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Audit Rotation; Creative Accounting, Audit Independence And Objectivity

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ABSTRACT
The debate for audit firms and audit team rotation had been on the increase since the collapse of major multi-national firms in recent years, most scholars and industrialist/ government agents and officials had laid hold on the negligence of auditors to minor acts of creative accounting by managements of such firms, which cumulate into world class frauds leading to economic melt-downs. This study evaluates this claim by using empirical means to determine the effect of audit rotation on creative accounting. Believing that a long relationship between auditors and staff/management of auditee firms will possibly result to auditors compromising standards on minor but intentional acts of fraud and violation of internal control guidelines. It also examine the relationship between audit rotation and independence, objectivity and financial discipline of management. Using the statistical package for social sciences, the researchers used spearman correlation coefficient to test proposed hypotheses of the relationships of the variables. A questionnaire was designed to collect primary data from one hundred and eighty respondents drawn from audit firms and companies in the Niger Delta Region of Nigeria. The result of the analysis shows that audit rotation has a positive effect on creative accounting, audit objectivity, independence and financial discipline. The researchers therefore recommended that audit rotation should be seen by shareholders, relevant regulatory authorities, investors, corporate providers of interest capital and intervention fund along with the Governments as a means of guaranteeing corporate survival in this desperate get rich quick laden economy.
KEY WORDS: Audit, Rotation, Creative, Accounting, Independence and Objectivity

INTRODUCTION

Audit rotation is being heavily debated in the accounting world. Due to requirements outline in the Sarbanes Oxley Act, public companies are required to rotate their lead audit partners every five years. To be clear, this standard does not require lead audit firm rotation; however, it does require a lead audit partner rotation. The Public Company Accountant Oversight Board (PCAOB) is also considering mandatory audit firm rotation, and this change in rule is gathering significant attention. These rotation requirements would not only apply to private organisations but non-profit organisations. As noted in the October 2012 Ohio society of CPAS newsletters, the voice, many non-profit organisations have considered implementing similar guidelines in their organisations as a best practice option. There are many pros and cons associated with lead audit partner rotation and audit firm rotation and each organisation needs to determine if it is best for the organisation to adopt these standards as part of its governance process. It is important to be aware of the applicability of implemented rules, and to make an informed decision.

Creative accounting according to Bamea et al (2011) "is the manipulation of financial numbers. Usually within the letters of the law and accounting standards, but very must against their spirits and certainly not providing the "true and fair view" of a company, that accounts are suppose to". He further sustained that the aim of creative accounting is to inflate figures. Beidleman (2011), views creative accounting as "a process where accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business."

Therefore, the non- rotation of an auditor may lead to familiarity or trust threat. Where the auditor may become over influenced by the personality and undue relationship with the directors and managers, and consequently become too sympathetic to their interest. Alternatively the auditor may become too trusting to management representatives so as to be inadequately thorough in his test of financial statements, because he knows the client too well or the issues too well or for some similar reasons. This is a possible reason for the practice of creative accounting by most companies in Nigeria and perhaps in the world (Appah and Oyadonghan, 2011). Once an auditors independence and objectivity is questioned, a threat to detection of acts of creative accounting will arise and creates room for creative accounting (Appah & Oyadongham 2011, Bamea et al 2011).

In many cases, firm managements wish to show earnings, at a certain level or following certain patterns. As a result they seek loopholes in financial reporting standards which they can exploit to adjust the numbers as far as

is practicable to achieve desired aims to satisfy their financial projections. These adjustments amount to fraudulent financial reporting when they fall outside the bonds of acceptable accounting ethics in practice. (Beidleman 2011, Dechow et al 1996, and Hanno 2000). In the case of United States (Enron and WorldCom), corporate scandal has resulted in conviction charges against the directors of the firms for their roles in over-statement of accounts and deliberate manipulation of the financial statements. Also, in Nigeria the scandal in Cadbury Nigeria plc resulted into the dismissal of its managing director as well as the suspension of the company's share on the stock exchange market. These are avoidable financial mishaps if not for lack of auditor's rotation and the persistent existence of creative accounting. Many scholars have researched and published on audit rotation and other factors, there exist a gap which this study intend to cover, which is creative accounting being caused by the lack of mandatory audit rotation by firms. (Carcello and Nagy 2004; Casterella et al 2001; cohen et al 2002)

