

## The Importance of Rotating in Promoting Neutral and Objective Auditor

By

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### Abstract

The research aims to explain the importance of rotation in promoting neutral and objective auditor when expressing his technical opinion, and the rotation was measured by relying on the annual financial reports data of a sample of Iraqi companies listed in the Iraq Stock Exchange for years from 2011-2020 that included 5 companies in the (insurance sector), By using a two -weight scale, it allows the researcher to measure (rotation), As the annual reports of each company are observed separately, and the number (1) is symbolized in the case of (rotation), the auditor and (0) in the case of (non -rotation), to know the number of times during the period and each company. The researcher has reached several results, the most prominent of which, the rotation contributes to enhancing the independence of the auditor in expressing his artistic opinion with impartiality and objectivity. The researcher recommended that the companies must spread awareness of the importance of rotation and work with it because of its impact, with the aim of preserving the independence and impartiality of the auditor's opinion.

**Keywords:** Turnover, Auditor Independence, Insurance Sector

### *Research Problem*

Many interested people are looking forward to enhancing the role of the auditors by asking for the auditor's role to enhance the auditor's independence to express his technical opinion impartially and objectively, but there is an argument between supporters and opponents of the feasibility of the auditor's rotation, so the research problem is centered through the following question:

1. Does rotation contribute to enhancing the auditor's independence in expressing his technical opinion impartially and objectively?

### *Research Importance*

The importance of the research lies in the importance of rotation, which is one of the controversial topics between supporters and opponents, and an attempt to find out the feasibility of applying the compulsory rotation of the auditor and its reflection on the independence and impartiality of the auditor in expressing his technical opinion.

### *Research Aims*

The research seeks to achieve several goals, including:

- 1- Shedding light on the conceptual aspect of the auditor's role.

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2- Defining the importance of the auditor's independence and impartiality in expressing his technical opinion.

### ***Research Assumes***

In light of the problem and in order to achieve the research objectives, the following main hypothesis was formulated:

There is no statistically significant relationship between the auditor's turnover and his independence and impartiality in expressing his technical opinion?

### ***Research limits***

First: Spatial boundaries: They are defined in the insurance sector whose shares are listed in the Iraq Stock Exchange.

Second: Temporal boundaries: The temporal boundaries of the research were represented by the period from (2011-2020), as they represented the most recent time series whose data were obtained.

## The second topic **Auditor turnover and independence**

### ***First: The concept of auditor rotation***

Many researchers believe that the turnover of the auditor is “the case in which an auditor is replaced by another.” Soliman considers the turnover of auditors to be “a law or legislation according to which the company’s general assembly takes a decision to end the contractual relationship with the current auditor and select a new, replacement auditor.” About him despite the fact that he did his duties to the fullest. (Sulaiman,2017) Whereas (Massoud and others) see rotation as “the company’s general assembly taking a decision to terminate the relationship with the current auditor, and choosing another auditor to replace him to contract with him.” (Akpanet) refers to the auditor’s turnover as a legal period for the length of the period during which the auditing firm remains providing professional services to the audit client’s company. Akpanet al, 2019. As Noman refers to the rotation, “it is a decision that directs the company to terminate the association with the actual auditor and replace him with another to link with him, despite the fact that he has fully performed his professional duties. Then the company must rotate the observer every certain period of time (Noman, 2020).

### Second: The advantages of compulsory rotation of observers

Knauer) indicates that rotation supports and enhances the independence of the auditor, which is likely to be affected by the long period of association with the company's management, as the length of the auditor's association with the company under audit leads to the auditor becoming more familiar with the company's management, And he is more lenient and accepting of the management’s accounting policies and practices, and he relies on the management’s decisions instead of relying on his professional doubts, which leads to achieving the management’s interest at the expense of other stakeholders, and that the possible result is that the audit procedures are inefficient with Relying on the results of the audit program and the results of the previous year, so the rotation leads to finding an auditor (sceptical) in more details about the activities and operations of the company being audited in anticipation of the possibility of errors (Knauer et 2012),al,. As the auditors who have a high degree of independence are more able to determine the true state of the audited company and

perform the audit process with high quality, and one of the benefits of the auditors' rotation is that it increases the independence of the auditors, which is likely to be affected by the long period of association between the auditor and the audited company that arises. They have personal relationships, and therefore it is difficult for the auditor to exercise independence towards the company under audit, in addition to the long period of engagement that may make the auditor fear the loss of the customer's company and worry about his future revenues, and the auditor becomes fully compatible with the

