EU, 2014b; European Commission, 2022). In contrast to many other countries—such as the U.S., where cost-benefit concerns prevail (U.S. House of Representatives, 2013)—the EU also mandates the rotation of audit firms in addition to the audit partner rotation regime. Audit firms are obligated to terminate an engagement after a maximum tenure of ten years, while extensions by public tendering or joint audits are possible. Member states are entitled to prescribe shorter tenure durations while transitional rules are in place.

Mandatory audit firm rotation for public-interest entities was introduced in the EU as part of the extensive EU audit reform approved in 2014. In the aftermath of the financial crisis, several regulatory steps were undertaken, i.a., to strengthen auditor independence

and elevate professional skepticism, promote competition between auditors and increase auditors' transparency (Willekens et al., 2019). Among these amendments, the requirement to disclose the most significant matters of an audit marked a significant change from the previous standardised pass-or-fail format in an effort to increase the informative value of the audit report (e.g., Mock et al., 2013). Auditors must determine KAMs from the matters discussed with those charged with governance that required significant auditor attention and—in their professional judgement—were of most significance. Therefore, KAMs offer valuable insights into the audit process and could reveal different focal points of an audit and, consequently, whether a fresh-look effect of internal and external rotations exists.

For this reason, I investigate KAM reporting to answer the following two research questions: (1) *Are audit partner rotations associated with a fresh look at the audit?* (2) *Are audit firm rotations associated with a fresh look at the audit?* I analyse a sample of non-financial firms from 26 EU countries, the (former) EU member United Kingdom, Iceland and Norway between 2018 and 2022 that provides a rare setting with simultaneous mandatory internal and external rotation requirements. Based on these 6,103 firm-year observations, I consider the number of KAMs as well as five variables—the number of new, retained and omitted KAMs, the overall change and the percentage of new KAMs—that capture the differences in KAM disclosure (e.g., Bédard et al., 2019; Duboisée de Ricquebourg & Maroun, 2023).

The results show that audit firm rotations are associated with a fresh-look effect as the various KAM variables document a consistent and pronounced increase in diverging KAM topics in periods of audit firm changes. In contrast, the fresh-look effects of audit partner rotations are limited as only marginal changes to KAM disclosure exist, suggesting a necessity of audit firm rotations to overcome standardisation and the similarity of engagement teams and to reinforce a new perspective. Further analyses demonstrate that the results are not susceptible to alternative sample restrictions. Moreover, the overall inferences remain unchanged when differentiating between mandatory and voluntary audit firm and partner rotations. Additionally, I find indications that longer tenure leads to fewer novel KAM disclosures as fresh-look effects are restricted to the year of a rotation. Lastly, a fresh look materialises irrespective of the direction or timing of audit firm rotations.

This study contributes novel insights to the inconclusive literature on the effects of audit partner and audit firm rotations. As one of few articles, it analyses KAM disclosures that allow for directly observing the focal points of an audit and, thus, whether a fresh-look effect at the audit is associated with internal and external rotations. The findings suggest that audit firm rotations are associated with significantly different KAM topics, while the implications of audit partner rotations are limited. Therefore, the fresh-look effects of an independent and new perspective may mainly arise with audit firm rotations. This result contributes to the longstanding debate among regulators on whether mandatory audit firm rotations should be introduced (cf. Lennox, 2014).

This article extends prior studies that consider KAM disclosure in the context of audit firm and audit partner rotations over a shorter

period and in a single country. In particular, I add to the few studies that simultaneously focus on internal and external rotations to determine their effects on KAM reporting. Duboisée de Ricquebourg and Maroun (2023) analyse audit reports in South Africa between 2018 and 2020, Chen et al. (2023) examine audits in China for the period 2016 to 2020 and Mwintome and Alon (2023) consider Norwegian audits from 2016 until 2019. In contrast to these studies, I investigate the effects of audit firm and audit partner rotations over an extensive period (2018–2022)—beginning with the implicit reference year for most of the KAM metrics at the start of the mandatory KAM reporting requirement in 2017—and for a larger sample with observations from 29 European countries. The large-scale evidence from multiple countries with institutional and cultural diversity (cf. Federsel & Hörner, 2023) delivers a comprehensive overview of the effects of internal and external rotations.

Lastly, this study provides timely information for the review of the effects of the EU audit reform that introduced mandatory audit firm rotation and KAM disclosure (European Commission, 2022). The findings of a fresh-look effect of audit firm rotations and the limited impact of audit partner rotations speak to the EU's decision to introduce external rotation requirements in addition to the pre-existing internal rotation rules to strengthen auditor independence and elevate professional skepticism (Willekens et al., 2019).

The remainder of the paper is structured as follows: Section 2 describes the theoretical background and the regulatory setting. Section 3 discusses the prior literature and develops the research questions. Section 4 introduces the research design and sample. Section 5 presents the main results. Section 6 comprises additional analyses, while Section 7 concludes.

2 | THEORETICAL BACKGROUND AND REGULATORY SETTING

2.1 | Theoretical background on internal and external rotations

Mandatory rotation of audit partners or audit firms (cf. Keyser, 2021) is associated with a multitude of potential advantages and drawbacks. One key argument in favour of (mandatory) rotation is that a new audit firm or audit partner considers a client with a new perspective. Fresh-look effects arise as the incoming audit firm or audit partner (Gipper et al., 2021) is not entangled with audit procedures or the risk assessments of the prior year. Similar audit strategies, over time, pose the risk of missing novel irregularities and could enable management to predict the auditor's actions and obscure misstatements (Lennox & Wu, 2018). Consequently, a new audit firm or partner critically determines the audit strategy without suffering from potential overfamiliarity with the audited company or 'organizational blindness' (Velt, 2012).

Furthermore, rotations constitute a mechanism to reinforce independence and overcome close personal relationships between the audit firm or partner and the client firm. Longer tenure durations

might result in the establishment of close personal relations that may lead to more trust in management and lower auditor skepticism (Patterson et al., 2019).

Besides, an upcoming audit firm or partner rotation could incentivise the incumbent auditor to increase the audit effort. Since the incoming auditor will apply a fresh perspective, the fear that past shortcomings could become apparent might result in a more thorough review by the outgoing auditor (Lennox, 2014). However, the departing auditor might also exert less effort on a terminating mandate and focus on other clients (Winn, 2021).

Moreover, limited tenure of audit firms caused by rotation could limit the auditor's dependence on the fees of that client and increase economic independence. Consequently, the auditor might acquiesce less to client pressure as the earned fees related to the mandate will terminate anyhow (Friedrich et al., 2023).⁵ Lastly, mandatory audit firm rotation could lead to greater competition (and higher audit quality), for instance, as purported by the EU (Willekens et al., 2019). At the same time, greater competition could exacerbate lowballing in the audit market, potentially resulting in less audit effort and lower audit quality (Lennox, 2014).⁶

Opponents of mandatory rotations argue that rotations produce significant costs for companies. These include, for instance, holding a 'beauty contest' (e.g., Dodgson et al., 2020) with potential new audit firms and familiarizing the new audit partner or firm with the peculiarities of the company. Interrelatedly, a long-tenured auditor accumulates firm-specific knowledge. In contrast, a new audit firm or audit partner lacks such information, which could result in lower audit quality in the initial years (e.g., Gipper et al., 2021). Lastly, the ex-ante limited tenure due to rotations might prevent audit firms or audit partners from gaining firm-specific information since the time to profit from the knowledge is constrained (Lennox, 2014).

2.2 | External rotation

The extensive EU audit reform adopted in 2014⁷ introduced mandatory audit firm rotation to 'reinforce the independence of statutory auditors and [...] professional skepticism' (EU, 2014b). The requirement of external rotation marks a substantial modification of auditing regulation in the EU, diverging from most countries worldwide that do not specify mandatory audit firm rotation (Garcia-Blandon et al., 2020). Italy presents one of the few exceptions, as external rotation rules have been in place for listed companies since 1975 (Cameran et al., 2015). Moreover, i.a., Austria, the Czech Republic and Spain (cf. Carrera et al., 2007) required audit firm rotation in the past but soon abandoned it (Ewelt-Knauer et al., 2013b; Lennox, 2014). Besides, few other European countries mandated audit firm rotation for financial institutions and insurance companies only.

According to Article 17 of Regulation (EU) No 537/2014, public interest entities should be audited by the same audit firm for no longer than ten years. The same audit firm is eligible again after a cooling-off period of four years. Additionally, member states may

impose even shorter audit engagement durations. At the same time, member states can extend the maximum audit firm tenure to up to 20 years in case of a public tendering process or to at most 24 years for joint audits. These options have been exercised differently in most countries, leading to a wide range of maximum audit firm tenure (Accountancy Europe, 2022).

Moreover, Article 41 of Regulation (EU) No 537/2014 specifies staggered transitional provisions based on auditor tenure at the date of entry into force of the regulation (June 16, 2014). In case of 20 or more consecutive years, the audit firm may not be engaged for financial years starting on or after June 17, 2020. For the audit firm tenure ranging between 11 and 19 years, the auditor is not permitted to extend the engagement for financial years starting on or after June 17, 2023. For all audit firms with 10 or fewer consecutive years of tenure, the regular external rotation regulations apply, except that ongoing audit engagements may be renewed for financial years starting before June 16, 2016, even if it leads to surpassing the 10-year maximum tenure. Overall, public-interest entities in the EU must rotate their auditors at the latest for financial years ending in June 2024 if no tender or joint audit extension applies.

2.3 | Internal rotation

In addition to the external rotation regime, the EU requires the internal rotation of key audit partners responsible for carrying out a statutory audit to ensure independence. Article 17 of Regulation (EU) No 537/2014 mandates that key audit partners should oversee the same firm for a maximum of seven years. Member states may also impose shorter engagement durations, resulting in heterogeneity across countries (European Commission, 2022). Although key audit partner rotation has already been demanded with Directive 2006/43/EC, the EU audit reform increased the cooling-off period from two to three years. Key audit partner(s) comprise the auditor(s) primarily responsible for carrying out the audit—in case of a group audit both at the group level and material subsidiaries—as well as auditors signing the audit report (EU, 2006). Audit firms should designate at least one key audit partner to the mandate who should also be actively involved in carrying out the audit (EU, 2014a). Internal rotation should be undertaken in a gradual rotation mechanism involving the most senior personnel involved in the audit in addition to the key audit partners (EU, 2014b). According to the Committee of European Auditing Oversight Bodies (2019), this encompasses audit team members participating in the mandate's direction, review and supervision. Moreover, all registered statutory auditors involved in the audit are considered, irrespective of their role in the audit.⁸

Besides, audit firms are obliged to install an engagement quality control reviewer (EQCR) for public-interest entities, which is also subject to the internal rotation requirements in most member states (EU, 2014b). The EQCR should not be involved in the performance of the audit to ensure an independent appraisal. The review specifically includes the assessment of the KAM disclosure and its appropriateness.

2.4 | Key audit matters

Over many decades, the independent auditors' report was stated in a pass-or-fail format, offering little information on the audit process. After the financial crisis, many regulators worldwide mandated expanded auditor reporting to increase the informational value of the audit report, enlarge the scrutiny of auditors and management and intensify communication between auditors and financial statement users (Minutti-Meza, 2021).

In the EU, expanded auditor reporting was introduced for public-interest entities as part of the comprehensive EU audit reform in 2014 for all financial years starting on or after June 17, 2016 (EU, 2014b). While the EU regulation virtually aligns with the international ISA 701 on KAM reporting, it became effective later as ISA 701 corresponds to financial years beginning on or after December 16, 2015 (IAASB, 2015). Before international expanded auditor reporting was finally legislated, some countries in the EU adopted their own regulations. For instance, France established the Justifications of Assessment as early as 2003 (Bédard et al., 2019). The U.K. and Ireland required the disclosure of the most significant risks of material misstatement starting in 2013 (FRC, 2013). In the Netherlands, the comparable regulation Standaard 702 N became effective in 2014 (Sneller et al., 2017).