Therefore, the purpose of this study is to determine; the extent at which audit rotation affects auditor's objectivity, the effect of audit rotation on audit independence, the impact of creative accounting on a firm's long-term survival and to review the relationship between audit rotation and creative accounting. The significance of every study is usually to discover new factors to add to the body of existing knowledge. This study will create a means of reducing the high rate of financial manipulations in firms and also strengthen the auditor's independence. The rate of fraudulent financial misstatements in firms has made it extremely important to rotate auditors by management.

Theoretical and Empirical Review

The Role Theory

Role theory proposed that human behaviour is guided by expectations held by individuals and by other people. The expectation corresponds to different roles individuals performed or enact in their daily lives, such as auditors. For instance, most people hold pre – conceived notions of the role expectation of an auditor, which includes the examination of financial statements and to give opinion on the true and fair view of a firm. It is expected of the auditor to be objective and independent in the cause of the audit, once an auditors objectivity and independence is questioned, his role of giving an opinion on the true and fair view of a firm's financial statement will be doubted. In order to avoid doubt in the report of an auditor, there's every need to rotate auditors so as to prevent threats to auditors objectivity and independence. (Oyadonghan 2006; Appah and Oyadonghan 2011; Colson 2011).

AUDIT FIRM ROTATION

Obviously, there are no rules on how long an accounting firm can serve as an auditor for a company. According to General Accounting Officer (GAO), approximately 99% of fortune 1000 public companies do not have a policy that requires the periodic rotation of audit firms. The average auditor tenure is 23years (GAO, 2003). KMPG has been the external auditor of record for General electric for over a century. Deloite and Touch has been the auditor for General motor for over eighty- five years (Appah and Oyadonghan 2011). Presently, section 203 of the sarbane oxley Act (SOX) requires audit partner rotation. The Act states, "it shall not be unlawful for a registered public accounting firm to provide audit services to an issuer if the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has performed audit services for that issuer in each of the 5 previous fiscal years of that issuer". (Sarbane Oxley Act, 2009 section 203(j)). While SOX requires lead partner rotation, it does not require audit firm rotation. According to a survey conducted by Accountancy Age (2012), only one of the thirty (30) leading accounting firms supported audit firm rotation.

The American Institute of Certified Public Accountants (AICPA) issued a report, " statement of position regarding Mandatory Rotation of Audit Firms of publicly Held Companies" in 1992. The AICPA strongly oppose mandatory rotation citing that mandatory audit firm rotation will not be in the best interest of the public. According to AICPA, an examination of over 400 cases of audit failure between 1991 and 2010, shows that audit failures seems to occur almost three times as often when the auditor was performing his first or second audit of a company. The study also stated that requiring firms to change auditors, would increase the risk of audit failure. Auditors will not have sufficient knowledge of its clients business, which is important to identifying problems early in a business (AICPA 2011).

Seidman (2001), in his speech to the United States Senates Committee on Banking, Housing, and Urban Affairs on Feb 26, 2001, on the failure of Superio Bank (FSB) expressed his view against periodic firm rotation. He indicated, "requiring the rotation of entire firms is a prescription for audit failure". Rotation of audit firms would result in the destruction of vast stores of institutional knowledge and guarantee that auditors would be climbing a steep learning curve on a regular basis. It would result in increase "start up cost for the auditor, the company, and

the public, as every few years an entirely new group of auditors would have to be educated and brought up to speed on the very complicated, and legitimate accounting issues, presented by a given company's operation".

However, not all stakeholders of financial statements see audit firm rotation as harmful or damaging to the public.

Brody and Moscove (1998), Buchalter and Yokomoto (2003) believes that rotation of audit firms would be more beneficial to the profession than the new oversight board. Rotation of auditors would be a way the Certified Public Accountant (CPA) firms can serve as an oversight to review procedures followed and judgements rendered of the predecessor audit firm. That requiring the rotation of auditors would also lessen pain or distress issues dealing with the revolving problem of allowing companies to hire former auditors, (DeAggelo 2010).