management requirements of the customer's company (Anis, 2014). Rotation also contributes to increasing the tendency of the auditor's professional doubt during the practice of auditing, by enabling him to practice questioning the mind, exerting the necessary professional care, critical evaluation, searching for facts, and resisting management pressures, which results in increased confidence in financial reports, i.e. not issuing a report complicit with the company's management, that is, it reduces the issuance of reports commensurate with the requirements of the company's management (Al-Wakil, 2018). Among the positives of the mandatory rotation of audit offices is the increase in the independence of the auditor and the increase in competition between audit offices (Abdel-Halim, Ahmed, 2018). Reference must be made to Banking Law No. (94) regulating the work of Iraqi banks, as the fourth paragraph of Article 46 stipulates that no bank shall appoint the same auditor continuously for a period not exceeding (5) years, except with an exception granted by the Central Bank of Iraq (Banking Law No. 94, 2004: 29).

### ***Third: Rotation and Independence***

The independence of the auditor means the unbiased mental position of the auditor in making decisions during the audit and preparation of financial reports. It is likely that it will be seen as subjective, as it is likely that it will not report an error that has been discovered (Augusting, 2014). In his study, (Abdul Rahman) indicated that the long period of the auditor's association with the customer leads to a significant decrease in his apparent and real independence as a result of the emergence of personal relationships between the auditor and the customer. There is a lack of innovation, inaccurate audit procedures, and thus the embarrassment of the auditor with the customer, which affects the quality of the audit greatly, which led to the demand of many bodies and regulators of the audit profession to apply the policy of rotation of auditors after a certain period of engagement (Abdul Rahman, 2017). The role of the auditor is also a guarantee of the independence of the auditor, as the long relationship between the auditor and the audit client company helps to increase the risk of audit failure, as the auditors may be affected by friendships or interdependence with the company's management, which leads to a loss of independence and objectivity (Augustsson & Osterlin, 2017). Al-Tamimi believes that not practicing professional doubt in the audit process is one of the factors that make the auditor lose his independence and objectivity, and this usually results from the long period of engagement that the auditor spends in the same place, and in this case his view becomes non-renewable and he does not reach evidence new enough unlike what was reached in the past. (Al-Tamimi, 2018).

### ***Applied Side Measuring Auditor Turnover***

#### ***Community and Research Sample***

The research community represented the insurance companies listed in the Iraq Stock Exchange, as 5 companies were chosen, represented by the insurance sector, due to the availability of sufficient financial data published on the market's website during the period from 2011-2020.

### ***Auditor Turnover Measurement Form***

A two-weighted scale was used through which it allows measuring the turnover of the auditor, as the annual reports of the company are observed and it is symbolized by the number (1) in the case of the auditor's turnover, and is symbolized by the number (0) in the case of non-turnover, and knowing the number of turnover times during the research period and for each company according to sharpness.

### ***Measuring Auditor Turnover Insurance Sector***

**Table (1)** *Measuring the turnover of the auditor of the Gulf Insurance Company*

<b>The Year</b>	<b>Auditor</b>	<b>Rotation</b>
2011	Zaki Ghazi Abdul Razzaq	0
2012	Makki Abbas Al-Tayyar	1
2013	Makki Abbas Al-Tayyar	0
2014	Fouad Atta Al-Nasser	1
2015	Haseeb Kazem Al-Juwaid	1
2016	Haseeb Kazem Al-Juwaid	0
2017	Haitham Fakhry Ismail	1
2018	Haitham Fakhry Ismail	0
2019	Haitham Fakhry Ismail	0
2020	Haitham Fakhry Ismail	0

Through the above table, it was found that the Gulf Insurance Company rotated the auditor during the research period from 2011\_2020 by 4 times, and this was done in the years 2012, 2014, 2015, 2017, and this is what is calculated in the interest of the company in rotating its auditors and benefiting from the multiple experiences of the auditors. Whereas, the rotation practices of the auditor lead to enhancing independence and strengthening the professional skepticism of the auditor, which leads to auditing and the auditor's keenness to audit the financial statements well.

**Table (2)** *Measuring the turnover of the auditor of Al-Ameen Insurance Company*

<b>The Year</b>	<b>Auditor</b>	<b>Rotation</b>
2011	Iyad Rashid Mahdi Al-Quraishi	0
2012	Iyad Rashid Mahdi Al-Quraishi	0
2013	Iyad Rashid Mahdi Al-Quraishi	0
2014	Iyad Rashid Mahdi Al-Quraishi	0
2015	Iyad Rashid Mahdi Al-Quraishi	0
2016	Iyad Rashid Mahdi Al-Quraishi	0
2017	Iyad Rashid Mahdi Al-Quraishi	0
2018	Iyad Rashid Mahdi Al-Quraishi	0
2019	Rahim Imad Alí	1
2020	Zuhair Mahmoud Hussein Al-Bahrani	1

The above table shows that Al-Ameen Insurance Company rotated auditors during the

years 2019, 2020 and did not rotate auditors during the other years, I. Relationship with company management and thus not discover errors and manipulation.