Article 10 of Regulation (EU) No 537/2014 states that the statutory auditors of public-interest entities should describe the most significant assessed risks of material misstatement, the auditors' response, and, if relevant, key observations relating to those risks in the audit report. The EU standards closely follow the international ISA 701 specifications. According to ISA 701.9-10, the auditors should determine KAMs in a three-step process. First, all issues discussed with those charged with governance should be considered. Second, only those matters requiring significant auditor attention should be further taken into account. Indications of significant attention include higher risks of material misstatement, high levels of judgement and uncertainty and significant events or transactions. In the final step, KAMs are selected as the matters of most significance according to the auditor's professional judgement (ISA 701.8). As KAMs reflect the focal points of an audit, they could also offer insights into whether a fresh-look effect is associated with (internal and external) rotations.

3 | PRIOR LITERATURE AND RESEARCH QUESTIONS

3.1 | Prior literature on external and internal rotation

An extant literature analyses the effects of audit firm and audit partner rotation. In their literature reviews, Ewelt-Knauer et al. (2013a) and Velte and Loy (2018) identify mixed results on the consequences of audit firm rotations and note that many articles examine tenure effects instead of rotation effects directly.⁹ The few studies specifically examining the effects of audit firm changes—and the tenure

studies implicitly considering audit firm changes—comprise mandatory and voluntary audit firm rotation settings. However, voluntary audit firm changes could occur due to the client firm's inherent incentives, for instance, disagreements between the auditor and the company or opinion shopping (Bleibtreu & Stefani, 2021). Therefore, the implications of voluntary audit firm changes may not easily translate to mandatory audit firm rotations.

For this reason, I will focus on prior studies in mandatory audit firm rotation settings. As mandatory audit firm rotation is not or has not been required in many countries, the prior literature mainly analyses a few countries (Italy, Spain and South Korea), whereas other countries are increasingly considered (e.g., Harber & Maroun, 2020; Indyk, 2019; Kamarudin et al., 2022; Polychronidou et al., 2020).

Ruiz-Barbadillo et al. (2009) examine a Spanish sample, where mandatory audit firm rotation was initially announced but repealed before becoming effective. They find that auditors do not possess a higher likelihood of issuing a going concern opinion in a setting where they anticipate mandatory audit firm rotation requirements. In Italy, where a rotation requirement has existed for many years, Corbella et al. (2015) similarly find that audit quality is not affected by audit firm rotations between the big4, while rotations between non-big4 auditors lead to increasing audit quality. In contrast, Cameran et al. (2015) document a lower audit quality in the first years after rotation while the engagement hours of the audit firms significantly increase. Cameran et al. (2016) discover that mandatory audit firm rotation might lead the departing audit firm to increase audit quality. Conflicting results are also observed in South Korea as Kwon et al. (2014) document no impact of mandatory auditor rotation on audit quality, whereas Kim et al. (2015) notice a fresh-look effect in terms of going concern opinions and higher audit quality compared to voluntary switches. Friedrich et al. (2023) provide an interesting research setting as they shed light on the anticipatory effect of mandatory audit firm rotation in Germany. They find lower levels of various accruals measures for first-year audits of smaller public companies, arguing that auditors are incentivised to provide high-quality audits to increase reputation and attract future clients.

Moreover, multiple surveys and experiments are conducted to better understand the implications of mandatory audit firm rotations on practice. For instance, Aschauer and Quick (2018) identify that mandatory audit firm rotations are generally perceived as beneficial, whereas Quick and Schmidt (2018) find no effect of audit firm rotations overall but identify that a shorter tenure of ten years leads to higher perceived independence than a tenure of 24 years. de Jong et al. (2020) also record that the initial critical view on mandatory audit firm rotations has reversed over time, while first-year audits might be more error-prone.

Similar to the literature on the effects of audit firm rotations, prior research on audit *partner* rotations is scarce, delivers ambiguous results on its consequences and occasionally considers audit partner tenure instead of directly investigating audit partner rotations (Velte & Loy, 2018). In their literature review, Lennox and Wu (2018) explain that missing requirements to disclose audit partner names have led to a focus on samples from, i.a., China, Australia and Taiwan,

where such information is available. Besides, an increasing number of articles examine the U.S. setting where such disclosures have recently become mandatory.

The evidence concerning mandatory audit partner rotation regimes is also mixed. Litt et al. (2014) discover lower financial reporting quality in the first two years after mandatory audit partner rotation for the U.S. setting. Kuang et al. (2020) find no positive effect on audit quality but a higher likelihood of misstatements after mandatory partner rotations. In contrast, Laurion et al. (2017) detect fresh-look effects after mandatory partner rotation as the frequency of misstatements remains unchanged while the frequency of restatement discoveries and announcements increases. Gipper et al. (2021) document that audit quality does not decline over the tenure cycle and provides little support for the fresh-look advantages of mandatory audit partner rotation. Krishnan and Zhang (2019) conclude that equity investors perceive higher audit quality after mandatory audit partner rotation. Finally, Winn (2021) experimentally determines that outgoing audit partners exert less effort before audit partner rotations, though this effect is mitigated by stronger enforcement scrutiny.

For China, Lennox et al. (2014) find higher audit quality in the last year of the departing and the first year of the incoming auditor. Firth et al. (2012) also identify a higher propensity to issue a modified audit opinion after audit partner switches in less developed regions, underpinning a fresh look. In the Taiwanese environment, however, Chi et al. (2009) do not discover an influence of mandatory audit partner rotation on audit quality. Lin and Yen (2022) find no effect overall but less discretionary accruals after mandatory audit partner rotation if KAM disclosure changes as well. Lastly, Hamilton et al. (2005) also detect higher levels of conservatism following mandatory audit partner rotations for an Australian sample.

Horton et al. (2021) constitute one rare exception in the literature that specifically considers direct evidence on a regime with mandatory audit firm *and* mandatory audit partner rotations. Under the Italian 'dual mandatory auditor rotation' rule, they find no incremental effect of mandatory audit firm rotations. Instead, the higher audit quality in the dual rotation system is attributable to mandatory partner rotation. At the same time, a recent study commissioned by the EU also documents some perceived benefits by audit committee members associated with simultaneous mandatory audit firm and partner rotation requirements (European Commission, 2022, p. 138 f.).

Altogether, a 'material research gap' exists on the effects of audit firm and audit partner rotations, whereas the regulatory amendments in the EU offer a particularly interesting research setting, especially in a comprehensive cross-country analysis (Velte & Loy, 2018). Thereby, KAM disclosure offers a new angle on the effects of mandatory audit firm and audit partner rotations.

As KAM disclosure in the audit report presents the primary or, in some cases, the only occasion for the auditor to discuss its work publicly, there is a growing number of articles examining the determinants (e.g., Bepari et al., 2022; Federsel & Hörner, 2023), consequences (e.g., Burke et al., 2023; Lennox et al., 2023) and textual properties of KAMs (e.g., Küster, 2024; Seebeck & Kaya, 2023). However, the evidence on the topical content of KAMs in relation to audit partner and

audit firm changes is scarce. For instance, Brilakis and Demirakos (2022) document an increase in the number of KAMs after audit firm rotations in the U.K. Lin and Yen (2022) detect a higher likelihood of different KAM disclosures after audit partner rotations in Taiwan. Regarding studies incorporating audit partner and audit firm rotations simultaneously, Rousseau and Zehms (2024) find that auditors' KAM reporting on new mandates in the U.K. follows that of ongoing clients and that the convergence effect is more pronounced for the same audit partners than for the identical audit firm. Mwintome and Alon (2023) suggest that audit firm rotation does not affect the number of KAMs, while audit partner changes lead to fewer KAMs for listed Norwegian companies. Chen et al. (2023) identify that only audit firm rotation is linked to more novel KAMs. Finally, Duboisée de Ricquebourg and Maroun (2023) determine that audit firm rotation in South Africa is associated with significantly more new and fewer KAM topics from the prior year, while they do not find an effect for audit partner changes.

3.2 | Research questions

An audit partner rotation results in a new audit partner from the same audit firm taking over a current mandate. Within the professional standards of auditing, new audit partners possess large degrees of freedom on how the audit is conducted. Therefore, they are crucial to various audit outcomes (e.g., Cameran et al., 2022). Notably, Horton et al. (2021) discover that the advantages of the dual rotation regime in Italy with mandatory audit partner and audit firm rotations are exclusively attributable to audit partner rotations. As the newly engaged audit partner is 'not wedded to prior audit procedures' (Gipper et al., 2021), the incoming audit partner can take an independent view of the client firm and realise fresh-look effects by rebuilding audit strategy and audit procedures. Thereby, new audit partners may overcome similar audit strategies over time, which pose the risk of missing novel irregularities and enabling management to obscure misstatements (Lennox & Wu, 2018). Moreover, a new audit partner has not established a personal relationship with management, which might otherwise compromise skepticism and a fresh and independent look. In addition to how the audit is organised, the fresh look can lead the new audit partner to divergent judgements (e.g., Favere-Marchesi & Emby, 2005; Tan, 1995).

At the same time, the fresh-look effects associated with an audit partner rotation could be limited. Public-interest entities, in particular, demand significant auditor attention and working hours, requiring an elaborate audit engagement team, for instance, consisting of in-house specialists (Zimmerman et al., 2023). In this context, the middle management within audit teams constitutes an important driver of audit outcomes (Aobdia et al., 2024). Moreover, audit firms might assign multiple auditors to the same client. In Germany, for example, two auditors commonly sign the audit report (Downar et al., 2021). Additionally, EQCRs mandatorily have to review the audit of public-interest entities in Europe (Art. 8, EU, 2014b). Therefore, despite its important role, a change of the audit partner could be of minor influence.

Besides, Article 17.7 of Regulation (EU) No 537/2014 prescribes that the internal rotation requirements should be executed on a gradual basis. Consequently, most of the audit team members will likely remain the same when the audit partner rotates. In this regard, some audit firms might facilitate the transition with a 'shadowing' strategy where the incoming audit partner receives time to prepare for the mandate and learn from the outgoing audit partner (Dodgson et al., 2020; Gipper et al., 2021).

Furthermore, audit firms are important sites of standardisation (Cooper & Robson, 2006). As such, they develop internal guidelines and best practices and train their employees accordingly to promote internal consistency. The institutional theory suggests that the pressure toward homogenization is especially pronounced under uncertainty (DiMaggio & Powell, 1983). Therefore, new audit partners might be inclined to follow their predecessor auditor closely. This is of particular relevance since internal rotations allow the new audit partner to access the entire documentation of the company's past audits by the audit firm (Bamber & Bamber, 2009). The opposing arguments on the effects of audit partner rotations lead to the following research question:

RQ 1: Are audit partner rotations associated with a fresh look at the audit?

Audit firm rotations provide another avenue to reinforce auditor skepticism and a fresh look. Its impact could potentially surpass that of audit partner rotations. Audit partner rotations usually only lead to a minor turnover of the persons involved in a mandate, whereas audit firm rotations result in an entirely new audit team. Therefore, audit firm rotations are able to overcome, i.e., independence issues rooted in the audit firm culture and not only at the audit partner level (Bamber & Bamber, 2009). Similarly, the deliberate 'shadowing' process within some audit firms to ease the transition from one audit partner to another does not apply and allows for an entirely unbiased appraisal. For instance, Gipper et al. (2021) note in their U.S.-based study that fresh-look effects, in terms of audit quality, only manifest in the case of a new audit team.