A similar point was expressed in the Conference Board Commission of Public Trust and Private Enterprise's (January 9, 2003) reported. The report recommends that audit committees should consider rotation of auditors as a means of enhancing auditor independence and building shareholders confidence in the integrity of a firm's financial statements. The commission believed that the cost of implementing rotation of auditors will be 'significantly less than the cost endured by investors in capital markets resulting in the loss of investor confidence in response to inaccurate financial statements" (Mansi et al 2004).

The SOX required the General Accounting Officer to study the potential effects of mandatory audit firm rotation on public companies. GAO surveyed and interviewed accounting firms, chief fiscal officers and audit committee chains of the fortune 1000 publicly traded companies. The majority of the target public accounting firms and fortune 1000 companies interviewed agreed that the costs associated with audit firm rotation are likely to exceed the benefits. Many of the participants surveyed indicated that SOX's requirements regarding audit partner rotation (using different individuals within an audit firm) and auditor independence would achieve the same benefits as audit firm rotation (using different audit firms). The big question is which cost is more than corporate failure arising from creative accounting and which benefit is better than corporate survival at the long run.

GAO also interviewed other interested parties (consumer groups, institutional investors, accountants, etc). The views of these groups were consistent with the overall views of other survey respondents interviewed by GAO. GAO acknowledges that it will take several years of experience with the implementation of SOX before the effectiveness of the act be fully assessed (GAO, 2003).

CREATIVE ACCOUNTING

In review literature, Creative Accounting has been called different names such as; Earning Management, Earning Quality Management, Innovation Accounting, Aggressive Accounting, Income Smoothing, Financial Engineering and Cosmetic Accounting. (Shelby 1985; Palmrose 1986; Appah and Oyadonghan 2011)

The preferred term in the USA , and consequently in most of the literature on the subject is " Earning Management", but in European the preferred term is ' Creative Accounting' and this is the term that will be used in this paper just as Creative Accounting enjoys several names, it has several definitions.

Oyadonghan (2006), gave the simplest definition of Creative Accounting. He defined it as "a process where accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business". Beidleman (2011), posited that "Creative Accounting and Earning Management are euphemisms referring to accounting practices but certainly deviate from the spirit of those rules".

Various research studies had examined the issues of management motivation towards creative accounting behaviour. Creative Accounting is intended to mislead users into accepting the picture that does not show the true and fair view of a firm's financial statement. There are various reasons why creative accounting exists. Thus, the reasons include; Bamea et al (2o11), and Beidleman (2011).

According to Dezoort et al (2012) and Herrick & Barrionuego (2002) to; hide a particular bad year of the company, to force an exceptionally good year or continue the pressure to always be the best, smooth –out results to give impression of stability or sustained improvement, hide large profit by monopolies under anti- trust threat, and to boost assets to avoid take over creative accounting is employed. Beasley, (1996) also agreed with this veiw.

According to Beasley (1996), these reasons include influencing capital market expectations and valuation, to increase management's compensation, to avoid violating contracts written in terms of accounting numbers and to reduce regulatory costs. In shedding light to these reasons for Creative Accounting, they explained that the use of accounting information by financial analyst and investors to value stocks has created an incentive for managers to manipulate earnings to influence the short- term performance of the stock. The evidence gather by the researchers shows that some firms manage earnings for stock market reasons. The frequency of this occurrence is yet been determined. Some studies show that compensation and lending contracts gives incentives for firms to manage earnings to increase bonuses, improve job security and mitigate potential violation of debt covenants. (Ramsey 2001, Simon and Francis 1988).

The potential for creative accounting is found in six principal areas; regulatory flexibility, a dearth of regulation, a scope for management judgement in respect of assumptions about the future, the timing of some transactions, the use of artificial transactions and finally the reclassification and presentation of financial numbers and assets. Even in a highly regulated accounting environment such as USA, a great deal of flexibility is available for such manipulations. (Archarnbeavlt and Reed 2002).

