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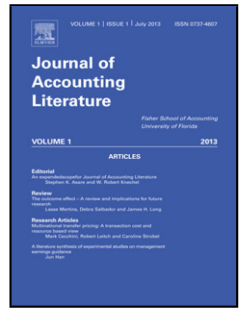

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Do Audit Firm Rotation, Auditor Retention, and Joint Audits Matter? – An Experimental Investigation of Bank Directors' and Institutional Investors' Perceptions

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ABSTRACT

As a consequence of the global financial and economic crisis, the European Commission recently reformed the audit market. One objective was to restore public trust in the auditing profession and thus to enhance the audit function. This study investigates whether perceptions of auditor independence and audit quality are influenced by audit firm rotation, auditor retention and joint audits, because regulators argue that these instruments can improve auditor independence and audit quality. Therefore, we conduct an experiment with bank directors and institutional investors in Germany. The results indicate a negative main effect for joint audits on perceived auditor independence, and that a rotation cycle of 24 years marginally significantly impairs participant perceptions of audit quality, compared to a rotation cycle of only ten years. Besides the main effects, planned contrast tests suggest a negative interaction between