Moreover, audit firm rotations pose a mechanism to overcome the standardisation within audit firms. Audit firms face high levels of uncertainty and judgement, while litigation and reputation risks are high. Therefore, they are keen to establish standardisation and homogenization, e.g., through a common audit approach and audit procedures (DiMaggio & Powell, 1983). Audit firm rotations enable the break-up of these internal guidelines and give rise to another perspective, audit methodologies and audit procedures (Bamber & Bamber, 2009). For example, Duboisée de Ricquebourg and Maroun (2023) show that KAMs significantly change after audit firm rotations, while audit partner rotations do not register an effect. In addition, a fresh-look effect could be particularly noticeable in the case of a rotation between non-big4 and big4 auditors, as prior literature finds higher audit quality for big4 auditors (e.g., Palmrose, 1988).

However, the fresh-look advantages of audit firm rotations could be limited as the pressure towards standardisation might not only apply to the practices within audit firms but also across audit firms, especially in big4 audit firms (e.g., Cooper & Robson, 2006;

Dannemiller et al., 2022). In addition, non-big4 auditors might aspire to mirror big4 auditors, i.e., as they receive higher audit fees (Campa, 2013). These homogenization tendencies would also diminish the advantages of audit firm rotation. Consequently, an audit firm rotation does not necessarily lead to a pronounced change in how the audit is conducted or the focus of an audit.

Furthermore, practical reasons could indicate a restricted influence of audit firm rotations. According to Article 18 of Regulation (EU) No 537/2014, the former audit firm is required to provide the incoming audit firm access to 'all relevant information concerning the audited entity'. While the information is important to ensure that knowledge is maintained, it also bears the risk of obstructing the new auditor's unbiased and fresh perspective (de Jong et al., 2020). As the first years of a new mandate are especially challenging (e.g., Cameran et al., 2015), the incoming audit firm might be particularly inclined to follow the previous audit firms' approaches. As there are conflicting arguments in favour of and against the effect of audit firm rotations, I state the following research question:

RQ 2: Are audit firm rotations associated with a fresh look at the audit?

4 | RESEARCH DESIGN AND SAMPLE

4.1 | Research design

In order to ascertain whether a change of the audit firm or the responsible engagement auditor is associated with a fresh look at the audit, I analyse the auditors' KAM disclosures. KAM reporting is one of the rare occasions that allow auditors to publicly discuss details of an audit. As KAMs mark the most significant issues of an audit, they offer an avenue to directly observe how audit firm and audit partner rotations change the focal points of an audit—particularly since many other metrics on the effects of rotations possess measurement difficulties (DeFond & Zhang, 2014).¹⁰ I estimate the subsequent regression model to investigate whether fresh-look effects are associated with internal and external rotations:

$$KAM = \beta_0 + \beta_1 AUDITORCHANGE + \beta_2 PARTNERCHANGE + Controls + Year FE + Ind FE + Country FE + \varepsilon \quad (1)$$

KAM represents a set of multiple dependent KAM disclosure variables as a new perspective of the incoming audit partner or audit firm might manifest in various forms in the expanded audit report (e.g., Bédard et al., 2019; Duboisée de Ricquebourg & Maroun, 2023; Lennox et al., 2023). KAM comprises the number of KAMs (KAMS) as they display the number of significant risks identified by the auditor. A new audit partner or audit firm might find more significant issues and assess the level of risks differently than its predecessor. Moreover, the number of newly added KAMs compared to the previous year (NEW), the number of KAMs retained from the previous audit report (OLD) and the percentage of newly added KAMs in relation to all KAMs (P_NEW) are analysed to capture fresh-look effects.¹¹ NEW

and OLD add up to the total number of KAMs. In addition, I examine the number of KAMs omitted compared to the previous year (DROPPED). DROPPED and OLD correspond to the number of KAMs in the prior year. Lastly, I consider the changes in KAM disclosure concerning the prior year (CHANGED), calculated as the sum of NEW and DROPPED scaled by the total number of KAMs in the previous year.

Drawing on the previous literature (e.g., Duboisée de Ricquebourg & Maroun, 2023), the indicator variable *AUDITORCHANGE* equals one for changes of the audit firm year-over-year, whereas financial years without changes of the audit firm take on the value of zero. The indicator variable *PARTNERCHANGE* equals one when the responsible engagement partner¹² has changed compared to the prior year, while the audit firm remained the same and zero otherwise.¹³

I include various audit control variables used in prior studies on the determinants of KAM disclosure (e.g., Duboisée de Ricquebourg & Maroun, 2023; Federsel & Hörner, 2023; Küster, 2024; Sierra-García et al., 2019) to account for other influencing factors of the KAM variables than audit firm and audit partner rotations. The variable audit fees paid (*AUDITFEES*) consider the extent of work performed by the auditor and may be higher for more KAMs overall and more changes of KAMs compared to the prior year. The ratio of non-audit fees to total fees (*NAF*) controls for auditor independence and potential advice of the auditor to the client on how to mitigate risks, ultimately resulting in fewer (changes of) KAMs. An indicator variable, whether the auditor is a big4-company (*BIGFOUR*), addresses general differences, e.g., in standardisation between big4 and non-big4 firms, that might influence the audit approach and KAM disclosure. Moreover, an indicator variable, whether the auditor is the market leader in the country and industry (*SPECIALIST*), is included to account for a potential information and knowledge spillover during the audit, reflected in diverging KAMs compared to non-specialists. An indicator variable, whether the financial year ends on December 31 (*BUSYSEASON*), controls for the influence of the busy season, e.g., in terms of auditors' heightened workload, on KAM disclosure. Whether a going concern opinion was issued (*GCO*) considers the risk level of a firm and the auditor's assessment thereof that might impact the number of KAMs and the emergence of new KAMs.

Furthermore, I include firm-specific aspects to control for complexity and financial risks that might also affect KAM disclosure. The firm control variables consist of the firms' size (*SIZE*), age (*AGE*), market-to-book ratio (*MTB*), current assets scaled by total assets (*CURASSETS*), inventories and receivables scaled by total assets (*INVREC*), quick ratio (*QUICK*), return on assets (*ROA*), an indicator variable whether a firm realised a loss in the financial year (*LOSS*) and leverage ratio (*LEVERAGE*). Moreover, I include industry-fixed effects, based on the SIC code divisions and year-fixed effects to control for temporary and industry-specific factors. Country-fixed effects are also incorporated since countries' cultural and social attributes are important determinants of KAM reporting (Federsel & Hörner, 2023). All continuous variables except for the dependent KAM variables are winsorized at the 1st and 99th levels. Standard errors are clustered at the firm level. All variables are defined in Appendix A.

4.2 | Sample selection and composition

The initial sample consists of all available 29,108 firm-year observations of listed companies headquartered in the EU, Iceland, Liechtenstein and Norway, with a fiscal year ending between June 16, 2018, and 2022 in Audit Analytics (Table 1). Iceland, Liechtenstein and Norway closely follow the EU regulations and form the European Economic Area (EEA) together with the EU member states (EFTA, 2023). I include the respective countries as the EU auditor rotation regulations are equally in effect.¹⁴ I consider observations from the United Kingdom during the entire sample period because its audit framework still aligns with EU requirements after withdrawing from the EU on February 1, 2020 (Accountancy Europe, 2022). I exclude observations from Switzerland as EU regulations do not fully apply, and audit firm rotations are not mandatory (Eberle, 2022). I require that the fiscal year ends on or after June 16, 2018, so that all firm-year observations result after the introduction of mandatory KAM reporting in the EU, Iceland, Liechtenstein and Norway.¹⁵

I eliminate 877 firm-year observations with ambiguous country information concerning ISINs, headquarters and foreign auditors to rule out cross-country influences. Moreover, 2,381 firm-year observations with more than one audit firm are excluded. I remove a further 6,689 observations with missing SIC codes or from the financial industry due to its idiosyncrasies compared to the other industries, i.e., concerning a unique regulatory and supervisory environment, distinct governance structures, complex transactions and diverging financial

TABLE 1 Sample selection.

	Firm years
Firm-year observations from Audit Analytics Europe of listed entities headquartered in the EU, Iceland, Liechtenstein and Norway, with fiscal year ends on or after June 16, 2018, through 2022.	29,108
Less: observations with ambiguous country information or a foreign auditor.	(877)
Less: observations with more than one audit firm.	(2,381)
Less: observations with SIC codes 6,000–6,799 or without SIC code.	(6,689)
	19,161
Less: observations without KAM information in Audit Analytics.	(8,247)
Less: observations without prior-year KAM information.	(777)
Less: observations of non-public interest entities.	(2,378)
	7,759
Less: observations of firms with missing or ambiguous audit firm or partner rotation information.	(449)
Less: observations with missing data for tenure or audit-related control variables in Audit Analytics.	(882)
Less: observations with missing or non-IFRS data in Refinitiv for firm-specific control variables.	(325)
Final sample	6,103

Note: This table presents the sample selection process.

reporting requirements (e.g., Bratten et al., 2019).¹⁶ Additionally, 8,247 observations without available KAM disclosures in Audit Analytics¹⁷ and 777 firm years without prior-year KAM information are eliminated. As auditor rotation and KAM disclosure requirements only apply to public-interest entities, I exclude 2,378 observations of companies listed outside a regulated market according to EU regulations and firms not disclosed as public-interest entities in the transparency reports of audit firms to ensure comparability.¹⁸

Furthermore, I do not consider 449 observations of firms with missing or ambiguous information regarding audit firm or audit partner changes. Internal and external rotations are identified by comparing auditor's year-over-year, and all rotations are manually validated. Subsequently, I dropped 882 more observations since audit-related control variables from Audit Analytics, e.g., concerning audit fees or audit firm and audit partner tenure, are not present.¹⁹ Lastly, I remove 325 firm-year observations that apply reporting standards other than IFRS for comparability or when firm-specific control variables are absent from Refinitiv. Therefore, the final sample comprises 6,103 firm-year observations of 1,542 unique companies from 29 countries²⁰ with a total of 15,171 KAMs.²¹

Panel A of Table 2 details the sample composition by country and year. The number of observations is relatively stable over time, while most observations in the sample result from the United Kingdom (18.53%), Germany (16.29%) and Sweden (13.17%). Panel B distinguishes the 6,103 firm-year observations by year and industry based on the two-digit SIC code classification. Similar to Keller et al. (2024), who also investigated a European sample, most firms operate in the manufacturing (42.62%), services (20.60%) and transportation and public utilities (13.70%) industries.

Table 3 provides more information on the distribution of audit firm and audit partner rotations. Panel A shows that audit partner rotations occur more frequently (17.84%) than audit firm rotations (9.09%), while most firm-year observations are without any internal or external rotation (73.06%). These numbers align with the EU regulations that allow for longer audit firm tenure than audit partner tenure. Moreover, the rotation frequencies are in accordance with the prior literature (e.g., Horton et al., 2021).

Panel B illustrates in more detail in which five countries the most audit firm rotations occur in the sample. Largely corresponding to the total number of firm-year observations per country, most audit firm rotations take place in Germany (18.56%), the United Kingdom (18.20%) and Sweden (10.45%). Panel C reveals similar tendencies, with most audit partner rotations attributed to Germany (22.59%), the United Kingdom (19.83%) and Sweden (10.28%).

Moreover, Panel D depicts the direction of the 555 audit firm rotations and finds that most companies change from a big4 audit firm to another (71.71%). At the same time, more firms have changed from a big4 audit firm to a non-big4 audit firm (13.87%) than in the opposite direction (6.67%), potentially suggesting that the EU audit reform accomplished to reduce big4 domination for public-interest entities (Willekens et al., 2019). Panel E describes the timing of auditor rotations and documents that most audit firm rotations take place during the second quarter of the audited financial year (68.47%).