According to agency theory "the firm is a legal fiction which serve as a focus for a complex process in which the conflicting objectives of individuals are brought into equilibrium within a framework of contractual relations'.(Jennings et al 2004). Within the agency framework, it is both logical and inescapable that management behaviour will be self serving. Agency can, therefore, provide a solid framework for the understanding of creative accounting behaviour. However, it may provide an incomplete theoretical bases for explaining or predicting management behaviour, the ethical dimension of human behaviour may provide an important element missing from legalistic and adversarial (an opponent) agency relationship (Appah and Oyadonghan, 2011).

The information perspective is a key element underpinning the study of the creative accounting phenomenon. A conflict is created by the information asymmetry that exists in complex corporate structures between a privileged management and a more remote body of stakeholders. Managers may choose to, exploit their privileged position for private gain, by managing financial reporting disclosures in their own favour. The information content that possesses value to stakeholders in providing useful signals is avoided.

It may be difficult or impossible for individual stakeholders to discern the fact and the effect of accounting manipulation, because of an insufficient personal skill set, indifference or an unwillingness to engage in detailed analysis (the mechanistic or naïve investors hypothesis, discussed by Bamea et al,(2001). From a market efficiency perspective such failures in understanding may not matter. Bamea et al, (2001) point out in the conclusion to their study establishing that analysis perception of creative accounting devices is somewhat deficient, only a small number of effective accounting experts may be required ' for the market as a whole appropriately to process window dressing numbers. On the other hand, Beidleman (20011) stated that creative accounting prior to equity issues does affect share prices, suggesting that investors do not necessarily see through creative accounting.

IMPLICATION OF MANDATORY AUDIT ROTATION

Since the accounting failures of Enron and WorldCom, regulators have worked continuously to improve the financial reporting process, generally by focusing on auditors' rotation and audit committee independence – including the issue of auditor tenure. However, recently audit firm tenure has caught the attention of more than just regulators and audit committee members. Despite the Sarbanes oxley act requirement that companies rotate audit partners every five years, data released in 2011 has led to questions about the independence of the external audits that public companies are required to undergo annually. According to research, firm audit analysts, nearly 175 companies in the standard and poor's 500 (S&P) have had the same audit firm for 25 years or more, 16.1 percent of the Russell 1000 have engaged the same audit firm for 40 years or more, and eight companies in the group have not changed auditors for the last century. (Herrick and Bamionueyo 2002)

To this end, the Public Company Accounting Oversight Board (PCAOB) issued a concept released on mandatory audit firm rotation last fall. In the release, the agency asked for opinion on several questions related to whether tenure is directly related to a firm's inability to exercise an audit independently.

The number of public comments that PCAOB received by the deadline of December 14th 2010, Letters came from a wide range of commenter's, including professors, large public companies such as coca- cola and ConocoPhillips, as well as the "Big four" accounting firms. The overwhelming majority of the comment letters of about 94 percent , according to the wall street journal ((Herrick and Bamionueyo 2002)) opposed to imposing term limits. Most respondents expressed concern that mandatory rotation would not only raise the cost of external audit, but also impair audit quality by lowering the familiarity of the auditors with the company's books. (Appah and Oyadonghan, 2011)

In addition to cost and audit quality, investment management company vanguard commented " mandatory audit rotation would introduced significant disruption and risk into the existing audit process, both by requiring firms to invest substantial time and effort into educating new auditors in a rotating process on a periodic basis, as well as by creating unnecessary audit risk during the early years of a new audit relationship during which there would be a significant learning curve for the new firms. (Herrick and Bamionueyo 2002)

Tyco international highlighted several supplementary costs of rotation, including the added expense of the necessary non- periodic filings to register statements and carve out financial statements. The manufacturing company also commented on the limitations posted by geography, noting that "even in the US, there are certain

localities where not all of the Big four firms have a presence. (Herrick and Bamionueyo 2002). Requiring mandatory rotation could have the practical implication of limiting a company's choice to one or two firms, or result in a significant incremental cost (e.g travel and co-ordination costs) associated with being audited by a firm that does not have substantial local presence".