**Table (3)** *Medición de la rotación del auditor de Dar Al-Salam Insurance Company*

<b>The Year</b>	<b>Auditor</b>	<b>Rotation</b>
2011	Hashem Selim es un seguidor	0
2012	Hilal Bashir Daud	1
2013	Hilal Bashir Daud	0
2014	Hilal Bashir Daud	0
2015	Hilal Bashir Daud	0
2016	Hilal Bashir Daud	0
2017	Hilal Bashir Daud	0
2018	Hilal Bashir Daud	0
2019	Mostafa Fouad Abbas	1
2020	Mostafa Fouad Abbas	0

The above table shows that Dar Al-Salam Insurance Company performed the role of auditor during the years of 2012 and 2019 twice, and with a commitment period of 6 years during the investigation period. And the control of the accounts is not real, based on the results of the audit of the previous year.

**Table (4)** *Medición de la rotación del auditor de Al Ahlia Insurance Company*

<b>The Year</b>	<b>Auditor</b>	<b>Rotation</b>
2011	Farqad Hassan Ahmed Al-Salman	0
2012	Farqad Hassan Ahmed Al-Salman	0
2013	Farqad Hassan Ahmed Al-Salman	0
2014	Farqad Hassan Ahmed Al-Salman	0
<b>2015</b>	Farqad Hassan Ahmed Al-Salman	0
<b>2016</b>	Farqad Hassan Ahmed Al-Salman	0
<b>2017</b>	Farqad Hassan Ahmed Al-Salman	0
<b>2018</b>	Farqad Hassan Ahmed Al-Salman	0
<b>2019</b>	Farqad Hassan Ahmed Al-Salman	0
<b>2020</b>	Hilal Bashir Daud Hamo	1

The table shows that Al-Ahlia Insurance Company did not play the role of auditor during the period 2011\_2019, and there was no case of auditor turnover until the year 2020. As the duration of the auditor's engagement in the work and the provision of services during many years for the same company, the auditor loses his objectivity and independence and does not exercise professional doubt in the Audit process of the company's financial statements. This is usually due to the amount of time the auditor spends in the same location. Table (5) Medición de la rotación de auditores para Al-Hamra Insurance Company

<b>The Year</b>	<b>Auditor</b>	<b>Rotation</b>
2011	Fareed Majeed Al-Yawer	0
2012	Fareed Majeed Al-Yawer	0
2013	Fareed Majeed Al-Yawer	0
2014	Fareed Majeed Al-Yawer	0
2015	Fareed Majeed Al-Yawer	0
2016	Fareed Majeed Al-Yawer	0
2017	Fareed Majeed Al-Yawer	0
2018	Fareed Majeed Al-Yawer	0
2019	Fareed Majeed Al-Yawer	0
2020	Fareed Majeed Al-Yawer	0

The data in Table (5) shows that Al-Hamra Insurance Company did not carry out auditor rotation practices during the research years of 2011-2020. Considering that: The duration of the auditor's relationship with the company leads to a significant decrease in its apparent and real independence as a result of the emergence of personal relationships between the auditor and the company, this relationship also results in a feeling of self-satisfaction for the auditor. With the financial statements and the evidence it obtained, lack of innovation and inconsistent audit procedures Accuracy, which affects the expression of a neutral technical opinion, which in turn reflects on the quality of the company's financial reports in a significant way. After reviewing the companies of the "insurance sector", it was found that the company most committed to rotation practices is Gulf Insurance Company for 4 times during the investigation period that extends from 2011\_2020, and the least committed to rotation is Al-Hamra Insurance Company for 0 times during the investigation period.

## **Conclusions**

The rotation contributes to enhance the independence of the auditor to express his technical opinion with impartiality and objectivity. Mandatory rotation does not apply in Iraqi private sector companies, except in the banking sector. Non-rotation leads the observer to monopolize an activity for many years, which used to be only the industrial, commercial or agricultural sector. The duration of the contract between the auditor and the audited company negatively affects the professional independence of the auditor as a consequence of the familiarity that develops between them. One of the factors that causes the auditor to lose his objectivity and independence is the lack of professional skepticism in the audit process, and this is what results from the time that the auditor remains in the same place, thus becoming a non-Renewable vision and does not reach new evidence different from what it reached in the past. The auditor gives confidence and credibility to the accounting information, by expressing a neutral technical opinion on the validity and reasonableness of the financial statements prepared by the company.

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