TABLE 2 Sample composition by country, industry and year.

Panel A: Sample composition by country							
Country	2018	2019	2020	2021	2022	Total	%
Austria	17	23	24	24	24	112	1.84%
Belgium	38	42	41	41	41	203	3.33%
Bulgaria	4	4	6	5	3	22	0.36%
Croatia	12	13	10	12	10	57	0.93%
Cyprus	6	6	7	7	5	31	0.51%
Czech Republic	3	3	3	3	3	15	0.25%
Denmark	48	51	52	51	52	254	4.16%
Estonia	4	5	6	7	5	27	0.44%
Finland	83	86	86	86	85	426	6.98%
Germany	193	203	212	200	186	994	16.29%
Greece	21	23	25	29	26	124	2.03%
Hungary	5	9	10	10	8	42	0.69%
Iceland	2	4	5	4	3	18	0.29%
Ireland	15	16	15	14	13	73	1.20%
Italy	59	67	72	75	72	345	5.65%
Latvia	9	10	7	4	4	34	0.56%
Lithuania	9	8	8	9	11	45	0.74%
Luxembourg	7	8	7	8	11	41	0.67%
Malta	9	10	11	10	7	47	0.77%
Netherlands	56	58	55	54	52	275	4.51%
Norway	72	78	86	94	90	420	6.88%
Poland	41	46	45	40	30	202	3.31%
Portugal	18	18	19	19	17	91	1.49%
Romania	8	11	11	13	14	57	0.93%
Slovakia	1	0	0	1	1	3	0.05%
Slovenia	4	3	5	6	4	22	0.36%
Spain	30	37	44	40	37	188	3.08%
Sweden	141	161	164	168	170	804	13.17%
United Kingdom	191	250	245	232	213	1,131	18.53%
Total	1,106	1,253	1,281	1,266	1,197	6,103	100.00%
Panel B: Sample composition by industry							
Industry	2018	2019	2020	2021	2022	Total	%
Agriculture, forestry and fishing	18	18	17	16	17	86	1.41%
Construction	63	69	72	72	70	346	5.67%
Manufacturing	479	536	545	531	510	2,601	42.62%
Mining	66	65	72	69	58	330	5.41%
Public administration	1	1	2	2	1	7	0.11%
Retail trade	45	64	64	65	66	304	4.98%
Services	230	258	264	261	244	1,257	20.60%
Transportation and public utilities	145	172	176	179	164	836	13.70%
Wholesale trade	59	70	69	71	67	336	5.51%
Total	1,106	1,253	1,281	1,266	1,197	6,103	100.00%

Note: This table outlines the composition of the firm-year observations by country and year (Panel A) and industry and year (Panel B).

TABLE 3 Distribution of auditor rotations.

Panel A: Total rotations							
Rotation	2018	2019	2020	2021	2022	Total	%
Audit firm rotations	97	122	121	125	90	555	9.09%
Audit partner rotations	171	211	253	222	232	1,089	17.84%
No audit firm or partner rotation	838	920	907	919	875	4,459	73.06%
Total observations	1,106	1,253	1,281	1,266	1,197	6,103	100.00%
Panel B: Audit firm rotations by country							
Country	2018	2019	2020	2021	2022	Total	%
Germany	9	24	25	21	24	103	18.56%
United Kingdom	16	24	29	19	13	101	18.20%
Sweden	13	10	9	19	7	58	10.45%
Finland	9	9	10	8	4	40	7.21%
Poland	16	7	6	3	5	37	6.67%
Other countries	34	48	42	55	37	216	38.92%
Total audit firm rotations	97	122	121	125	90	555	100.00%
Panel C: Audit partner rotations by country							
Country	2018	2019	2020	2021	2022	Total	%
Germany	40	45	59	39	63	246	22.59%
United Kingdom	41	49	48	48	30	216	19.83%
Sweden	14	20	27	27	24	112	10.28%
Finland	12	12	14	8	14	60	5.51%
Italy	9	12	8	17	14	60	5.51%
Other countries	55	73	97	83	87	395	36.27%
Total audit partner rotations	171	211	253	222	232	1,089	100.00%
Panel D: Direction of audit firm rotations							
Direction	2018	2019	2020	2021	2022	Total	%
Upward	8	12	4	8	5	37	6.67%
Lateral big4	71	90	89	83	65	398	71.71%
Lateral non-big4	7	6	6	16	8	43	7.75%
Downward	11	14	22	18	12	77	13.87%
Total audit firm rotations	97	122	121	125	90	555	100.00%
Panel E: Timing of audit firm rotations							
Quarter	2018	2019	2020	2021	2022	Total	%
Q1	15	17	18	22	14	86	15.50%
Q2	69	87	70	86	68	380	68.47%
Q3	7	14	17	11	4	53	9.55%
Q4	4	4	13	4	3	28	5.05%
After Q4	2	0	3	2	1	8	1.44%
Total audit firm rotations	97	122	121	125	90	555	100.00%

Note: This table describes whether a rotation of the audit firm or the audit partner occurred (Panel A), the five countries with the most audit firm rotations (Panel B) and audit partner rotations (Panel C), the direction of audit firm rotations (Panel D) and the timing of audit firm rotations (Panel E).

5 | RESULTS

5.1 | Descriptive statistics and univariate analyses

Table 4 provides descriptive statistics on the dependent and control variables in the regression models. Columns 1 to 3 consider all 6,103 firm-year observations, while columns 4 to 6 only

comprise the 4,459 firm-year observations without any audit firm or audit partner rotation. Columns 7 to 9 encompass 555 firm years with an audit firm rotation, whereas columns 10 to 12 relate to the 1,089 firm years with audit partner rotations. Columns 13 to 15 detail the differences in mean between the various subsamples and their significance measured by a two-tailed t-test.

TABLE 4 Descriptive statistics.

Variable	All firm-year observations			No rotation of firm or partner (A)			Audit firm rotation (B)			Audit partner rotation (C)			Difference in mean		
	n (1)	Mean (2)	Median (3)	n (4)	Mean (5)	Median (6)	n (7)	Mean (8)	Median (9)	n (10)	Mean (11)	Median (12)	B vs. A (13)	B vs. C (14)	C vs. A (15)
Dependent variables:															
KAMS	6,103	2.49	2.00	4,459	2.47	2.00	555	2.59	2.00	1,089	2.50	2.00	0.12**	0.10	0.03
NEW	6,103	0.59	0.00	4,459	0.53	0.00	555	1.03	1.00	1,089	0.62	0.00	0.50***	0.41***	0.10***
OLD	6,103	1.89	2.00	4,459	1.94	2.00	555	1.56	1.00	1,089	1.87	2.00	-0.38***	-0.31***	-0.07*
P_NEW	6,103	0.21	0.00	4,459	0.19	0.00	555	0.37	0.33	1,089	0.22	0.00	0.18***	0.15***	0.03***
DROPPED	6,103	0.68	0.00	4,459	0.61	0.00	555	1.12	1.00	1,089	0.71	0.00	0.50***	0.41***	0.09***
CHANGED	6,103	0.49	0.33	4,459	0.44	0.33	555	0.85	0.67	1,089	0.51	0.33	0.41***	0.34***	0.07***
Control variables:															
AUDITFEES	6,103	13.06	13.01	4,459	13.07	13.02	555	12.89	12.85	1,089	13.12	13.08	-0.18***	-0.23***	0.05
NAF	6,103	0.16	0.12	4,459	0.16	0.12	555	0.14	0.10	1,089	0.16	0.11	-0.03***	-0.02**	-0.01
BIGFOUR	6,103	0.87	1.00	4,459	0.88	1.00	555	0.78	1.00	1,089	0.86	1.00	-0.10***	-0.08***	-0.02**
SPECIALIST	6,103	0.34	0.00	4,459	0.35	0.00	555	0.27	0.00	1,089	0.34	0.00	-0.07***	-0.07***	-0.01
BUSYSEASON	6,103	0.86	1.00	4,459	0.87	1.00	555	0.86	1.00	1,089	0.86	1.00	-0.01	-0.00	-0.01
GCO	6,103	0.05	0.00	4,459	0.04	0.00	555	0.07	0.00	1,089	0.04	0.00	0.03***	0.03***	0.00
SIZE	6,103	13.60	13.56	4,459	13.59	13.57	555	13.56	13.52	1,089	13.65	13.61	-0.03	-0.09	0.06
AGE	6,103	22.88	23.00	4,459	22.66	22.00	555	24.50	24.00	1,089	22.97	23.00	1.84***	1.53***	0.31
MTB	6,103	3.12	1.94	4,459	3.17	1.96	555	2.93	1.83	1,089	3.03	1.90	-0.24	-0.10	-0.14
CURASSETS	6,103	0.45	0.43	4,459	0.45	0.43	555	0.44	0.43	1,089	0.45	0.44	-0.01	-0.01	0.01
INVREC	6,103	0.27	0.26	4,459	0.27	0.25	555	0.28	0.27	1,089	0.27	0.26	0.00	0.00	0.00
QUICK	6,103	1.33	0.96	4,459	1.32	0.95	555	1.21	0.94	1,089	1.40	0.99	-0.12*	-0.19***	0.08*
ROA	6,103	0.04	0.06	4,459	0.04	0.06	555	0.04	0.06	1,089	0.04	0.06	0.00	0.00	0.00
LOSS	6,103	0.23	0.00	4,459	0.23	0.00	555	0.24	0.00	1,089	0.23	0.00	0.01	0.00	0.00
LEVERAGE	6,103	0.26	0.24	4,459	0.26	0.24	555	0.27	0.24	1,089	0.26	0.24	0.00	0.01	-0.01

Note: This table presents the number of observations and the mean and median of all dependent and control variables for the entire sample (columns 1–3), firm years without a rotation of the audit firm or audit partner (4–6), firm years with a change of the audit firm (7–9) and firm years with a change of the audit partner (10–12). All variables are defined in Appendix A. Columns 13 to 15 show the difference in mean between the various rotation variations. The difference in mean is tested using two-tailed t-tests. *, **, and *** denote significance at the 1%, 5% and 10% level, respectively.

Columns 1 to 3 show that the average number of KAMs (*KAMS*) amounts to 2.49, consisting of 0.59 newly detected KAMs (*NEW*) and 1.89 KAM topics that have already been disclosed in the prior year (*OLD*). The average percentage of newly added KAMs (*P_NEW*) totals 0.21. Moreover, 0.68 KAMs from the prior period are not disclosed in the respective current year (*DROPPED*). Overall, KAMs have changed by 49% on average year-over-year (*CHANGED*). These numbers align with prior studies in European countries that also document a percentage of new KAMs of 19% in France (Bédard et al., 2019) and 27% in the U.K. (Lennox et al., 2023).²²

The descriptive statistics on the different KAM variables provide initial evidence of the effects of internal and external rotations as pronounced and significant divergencies exist between the subgroups. Firm years with neither audit firm nor audit partner rotations (columns 4 to 6) consistently register the lowest numbers of KAM variations year-over-year. In contrast, observations with audit firm rotations (columns 7 to 9) possess the highest values for changes in the KAM disclosure variables. These differences are also highly significant, as the univariate analyses display in column 13. Firm-year observations with audit partner rotations (columns 10 to 12) also indicate a fresh-look effect, although the significant differences compared to years without any rotation are of marginal magnitude (column 15).