The percentage increase of initial year audit costs for larger firms if mandatory audit firm rotation were implemented will not be parculiar, according to a 2003 report conducted by the US Government Accountability Officer (GAO). This represents a substantial cost to companies, according to a survey from the financial Executives Research Foundation (2002) the average public company pays more than $ 220000 in audit fees. Data from Audit Analytics Suggests that these increased costs are not isolated to the first year of an engagement; it affects both the Russell 1000 and the Russell 2000 companies with longer tenure.

EFFECT OF ROTATION ON AUDIT OBJECTIVITY, INDEPENDENC AND CREATIVE ACCOUNTING PRACTICE IN NIGERIA

Auditors typically, have long – term professional relationships with their clients. Some have suggested that such relationship may be perceived to threaten the auditors objectivity, independence and quality of financial reporting because of the closeness of the auditor with the clients. (Appah and Oyadonghan 2011). Mandatory rotation of external auditor have been suggested by some practitioners of the institute of chartered accountants of England & Wales (ICAEW), Breaden (2003), Bedard et al (2004) and academics, Dopuch etal;(2001); Myers etal;(2003) on a response to this concern because it would not permit auditors to build familiarity overtime with their clients. Auditors and others who opposed mandatory rotation of auditors believes it will reduces audit quality, increase cost of auditors and eliminate the choice of audit committee. The debate has been intensified by financial scandals in Nigeria and other parts of the world (eg Enron, worldcom, parmalat, Africa petroleum plc, Cadbury Nigeria plc), culminating in a number of institutional decisions to impose changes in accountability on both the firms issuing financial report and their auditors in other to reduce the incidence of frauds in organisations (Cameran et al, (2008), one of the suggested means to reduce the possibility of fraud is mandatory rotation of external auditors. According to Geigar and Raghunandan (2002) , the massive audit cases that had occurred in the different stock markets in recent years have shown that the reason for audit failure is not merely the technical failure but a quite important factor is that auditors have lost independence, so, the rotation regularly of auditors is advantageous, not only to maintain the auditor independence but also to provide the chance for the latter auditor to detect what the former had not discovered with fair objectivity.

According to Appah and Oyadonghan (2011), the concept of mandatory auditor rotation was introduced because the highly published corporate collapses that resulted into litigations were companies who did not rotate their external auditors. Bazeman et al (2002) noted that the issue of rotation of external auditors was conceived to be a solution to possible familiarity threat between personnel of the audit firm and client.

The view is that if employees of the audit firm get much acquainted or too familiar with the staff of client companies, many transactions may be taken for granted and not properly verified and this would likely negatively impact the quality of audit. For example if an audit staff obtain a loan from his client he cannot be expected to exercise appropriate sense of judgement if he finds transactions that are less than ethical during the process of the audit. He further noted the proponents of this line of thinking believes that audit firms should be rotated every 3 years such that employees of both entities would not get too acquainted, then objectivity would be maintained and the audit exercise would be thorough as to be able to add credibility to the stewardship report of directors. It is argued that mandatory rotation of external auditors will put auditors in a stronger position to resist management pressure.

Requiring audit firms to periodically relinquish their clients is one of the suggested means of enhancing auditor independence and objectivity. On the other hand, several studies have proven that the rotation of external auditors will not actually improve the quality of financial reporting but in fact will increase the transactions costs (Kemp et al; 1983; Geiger and Raghunandan; 2002). Hence, there are two views on the issue of mandatory rotation of external auditors.

One derived from the auditing profession who argues that rotation is unnecessary because it would be costly to clients and may reduce the quality of audits and the second view which is from the regulators who believes on the rotation of external auditors because they believe that it could solve the problems of and public protection. However, how does audit rotation affect auditors objectivity, independence, and creative accounting in firms, is the empirical value of this study.

