

Abstract:

Our study examines how short audit partner horizon affects audit quality. Short audit partner horizon originates from the joint requirement of mandatory audit firm rotation and mandatory audit partner rotation. We study a unique setting from Italy where a nine-year mandatory firm rotation term and a seven-year mandatory partner rotation term are jointly imposed. The outcome is at least two partner horizons, where one partner horizon is shorter than the other. The partner with the shorter horizon will likely invest less effort in acquiring client knowledge because the expected payoffs are fewer and monitoring by the successor partner is less. We find that clients whose auditors have a shorter partner horizon have lower audit quality. Our findings provide insights for academics, audit firms, and regulators in evaluating auditor rotation strategies in their countries, especially in the European Union, where member states are implementing both mandatory audit-partner and audit-firm rotation.