The descriptive statistics for all observations reveal that the non-logarithmised absolute audit fees total 1.44 million EUR, while non-audit fees amount to 16% of all fees. Most companies are audited by a big4 auditor (87%), while 34% of the auditors are industry specialists.²³ 86% of the firm years end on December 31, and 5% of the annual reports receive a going concern opinion. Regarding the firm-specific control variables, the statistics show that the mean non-logarithmised and unscaled company size amounts to 5.26 billion EUR and firms are about 23 years of age. The market-to-book ratio is 3.12, the current assets make up 45% of the total assets and inventory and accounts receivable account for 27% of the total assets. The mean quick ratio is 1.33, and the return on assets is equal to 4%. Lastly, 23% of all firm years realise a loss, and the average leverage ratio amounts to 0.26.

Table 5 displays the pairwise Pearson correlations of all variables used in the following regression models. Notably, audit firm rotations (*AUDITORCHANGE*) are significantly correlated with the KAM disclosure variables. In contrast, audit partner rotations (*PARTNERCHANGE*) possess minimal associations with the various KAM variables. Many of the control variables, such as *BUSYSEASON* or *LEVERAGE*, are significantly related to the KAM variables, underpinning their inclusion as important determinants. *AUDITORCHANGE* and *PARTNERCHANGE* are negatively related per definition. Lastly, the correlation matrix also unveils that multicollinearity issues do not exist since most control variables are not significantly correlated with the two rotation variables of interest.²⁴

5.2 | Main findings

Table 6 reports the regression results of Equation (1) for all six dependent KAM disclosure variables.²⁵ I find that *AUDITORCHANGE* is

significant for all six different KAM specifications. In line with the creation of a fresh look, *AUDITORCHANGE* is associated with more new KAM topics (*NEW*) and fewer old KAMs retained from the year before (*OLD*), a larger percentage of new KAMs (*P_NEW*), more dropped KAMs compared to the prior year (*DROPPED*) and more changes in KAMs year-over-year (*CHANGED*). These effects are also highly economically significant. For instance, *P_NEW* increases by 0.182 in the case of an audit firm rotation, corresponding to an almost doubling of *P_NEW*. Moreover, the number of KAMs (*KAMS*) significantly rises, although the absolute magnitude is of minor extent (0.088).²⁶

In contrast, *PARTNERCHANGE* appears to induce only limited changes in KAM disclosure. Although *PARTNERCHANGE* results in statistically significant coefficients for five of the six dependent KAM variables—*KAMS* is unaffected—the magnitude of the coefficients suggests that they are not economically significant. For instance, an audit partner rotation is only associated with an increase in the percentage of new KAMs by 0.029 compared to 0.182 for an audit firm rotation. Consequently, internal rotations seem to be considerably less influential for a fresh look and changes in KAM disclosure than external rotations.²⁷

The regression results regarding control variables show many significant coefficients, underpinning the importance of their inclusion. Among them, *AUDITFEES* and *LOSS (ROA)* stand out as they possess a significant and positive (negative) effect throughout all six regression models. Additionally, the explanatory power of the models is high as the adjusted R^2 exceeds that of prior studies, e.g., Duboisée de Ricquebourg and Maroun (2023).

5.3 | Subsample analyses

The main regression models are based on rotation- and all non-rotation years, whereas the non-rotation years constitute the reference group. In this specification, the results could be influenced by unobserved aspects other than the audit firm and audit partner rotations (Horton et al., 2021). To address this concern, I recalculated the regression models with firm-year observations one year prior to internal or external rotations and the respective rotation year. The results in Panel A of Table 7 are consistent with the main findings that audit firm rotations lead to more changes in KAMs and fewer KAMs retained from the prior year, while the fresh-look effects of audit partner rotations are of minor magnitude. The significance levels and the magnitude of the findings on *AUDITORCHANGE* and *PARTNERCHANGE* are marginally reduced for some KAM variables, while others receive even higher coefficients. *AUDITORCHANGE* does not significantly impact the number of KAMs, although the magnitude of the effect in the main model was low, anyhow.

Furthermore, non-rotation years appear to differ from firm years with audit firm or audit partner rotations in several aspects, as Table 4 has presented. I conduct entropy balancing to ensure that the findings do not result from a potential self-selection bias. Entropy balancing is a reweighting method that balances the control group observations to match the covariates of the treatment group (Hainmueller, 2012). The

TABLE 5 Pearson correlations.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) KAMS	1.00										
(2) NEW	0.55*	1.00									
(3) OLD	0.75*	-0.14*	1.00								
(4) P_NEW	0.19*	0.82*	-0.42*	1.00							
(5) DROPPED	0.22*	0.52*	-0.15*	0.51*	1.00						
(6) CHANGED	0.15*	0.79*	-0.45*	0.92*	0.56*	1.00					
(7) AUDITORCHANGE	0.03	0.16*	-0.10*	0.17*	0.16*	0.19*	1.00				
(8) PARTNERCHANGE	0.00	0.02	-0.01	0.02	0.02	0.01	-0.15*	1.00			
(9) AUDITFEES	0.37*	0.18*	0.29*	0.06*	0.23*	0.06*	-0.04*	0.02	1.00		
(10) NAF	-0.03	0.00	-0.04*	0.03	-0.02	0.02	-0.05*	-0.01	-0.01	1.00	
(11) BIGFOUR	0.05*	0.01	0.05*	-0.01	0.01	-0.01	-0.08*	-0.01	0.35*	0.13*	1.00
(12) SPECIALIST	0.01	0.00	0.01	0.00	0.01	0.00	-0.04*	0.00	0.12*	0.06*	0.22*
(13) BUSYSEASON	-0.17*	-0.13*	-0.10*	-0.06*	-0.12*	-0.06*	-0.00	-0.01	-0.06*	0.04*	0.04*
(14) GCO	0.10*	0.12*	0.02	0.10*	0.04*	0.10*	0.04*	-0.01	-0.10*	-0.02	-0.12*
(15) SIZE	0.32*	0.14*	0.27*	0.03*	0.17*	0.03	-0.01	0.01	0.83*	0.07*	0.33*
(16) AGE	0.19*	0.06*	0.18*	0.01	0.09*	0.00	0.05*	0.00	0.41*	-0.03	0.12*
(17) MTB	-0.09*	-0.05*	-0.06*	-0.02	-0.04*	-0.02	-0.02	-0.01	-0.06*	0.05*	0.03
(18) CURASSETS	-0.14*	-0.07*	-0.11*	-0.02	-0.06*	-0.02	-0.01	0.01	-0.15*	-0.04*	-0.03
(19) INVREC	-0.05*	-0.07*	-0.01	-0.06*	-0.07*	-0.07*	0.00	0.00	-0.02	-0.12*	0.01
(20) QUICK	-0.18*	-0.06*	-0.16*	0.00	-0.05*	0.01	-0.03	0.03	-0.25*	0.06*	-0.09*
(21) ROA	-0.02	-0.07*	0.04*	-0.09*	-0.04*	-0.10*	0.00	-0.01	0.18*	-0.05*	0.15*
(22) LOSS	0.07*	0.12*	-0.01	0.11*	0.08*	0.12*	0.00	0.00	-0.14*	0.05*	-0.11*
(23) LEVERAGE	0.14*	0.10*	0.09*	0.05*	0.09*	0.05*	0.01	-0.02	0.14*	0.07*	0.07*

Note: This table shows pairwise Pearson correlation coefficients. All variables are defined in Appendix A.

*denotes significance at the 1% level.

TABLE 5 (Continued)

Variable	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
(1) KAMS												
(2) NEW												
(3) OLD												
(4) P_NEW												
(5) DROPPED												
(6) CHANGED												
(7) AUDITORCHANGE												
(8) PARTNERCHANGE												
(9) AUDITFEES												
(10) NAF												
(11) BIGFOUR												
(12) SPECIALIST	1.00											
(13) BUSYSEASON	0.06*	1.00										
(14) GCO	-0.04*	-0.01	1.00									
(15) SIZE	0.15*	-0.01	-0.18*	1.00								
(16) AGE	-0.01	-0.06*	-0.09*	0.37*	1.00							
(17) MTB	0.02	-0.05*	-0.03	-0.13*	-0.12*	1.00						
(18) CURASSETS	-0.06*	0.00	0.00	-0.28*	0.03	0.15*	1.00					
(19) INVREC	-0.03	-0.02	-0.06*	-0.10*	0.14*	-0.02	0.69*	1.00				
(20) QUICK	-0.05*	0.05*	-0.02	-0.24*	-0.13*	0.10*	0.26*	-0.20*	1.00			
(21) ROA	0.08*	-0.02	-0.32*	0.28*	0.17*	0.09*	-0.06*	0.17*	-0.14*	1.00		
(22) LOSS	-0.05*	0.01	0.29*	-0.23*	-0.15*	-0.02	0.02	-0.13*	0.07*	-0.54*	1.00	
(23) LEVERAGE	0.02	0.03	0.14*	0.16*	-0.08*	-0.06*	-0.39*	-0.24*	-0.33*	-0.10*	0.16*	1.00

Note: This table shows pairwise Pearson correlation coefficients. All variables are defined in Appendix A.

*denotes significance at the 1% level.

TABLE 6 Influence of audit firm and audit partner rotations on KAM disclosure.

Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
AUDITORCHANGE	0.088** (1.978)	0.501*** (11.945)	-0.412*** (-9.854)	0.182*** (12.448)	0.511*** (11.291)	0.420*** (12.561)
PARTNERCHANGE	0.007 (0.204)	0.081*** (3.090)	-0.074** (-2.509)	0.029*** (3.163)	0.076*** (2.741)	0.060*** (3.146)
AUDITFEES	0.265*** (7.414)	0.089*** (4.895)	0.176*** (5.265)	0.016** (2.312)	0.160*** (8.473)	0.041*** (2.712)
NAF	0.167 (1.340)	0.199** (2.555)	-0.032 (-0.278)	0.082*** (2.752)	0.155* (1.914)	0.175*** (2.776)
BIGFOUR	-0.055 (-0.806)	0.026 (0.694)	-0.081 (-1.343)	0.005 (0.316)	-0.035 (-0.833)	0.015 (0.483)
SPECIALIST	-0.044 (-1.051)	0.018 (0.758)	-0.062 (-1.628)	0.012 (1.347)	0.036 (1.406)	0.019 (1.048)
BUSYSEASON	-0.228*** (-2.816)	-0.096** (-2.287)	-0.131* (-1.891)	-0.011 (-0.830)	-0.099** (-2.390)	-0.033 (-1.140)
GCO	0.429*** (4.483)	0.278*** (4.138)	0.151* (1.861)	0.059*** (3.000)	-0.016 (-0.244)	0.105** (2.297)
SIZE	0.053** (2.080)	0.014 (1.102)	0.039 (1.641)	-0.003 (-0.548)	-0.017 (-1.305)	-0.010 (-0.898)
AGE	0.006** (2.419)	-0.001 (-0.531)	0.006*** (2.934)	0.000 (-0.529)	0.000 (-0.041)	-0.001 (-1.358)
MTB	-0.001 (-0.193)	-0.003 (-1.036)	0.002 (0.485)	0.000 (-0.335)	-0.003 (-1.052)	-0.002 (-0.774)
CURASSETS	-0.154 (-1.025)	0.088 (0.965)	-0.242* (-1.827)	0.070* (1.858)	0.208** (2.120)	0.161** (2.081)
INVREC	0.201 (1.040)	-0.060 (-0.513)	0.261 (1.517)	-0.075 (-1.635)	-0.240** (-2.030)	-0.222** (-2.312)
QUICK	-0.034** (-2.037)	-0.003 (-0.245)	-0.031** (-2.230)	-0.001 (-0.113)	0.002 (0.172)	0.000 (-0.040)
ROA	-0.508*** (-3.214)	-0.270** (-2.352)	-0.238* (-1.686)	-0.110** (-2.469)	-0.283** (-2.308)	-0.246** (-2.399)
LOSS	0.259*** (5.287)	0.178*** (5.373)	0.080* (1.830)	0.036*** (3.226)	0.115*** (3.441)	0.081*** (3.294)
LEVERAGE	0.317** (2.379)	0.255*** (3.378)	0.061 (0.502)	0.054* (1.913)	0.360*** (4.633)	0.116* (1.938)
Intercept	-2.056*** (-5.672)	-0.870*** (-4.535)	-1.186*** (-3.739)	0.055 (0.826)	-1.193*** (-6.452)	0.137 (0.993)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.354	0.185	0.220	0.102	0.177	0.109

Note: This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. Standard errors are clustered at the firm level. *, ** and *** denote significance at the 1%, 5% and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix A.

TABLE 7 Subsample analyses of the audit firm and audit partner rotation and KAM disclosure.

Panel A: Rotation year and prior period						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
AUDITORCHANGE	0.038 (0.736)	0.488*** (10.091)	-0.450*** (-9.498)	0.176*** (10.693)	0.531*** (10.380)	0.417*** (11.261)
PARTNERCHANGE	-0.048 (-1.207)	0.069** (2.007)	-0.116*** (-3.287)	0.025** (2.174)	0.089** (2.406)	0.058** (2.398)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	2,722	2,722	2,722	2,722	2,722	2,722
Adj. R ²	0.356	0.219	0.198	0.119	0.190	0.121
Panel B: Entropy-balanced sample						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
AUDITORCHANGE	0.069 (1.527)	0.489*** (11.852)	-0.421*** (-9.838)	0.179*** (12.284)	0.507*** (11.281)	0.416*** (12.749)
PARTNERCHANGE	-0.022 (0.494)	0.071** (2.273)	-0.093** (-2.250)	0.037*** (2.927)	0.119*** (3.162)	0.080*** (3.202)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.355	0.253	0.213	0.160	0.239	0.167
Panel C: Maximum one audit firm rotation since 2014						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
AUDITORCHANGE	0.061 (1.243)	0.480*** (10.216)	-0.419*** (-8.704)	0.180*** (10.612)	0.508*** (9.756)	0.405*** (10.761)
PARTNERCHANGE	0.021 (0.642)	0.088*** (3.216)	-0.067** (-2.217)	0.029*** (3.096)	0.072** (2.554)	0.063*** (3.172)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	5,529	5,529	5,529	5,529	5,529	5,529
Adj. R ²	0.367	0.183	0.225	0.093	0.177	0.099

Note: This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. Panel A only considers the periods of an audit firm or audit partner change and the year before. Panel B reports the results for an entropy-balanced sample. Panel C includes observations of companies with a maximum of one audit firm rotation since 2014. Standard errors are clustered at the firm level. Country-, industry- and year-fixed effects are included. *, ** and *** denote significance at the 1%, 5% and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix A.

advantages of entropy balancing compared to propensity score matching are that it assures that all covariates are balanced—while propensity score matching only assures that the calculated propensity scores align—and that researchers avoid influential design choices when specifying a propensity score model (McMullin & Schonberger, 2020). I conduct entropy balancing with *AUDITORCHANGE*, distinguishing between treatment and control observations,²⁸ based on all three moments

(mean, variance and skewness) of the covariates and country-, industry- and year-fixed effects. In this study, entropy balancing does not suffer from assigning high weights to a small number of observations, as the maximum weight is 1.32 and the weight ratio amounts to 0.42 (McMullin & Schonberger, 2022). Panel B of Table 7 shows that the main inferences on *AUDITORCHANGE* and *PARTNERCHANGE* remain consistent for the entropy-balanced sample.

Panel A: Mandatory and voluntary audit firm and audit partner rotations						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
MAFR	0.087 (0.868)	0.444*** (5.002)	-0.357*** (-3.670)	0.192*** (5.560)	0.449*** (4.341)	0.396*** (5.405)
VAFR	0.087* (1.708)	0.513*** (10.919)	-0.426*** (-9.160)	0.180*** (11.236)	0.525*** (10.500)	0.425*** (11.502)
MPR	0.126** (2.061)	0.127** (2.485)	-0.001 (-0.028)	0.026 (1.641)	0.047 (0.966)	0.060* (1.700)
VPR	-0.039 (-0.984)	0.063** (2.150)	-0.102*** (-2.751)	0.030*** (2.756)	0.087*** (2.731)	0.060*** (2.692)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.355	0.185	0.220	0.102	0.176	0.109
Panel B: Mandatory audit firm and audit partner rotations						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
MAFR	0.084 (0.843)	0.434*** (4.872)	-0.350*** (-3.616)	0.190*** (5.569)	0.453*** (4.360)	0.390*** (5.358)
MPR	0.130** (2.156)	0.132** (2.570)	-0.002 (-0.039)	0.026 (1.637)	0.053 (1.072)	0.061* (1.717)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	4,858	4,858	4,858	4,858	4,858	4,858
Adj. R ²	0.352	0.152	0.224	0.075	0.155	0.079

Note: This table presents the OLS regression results and the corresponding t-values for the six dependent KAM variables. Panel A comprises mandatory and voluntary audit firm and audit partner rotations. Panel B considers mandatory audit firm and audit partner rotations while excluding all voluntary rotations. Country-, industry- and year-fixed effects are included. Standard errors are clustered at the firm level. *, ** and *** denote significance at the 1%, 5% and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix A.

Additionally, companies might change their audit firm on a frequent basis, e.g., to conduct opinion shopping (e.g., Lennox, 2000). However, frequent audit firm rotations could exert different properties than less frequent switches (e.g., Cowle et al., 2023). To mitigate this concern, the subsample in Panel C of Table 7 only comprises firm-year observations of companies that did not change their audit firm at all or at most one time since the regulation's entry into force in 2014. This analysis also accounts for the possibility that firms—not subject to, e.g., opinion shopping—anticipated the external rotation requirements and conducted an audit firm change before the maximum tenure. Again, the results largely align with those of the main regression models and document that audit firm rotations lead to more novelty and fewer KAMs retained from the prior year, whereas the renewing impact of audit partner rotations is limited. Lastly, I exclude Italian observations in an untabulated analysis because the regulatory setting differs from the other

countries, as audit firm rotations have been mandatory since 1975. The analysis shows that the findings are unaffected by the elimination of Italy.

5.4 | Mandatory and voluntary rotations

Voluntary rotations might possess properties different from those of mandatory rotations. For instance, the incentives to conduct an earlier rotation could result from auditor-client disagreements or be motivated by opinion shopping (Bleibtreu & Stefani, 2021). Therefore, I distinguish between mandatory and voluntary auditor rotations based on the maximum tenure—excluding tender or joint audit extensions for audit firm rotations—according to the respective national implementation of the EU regulation and the transitional rules (European Commission, 2022; Willekens et al., 2019). Voluntary audit firm

TABLE 8 Mandatory and voluntary audit firm and audit partner rotations.

TABLE 9 Influence of audit firm and audit partner tenure on KAM disclosure.

Panel A: Audit firm and audit partner tenure						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
TENURE	−0.036 (−1.580)	−0.087*** (−6.537)	0.051** (2.529)	−0.030*** (−6.297)	−0.100*** (−6.896)	−0.069*** (−6.578)
PARTNERTENURE	0.021 (0.869)	−0.097*** (−5.580)	0.118*** (5.229)	−0.037*** (−5.877)	−0.095*** (−5.122)	−0.085*** (−6.337)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.354	0.174	0.216	0.089	0.168	0.094
Panel B: Audit firm tenure						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
TENURE	−0.032 (−1.509)	−0.113*** (−8.800)	0.081*** (4.237)	−0.040*** (−8.729)	−0.126*** (−8.969)	−0.091*** (−8.889)
PARTNERCHANGE	0.009 (0.279)	0.068*** (2.624)	−0.059** (−1.994)	0.024*** (2.604)	0.067** (2.427)	0.048** (2.517)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.354	0.171	0.213	0.085	0.166	0.089
Panel C: Audit partner tenure						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
AUDITORCHANGE	0.112** (2.237)	0.442*** (9.898)	−0.330*** (−7.083)	0.160*** (10.072)	0.451*** (9.155)	0.370*** (10.409)
PARTNERTENURE	0.027 (1.114)	−0.047** (−2.673)	0.074*** (3.243)	−0.018** (−2.828)	−0.050** (−2.576)	−0.041*** (−3.033)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.354	0.185	0.221	0.102	0.176	0.109

Note: This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. In Panel A, the natural logarithm of the audit firm tenure (*TENURE*) and the natural logarithm of the audit partner tenure (*PARTNERTENURE*) are included. Panel B and Panel C combine the tenure variables with *AUDITORCHANGE* and *PARTNERCHANGE*. Country-, industry- and year-fixed effects are included. Standard errors are clustered at the firm level. *, ** and *** denote significance at the 1%, 5% and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix A.

rotations make up 454 (81.8%) of all 555 audit firm rotations. Similarly, most of the 1,089 audit partner rotations are of a voluntary nature (791; 72.6%).

Panel A of Table 8 comprises all 6,103 firm-year observations, while mandatory and voluntary rotations are differentiated. Both types of audit firm rotations are associated with significant and pronounced changes in KAM disclosure, while some coefficients are inconsistently slightly stronger for one type than the other.

Noticeably, *KAMS* marginally increases solely in the case of voluntary audit firm rotations (*VAFR*). Concerning audit partner rotations, *KAMS* only rises minorly for mandatory internal rotations (*MPR*). Whereas both types of audit partner rotations result in more novel *KAMS* and overall changes compared to the prior year, *OLD*, *P_NEW* and *DROPPED* are only significant for voluntary audit partner rotations (*VPR*). Collectively, the main findings hold that audit firm rotations are associated with greater changes in KAM disclosure than audit partner

TABLE 10 Influence of direction and timing of audit firm rotations on KAM disclosure.

Panel A: Direction of audit firm rotations						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
<i>Upward</i>	0.249 (1.535)	0.655*** (5.087)	-0.406*** (-2.678)	0.274*** (4.887)	0.741*** (4.408)	0.517*** (4.464)
<i>Lateral big4</i>	0.040 (0.800)	0.504*** (10.080)	-0.464*** (-9.716)	0.182*** (10.579)	0.524*** (10.038)	0.432*** (10.849)
<i>Lateral non-big4</i>	0.451* (1.870)	0.510*** (2.766)	-0.059 (-0.363)	0.139*** (3.120)	0.279** (2.158)	0.281*** (3.157)
<i>Downward</i>	0.077 (0.536)	0.398*** (3.756)	-0.321** (-2.385)	0.158*** (4.020)	0.446*** (3.108)	0.373*** (3.890)
<i>PARTNERCHANGE</i>	0.007 (0.225)	0.080*** (3.084)	-0.073** (-2.479)	0.029*** (3.149)	0.075** (2.721)	0.059*** (3.127)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.355	0.185	0.221	0.102	0.177	0.109
Panel B: Timing of audit firm rotations						
Variable	(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
<i>Q1</i>	-0.075 (-0.760)	0.454*** (4.592)	-0.530*** (-4.797)	0.219*** (5.593)	0.610*** (5.348)	0.442*** (5.764)
<i>Q2</i>	0.109** (2.075)	0.513*** (10.528)	-0.404*** (-8.179)	0.184*** (10.640)	0.501*** (9.427)	0.420*** (10.692)
<i>Q3</i>	0.221 (1.207)	0.317** (2.492)	-0.096 (-0.632)	0.058 (1.564)	0.467*** (2.824)	0.151** (2.094)
<i>Q4</i>	0.174 (0.557)	0.794*** (2.759)	-0.620*** (-3.243)	0.249*** (3.557)	0.414** (2.043)	0.733*** (3.459)
<i>After Q4</i>	-0.310 (-0.958)	0.589* (1.932)	-0.899*** (-3.328)	0.301** (2.460)	0.517*** (4.012)	0.851** (2.145)
<i>PARTNERCHANGE</i>	0.007 (0.219)	0.081*** (3.095)	-0.074** (-2.495)	0.029*** (3.144)	0.076*** (2.726)	0.060*** (3.145)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y	C, I, Y
Observations	6,103	6,103	6,103	6,103	6,103	6,103
Adj. R ²	0.354	0.186	0.221	0.104	0.176	0.112

Note: This table reports the OLS regression results and the corresponding t-values for the six dependent KAM variables. Panel A differentiates the direction of an audit firm rotation, where the corresponding variables equal one if an audit firm rotation occurs in the respective direction in the year, and zero otherwise. Panel B differentiates the timing when an audit firm rotation occurs. The corresponding variables equal one if an audit firm rotation takes place in the respective quarter, and zero otherwise. Country-, industry- and year-fixed effects are included. Standard errors are clustered at the firm level. *, ** and *** denote significance at the 1%, 5% and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. For a detailed variable definition, I refer to Appendix A.

rotations, while some specific KAM variables differ between mandatory and voluntary rotations.

Additionally, I exclude voluntary audit firm and voluntary audit partner rotations in Panel B of Table 8. The results show that

mandatory audit firm rotations are associated with significant changes in KAM disclosure (*NEW*, *P_NEW*, *DROPPED* and *CHANGED*) and significantly fewer KAMs retained from the prior year (*OLD*). The magnitude of these effects is comparable to the main analyses, while an

increase in the number of KAMs (KAMS) is driven by mandatory audit partner rotations instead of audit firm rotations. Some of the dependent KAM variables receive attenuated coefficients. The overall findings align with the main regression results that audit firm rotations are associated with considerable changes in KAM disclosure, while the fresh-look effect of audit partner rotations is limited.²⁹

6 | ADDITIONAL ANALYSES

In Table 9, I analyse whether audit firms and audit partners disclose fewer novel KAMs and retain more prior-year KAMs for longer tenure durations. *TENURE* and *PARTNERTENURE* are calculated as the natural logarithm of the audit firm and partner tenure, respectively. Panel A uses both tenure variables instead of *AUDITORCHANGE* and *PARTNERCHANGE* and documents that the suspected behaviour of more old and fewer new KAMs exists for longer audit firms and partner tenure in relation to five of the six dependent variables. Only the number of KAMs is unaffected by audit firm and partner tenure. Panel B in Table 9 combines audit firm tenure with the audit partner rotation variable in the same model, while Panel C in Table 9 includes the audit firm rotation variable and audit partner tenure. Less novelty in KAM disclosures year-over-year is consistent for the tenure variables across all model specifications.³⁰

Furthermore, I investigate whether the pronounced fresh-look effect of audit firm rotations on KAM disclosure persists for all directions of audit firm rotations. I create four indicator variables that take the value of one if the audit firm rotation occurs in the respective direction—from non-big4 to big4 (*Upward*), big4 to big4 (*Lateral big4*), non-big4 to non-big4 (*Lateral non-big4*) and big4 to non-big4 (*Downward*)—and zero otherwise. Panel A of Table 10 shows that the increase in new KAMs and the omission of prior-period KAMs is significant and widely consistent for five of the six models, irrespective of the direction of the audit firm rotation. Only the number of KAMs increases in case of lateral non-big4 audit firm rotations. Overall, I find that audit firm rotations from non-big4 to big4 auditors are associated with the highest coefficients on a fresh-look effect.

Lastly, I consider the impact of the timing of audit firm rotations on the KAM disclosure variables. First-year audits require the incoming audit firm to set up its audit strategy and planning. Late engagements reduce the preparation time of new audit firms, which could (adversely) affect the audit (cf. Howard et al., 2023, p. 4). I define indicator variables as equal to one if audit firm rotations occur in the respective quarters of the audited financial year (Q1 to Q4) or after the fourth quarter (*After Q4*) and zero otherwise. Panel B of Table 10 illustrates that a fresh look persists throughout all different timings of audit firm rotations.

7 | DISCUSSION AND CONCLUSION

Retaining the same auditor over a long period may lead to overfamiliarity with the auditee and result in less critical appraisal (Carey &

Simnett, 2006). Similar audit strategies and identical focus areas over the years might miss emerging issues and could enable management to circumvent controls (Lennox & Wu, 2018). This is of particular relevance as the development of personal relationships could increase trust in management and impair auditor skepticism (Patterson et al., 2019). This study answers the question of whether audit firm and audit partner rotations represent an effective mechanism to overcome overfamiliarity and reinforce a fresh look at the audit by analysing KAM reporting. Thereby, I exploit the dual rotation regime of mandatory audit partner and audit firm rotations to investigate the suspected fresh-look effects and answer the call for more cross-country evidence in the EU (e.g., Velte & Loy, 2018).

The results show that audit firm rotations are associated with pronounced changes in KAM disclosure, substantiating the fresh-look effect of external rotations. In contrast, the influence of audit partner rotations on the novelty of KAM reporting appears to be limited. These findings corroborate the argument of institutional pressures towards standardisation within audit firms—for instance, through internal policies, guidelines and best practices—that only rotations of the entire audit firm can overcome (Duboisée de Riquebourg & Maroun, 2023). Moreover, various practical considerations may contribute to the limited fresh-look effect of audit partner rotations. Despite the individual audit partner's great importance found in some prior studies (e.g., Cameran et al., 2022; Horton et al., 2021), their influence might be attenuated as complex auditing mandates require large engagement teams, installing an EQCR and consulting specialist auditors (e.g., Zimmerman et al., 2023). Similarly, the EU regulations demand that internal rotations should occur on a gradual basis, underpinning the suspected 'shadowing' practice of incoming audit partners (Gipper et al., 2021). Overall, the otherwise consistency in staff might explain the limited fresh-look effects of audit partner rotations.

These inferences remain unchanged when differentiating between mandatory and voluntary audit firm and partner rotations. The evidence suggests that, primarily, audit firm rotations yield a fresh look at the key audit areas, irrespective of the nature of the rotation. However, the findings on voluntary rotations could be preconditioned on the general requirement to rotate. Firms may decide to change their auditor in anticipation of an upcoming rotation obligation. This is especially true for audit firm rotations, as the EU audit reform prescribes a staggered timing of the audit firm rotation requirement, depending on the start of the engagement by the current audit firm. Therefore, the importance of mandatory rotations is likely even greater and extends to some part of the significant findings for voluntary rotations.

Consistent with the main results in Table 6, I find indications that longer audit firm and partner tenure are associated with less novelty in KAM disclosure, substantiating the necessity of rotations to reinforce a new perspective on the audit. The fresh-look effects are most pronounced in the periods where the respective change occurs, further emphasizing the standardisation within audit firms and the various practical considerations limiting fresh-look effects. These findings provide further arguments in favour of rotation requirements.

Additional analyses show that the main findings are consistent, irrespective of the direction of the audit firm rotations. Thereby, rotations from non-big4 to big4 audit firms yield the highest coefficients on a fresh look, corresponding to the notion of more vigorous auditing by big4 auditors (e.g., Palmrose, 1988). Besides, the fresh-look effects of audit firm rotations persist across various timings of the rotation, suggesting that auditors maintain a fresh look even if they possess minimal preparation time in case of late audit firm rotations. This is particularly noteworthy as audits during the busy season are otherwise associated with an attenuated fresh look in this study.

Overall, in light of the mixed findings on the consequences of audit firm and partner rotations, this study presents novel evidence from the EU setting, highlighting a fresh-look effect associated with audit firms and—to a limited extent—with partner rotations. Thereby, I provide timely information for the review of the effects of the EU audit reform that has introduced mandatory audit firm rotation and KAM disclosure (European Commission, 2022). The findings of a fresh-look effect associated with audit firm rotations and the limited impact of audit partner rotations speak to the EU's decision to introduce external rotation requirements in addition to the preexisting internal rotation rules. Accordingly, the results show that the rotation requirement supports the promulgated goal of strengthening auditor independence and elevating professional skepticism (EU, 2014b). This study also provides new evidence to the longstanding debate on whether mandatory audit firm and partner rotation should be introduced. As Lennox et al. (2014) detail, many countries worldwide initially established audit firm rotation requirements in the past, only to repeal them shortly after, as high uncertainty still exists about the costs and benefits of the requirement. The results in favour of audit firm rotations that primarily realise a fresh-look effect might be of interest to regulators considering the implementation of audit firm rotation regulations. Future research might extend to countries with different institutional and cultural peculiarities, particularly in cross-country settings, to broaden the understanding of the fresh-look effects of audit firm and partner rotations. The EU itself also provides an interesting setting for future research as the mandatory rotation regulations require frequent audit firm and audit partner rotations in the upcoming years.

This study is subject to several limitations. First, the analyses are based on the available data in Audit Analytics and Refinitiv, which may result in the underrepresentation of some capital markets in the examined countries. Second, transitional effects might influence the results since audit firms may possess increased incentives to provide high-quality audits as many audit mandates become available due to the mandatory rotation requirements (Friedrich et al., 2023). Third, this study focuses on the fresh look of new audit firms and partners in terms of key audit areas and does not analyse the effect of rotations and changes in KAM disclosure on audit quality or capital markets, opening intriguing avenues for future research. Fourth, auditors could use their judgement in determining KAMs to overstate differences from their predecessors. However, enforcement agencies scrutinise KAM disclosure (e.g., APAS, 2020), and prior research indicates that expanded audit reports generally mirror the audit process

(e.g., Camacho-Miñano et al., 2024; Elshafie, 2023; Sierra-García et al., 2019). Finally, I consider the fresh-look effects of audit firm and partner rotations but do not contemplate the costs associated with a rotation.

Despite the aforementioned limitations, the study makes important contributions to better understanding the effects of audit firm and audit partner rotations on the identification of key areas of an audit and provides intriguing avenues for future research to build on the European experience.

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CONFLICT OF INTEREST STATEMENT

There is no conflict of interest to disclose.

DATA AVAILABILITY STATEMENT

Data are available from the public sources cited in the text.

ETHICS STATEMENT

Ethical approval is not applicable as the collected data are publicly available.

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ENDNOTES

- ¹ In the following, I refer to the responsible engagement partner as the audit partner for brevity.
- ² The term 'fresh look' is frequently used in the auditing literature (e.g., Kuang et al., 2020; Laurion et al., 2017) and dates back at least to the Senate testimony of Pitt (2002), according to Gipper et al. (2021).
- ³ In the following, I use the terms audit partner and audit firm rotation and internal and external rotation interchangeably.
- ⁴ Iceland, Liechtenstein and Norway follow EU regulations closely as they form the European Economic Area (EEA) with the EU member states (EFTA, 2023). Therefore, I include Iceland, Liechtenstein and Norway in the following when referring to EU regulations, when applicable.
- ⁵ Note, however, that a (short) maximum tenure could also lower independence and amplify client-pleasing behavior (Dordzhieva, 2022).
- ⁶ Though, Cho et al. (2021) find that (future) audit quality is not impaired by lowballing of auditors.
- ⁷ The EU audit reform consists of the directly binding Regulation (EU) No 537/2014 and the Directive 2014/56/EU that needs to be integrated into the national law of the member states.
- ⁸ The rotation requirements concerning statutory auditors without a leading role in the audit engagement might, however, be interpreted less strictly (e.g., IDW, 2022).

- ⁹ For instance, longer audit firm tenure is associated with lower audit quality in some studies (e.g., Singer & Zhang, 2018), whereas other analyses find positive effects attributable to firm-specific knowledge of the audited company (e.g., Garcia-Blandon et al., 2020) or no evidence (e.g., Knechel & Vanstraelen, 2007).
- ¹⁰ Note that the determination of KAM disclosures involves auditors' judgement and incoming auditors could be inclined to overstate differences from their predecessors. However, enforcement agencies scrutinise KAM disclosures (e.g., APAS, 2020), and prior literature suggests that expanded audit reports generally mirror the audit process (e.g., Camacho-Miñano et al., 2024; Elshafie, 2023; Sierra-García et al., 2019).
- ¹¹ The measurement of year-over-year differences in KAM disclosure is based on the KAM topic classification by the Audit Analytics database. Fifty-seven out of all sixty-nine KAM topics distinguished by Audit Analytics occur in the sample. The results are only slightly attenuated in an alternative model specification based on the 15 broader KAM categories in an earlier version of Rousseau and Zehms (2024) instead of the 57 topics.
- ¹² The results are unaltered when I exclude instances where two auditors sign the audit report.
- ¹³ The inferences remain unchanged when using the alternative specification of audit partner rotations of Horton et al. (2021)—equaling one for internal rotations and also taking on the value of one in case of audit firm rotations that (inevitably) comprise a change of the audit partner.
- ¹⁴ The results are unaltered when I exclude observations from these countries in untabulated analyses.
- ¹⁵ Article 9 of Regulation (EU) No 537/2014 and Article 26 of Directive 2014/56/EU mandate the application of international auditing standards if adopted by the European Commission. As the European Commission did not formally adopt such standards, many member states (directly) applied the ISA on a voluntary basis, resulting in divergent (KAM) practices across the EU (FEE, 2015).
- ¹⁶ An untabulated analysis reveals that the inferences are robust to the inclusion of financial firms.
- ¹⁷ Audit Analytics only covers detailed KAM disclosures from annual reports available in English. Besides, not all *listed* entities are required to disclose KAMs.
- ¹⁸ Directive 2014/56/EU defines public-interest entities as entities listed in a regulated market, credit institutions, insurance undertakings and other designated entities. Virtually all omitted observations stem from the U.K. as national requirements mandate KAM reporting for listed entities (cf. Gutierrez et al., 2024), even if the market does not qualify as a regulated market according to EU regulations.
- ¹⁹ Audit Analytics provides tenure information on the current audit firm. Where applicable, past tenure was obtained by considering information on the departed audit firm, while audit partner tenure was established with audit partner information. The inferences are unaffected by the removal of control variables with missing data and tenure information.
- ²⁰ The sample comprises all countries of the European Economic Area, except for France, due to its joint audit requirement, and Liechtenstein, as its banking and insurance companies are excluded.
- ²¹ I exclude a total of 12 KAMs related to first-year audits as they only occur in the first year of engagement and could overstate a fresh-look effect. The results are robust to their inclusion.
- ²² Duboisée de Ricquebourg and Maroun (2023) document even more pronounced changes in KAM disclosure in South Africa.
- ²³ In an untabulated analysis, I find that only considering observations of companies audited by big4 auditors does not alter the findings.
- ²⁴ VIF tests also indicate no multicollinearity concerns, as the VIF values in the regression models are well below 10 (Kennedy, 2008).

- ²⁵ To ensure that the results are not driven by single countries, I perform the regressions by each country separately in additional analyses. Appendix B displays the corresponding results. Note, however, that the results should be interpreted with caution due to the low observation numbers in some countries.
- ²⁶ I find that the number of words per KAM is unaffected by audit firm or partner rotations in an untabulated analysis.
- ²⁷ Regressions with the aforementioned specification of Horton et al. (2021)—measuring the incremental effect of audit firm rotations over audit partner rotations—reveal similar results.
- ²⁸ The findings are similar when audit partner rotations constitute the treatment for entropy balancing.
- ²⁹ I find similar inferences when I restrict the observations to firms without any voluntary audit firm or partner rotation in the *entire* sample period, as outlined by Horton et al. (2021).
- ³⁰ Note, however, that significant changes in KAM disclosure are largely restricted to the year of audit firm or audit partner rotations in untabulated analyses, driving the results for longer tenure durations.

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APPENDIX A. VARIABLE DEFINITIONS

Variable	Definition
<i>KAM disclosure variables</i>	
KAMS	The number of key audit matters disclosed in the audit report.
NEW	The number of key audit matters disclosed in the audit report that were not disclosed in the audit report of the prior year.
OLD	The number of key audit matters disclosed in the audit report that were also disclosed in the audit report of the prior year.
P_NEW	NEW divided by KAMS per company.
DROPPED	The number of key audit matters disclosed in the audit report of the prior year that are not disclosed in the audit report of the current year.
CHANGED	The sum of NEW and DROPPED scaled by the number of key audit matters of the prior year.
<i>Audit firm and audit partner rotation variables</i>	
AUDITORCHANGE	Indicator variable = 1 if the audit firm has changed, 0 otherwise.
PARTNERCHANGE	Indicator variable = 1 if the responsible engagement partner has changed while the audit firm has remained the same, 0 otherwise.
<i>Audit control variables</i>	
AUDITFEES	The natural logarithm of audit fees.
BIGFOUR	Indicator variable = 1 if the firm's auditor is a big4 auditor (Deloitte, EY, KPMG or PwC), 0 otherwise.
BUSYSEASON	Indicator variable = 1 if the fiscal year ends on December 31, 0 otherwise.
NAF	The ratio of non-audit fees to total fees.
SPECIALIST	Indicator variable = 1 if the auditor is the annual audit fee market share leader in the country and industry of the firm.
<i>Firm control variables</i>	
AGE	Firm age calculated as years between the first year of Refinitiv year-end account figures for the firm and the current fiscal year.
CURASSETS	Current assets scaled by total assets.
GCO	Indicator variable = 1 if the firm receives a going concern opinion, 0 otherwise.
INVREC	Inventory and accounts receivable scaled by total assets.
LEVERAGE	Total debt scaled by total assets.
LOSS	Indicator variable = 1 if the firm has a negative net income, 0 otherwise.
MTB	Market-to-book ratio calculated as the market capitalization of the firm divided by the book value of common equity.
QUICK	Quick ratio calculated as the ratio of cash and equivalents plus accounts receivable to current liabilities.
ROA	Operating income scaled by total assets.
SIZE	Natural logarithm of total assets in thousands of EUR.

APPENDIX B. MAIN REGRESSIONS BY COUNTRY

Country		(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
Austria	AFR	0.072	0.414*	-0.343	0.247**	0.111	0.587*
	APR	-0.236	-0.026	-0.210	0.005	-0.016	-0.032
Belgium	AFR	0.002	0.141	-0.143	0.089	0.163	0.181
	APR	0.348	0.363	-0.015	0.061	0.018	0.052
Croatia	AFR	-0.506*	-0.047	-0.458	0.038	0.747*	0.320
	APR	-0.091	0.258	-0.349	0.182	0.103	0.258
Cyprus	AFR	-0.340	2.044	-2.384**	0.266	-0.128	0.283
	APR	-0.369	0.316	-0.685	-0.017	0.303	-0.023
Denmark	AFR	0.031	0.644***	-0.614***	0.299***	0.246	0.707***
	APR	0.292**	0.188	0.104	0.038	0.021	0.037
Estonia	AFR	-0.749	-0.417	-0.332	-0.209	-0.505	-0.689**
	APR	-0.303	0.018	-0.322	-0.001	0.065	0.010
Finland	AFR	-0.082	0.368**	-0.449***	0.130***	0.415***	0.302***
	APR	0.046	-0.012	0.058	-0.007	-0.024	0.011
Germany	AFR	0.077	0.408***	-0.331***	0.141***	0.296***	0.333***
	APR	-0.041	-0.018	-0.023	0.013	0.028	0.029
Greece	AFR	-0.054	0.229	-0.283	0.056	0.052	0.152
	APR	0.022	-0.047	0.069	-0.038	-0.014	-0.081
Hungary	AFR	0.149	0.184	-0.036	0.030	0.727	0.314
	APR	0.665	-0.377	1.042*	-0.313	-0.388	-0.881**
Ireland	AFR	0.341	1.716**	-1.374**	0.465***	0.864***	1.324*
	APR	0.587***	0.466*	0.120	0.129	-0.188	0.217
Italy	AFR	0.124	0.349**	-0.225	0.173**	0.466***	0.416**
	APR	-0.047	0.005	-0.052	0.019	0.120	0.019
Latvia	AFR	1.743	2.588*	-0.845	-0.362	1.095	0.947
	APR	-2.283***	-1.045	-1.238	-0.428	1.482**	0.275
Lithuania	AFR	0.007	-0.149	0.156	-0.104*	-0.242	-0.316*
	APR	0.278	0.324	-0.046	0.134	0.186	0.255
Luxembourg	AFR	0.552	0.142	0.410	-0.078	-0.480	-0.225
	APR	0.479	0.825**	-0.345	0.234	0.794***	0.603
Malta	AFR	1.419*	2.911***	-1.492***	0.849**	0.845	2.454***
	APR	-0.137	0.110	-0.247	0.088	-0.167	0.206
Netherlands	AFR	-0.390	0.292	-0.682**	0.145	0.601*	0.209
	APR	-0.015	0.018	-0.034	-0.003	0.233	0.006
Norway	AFR	0.273**	0.602***	-0.330*	0.250***	0.285*	0.672***
	APR	0.091	0.086	-0.005	0.004	-0.098	-0.026
Poland	AFR	0.044	0.308	-0.264	0.113*	0.561***	0.351**
	APR	-0.433*	-0.137	-0.296	0.031	0.217	0.016
Portugal	AFR	-0.045	0.754**	-0.799**	0.217**	1.194***	0.648**
	APR	-0.136	-0.197	0.060	-0.031	-0.560	-0.089
Romania	AFR	0.233	0.868***	-0.635	0.519**	0.371	1.186***
	APR	-0.273	-0.003	-0.269	0.116	0.067	0.195
Spain	AFR	-0.075	0.498**	-0.574**	0.230***	0.809**	0.397***
	APR	-0.361**	-0.081	-0.280*	-0.020	0.077	0.047

Country		(1) KAMS	(2) NEW	(3) OLD	(4) P_NEW	(5) DROPPED	(6) CHANGED
Sweden	AFR	0.037	0.440***	-0.403***	0.218***	0.488***	0.491***
	APR	-0.111*	0.023	-0.134**	0.016	0.078	0.056
United Kingdom	AFR	0.172	0.779***	-0.607***	0.226***	0.991***	0.447***
	APR	0.160*	0.289***	-0.129	0.071***	0.140*	0.152***

Note: The appendix presents the main regression results of Equation (1) on the influence of audit firm rotations (AFR) and audit partner rotations (APR) on the six dependent KAM variables, calculated by each country separately. Industry- and year-fixed effects are included. Standard errors are clustered at the firm level. *, ** and *** denote significance at the 1%, 5% and 10% level, respectively. All continuous control variables are winsorized at the 1st and 99th percentiles. Coloured rows denote that *BUSYSEASON*, *GCO* or *BIGFOUR* were omitted from the regression because the indicator variables consistently possess the same value in the respective country. The number of observations did not allow for separate regressions in Bulgaria, the Czech Republic, Iceland, Slovakia and Slovenia.