MATERIALS AND METHOD

The primary data for the study were generated through the administration of questionnaires conducted to evaluate the effect of audit rotation on audit objectivity, independence and creative accounting in Nigeria to two hundred and ten (210) respondents (managers, supervisors and accountants) on fifty (50) registered companies

and audit firms. The study was conducted between June 2013, to September 2013. The Yaro Yamen model was used for the purpose of sample size determination. A total of one hundred and eighty (180) questionnaires were completed and used for the analysis representing eighty five percent (85%). The modified questionnaire was pre-tested using ten (10) ten companies and audit firms in the study. A reliability and internal consistency test was done on the collected data using Cronbach Alpha and Pearson Product Moment Correlation Coefficient model, to explore the consistency of the questionnaire. The result of the reliability test shows that the questionnaire design is highly reliable and consistent at 0.647 and 0.733. Excel software was used to transform the raw data into format suitable for analysis, after which the statistical package for social sciences (SPSS) version 19 was used to test the hypotheses formulated for the study.

4.2. Results of Test of Hypotheses and Presentations

Test of hypothesis one: there is no significant relationship between Audit Rotation and Creative Accounting.

Table 4.1 Correlations

		CREATIVE	ROTATION
CREATIVE	Pearson Correlation	1	.227
	Sig. (2-tailed)		.228
	N	180	180
ROTATION	Pearson Correlation	.227	1
	Sig. (2-tailed)	.228	
	N	180	180

Source. Field work 2013(spss print out)

The result from the above table 4.1shows that audit rotation is significantly related to creative accounting practice in maney companies.

Test of hypothesis two: there is no significant relationship between Audit Rotation and Audit objectivity.

Table 4.2 Correlations

		ROTATION	OBJECTIVITY
ROTATION	Pearson Correlation	1	-.124
	Sig. (2-tailed)		.514
	N	180	180
OBJECTIVITY	Pearson Correlation	-.124	1
	Sig. (2-tailed)	.514	
	N	180	180

From table 4. 2, the correlation coefficient indicated that audit rotation is negatively related to audit objectivity. A fall in audit rotation will result to a reduction in audit objectivity in the firms studied.

Test of hypothesis three: there is no significant relationship between Audit Rotation and Audit Independence.

Table 4.3 Correlations

		ROTATION	INDEPENDENCE
ROTATION.	Pearson Correlation	1	.075
	Sig. (2-tailed)		.695
	N	180	180
INDEPENDENCE	Pearson Correlation	.075	1
	Sig. (2-tailed)	.695	
	N	180	180

As shown in table 4.3, there is a positive relationship between audit rotation and audit independence. The two tailed test has a coefficient of .695, indicating that an improvement in audit rotation will equally improve the independence of the auditors from the auditee firm.

Test of hypothesis four: there is no significant relationship between Audit Rotation and financial discipline of a firm.

Table 4. 4. Correlations

		ROTATION	DISCIPLINE
ROTATION	Pearson Correlation	1	.154
	Sig. (2-tailed)		.416
	N	180	180
DISCIPLINE	Pearson Correlation	.154	1
	Sig. (2-tailed)	.416	
	N	180	180

From table 4.4, the result also indicated a positive relationship between audit rotation and financial discipline of a firm. Meaning audit rotation will significantly improve the internal control system of a firm, which is the custodian of financial discipline in every firm.

Table 4.5 ANOVA Table

			Sum of Squares	Df	Mean Square	F	Sig.
CREATIVE * ROTATION	Between Groups	(Combined)	7.614	3	2.538	1.382	.270
	Within Groups		47.752	26	1.837		
	Total		55.367	29			
OBJECTIVITY * ROTATION	Between Groups	(Combined)	2.714	3	.905	.729	.544
	Within Groups		32.252	26	1.240		
	Total		34.967	29			
INDEPENDENCE * ROTATION	Between Groups	(Combined)	2.648	3	.883	.714	.553
	Within Groups		32.152	26	1.237		
	Total		34.800	29			
DISCIPLINE * ROTATION	Between Groups	(Combined)	1.157	3	.386	.585	.630
	Within Groups		17.143	26	.659		
	Total		18.300	29			

The table above shows the mean values of the four variables as they are being affected by audit rotation. The result shows creative accounting has being more affected by audit rotation with a mean of 2.538, followed by audit objectivity with .905, audit independence with .883 and financial discipline with .386.

DISCUSSION OF RESULTS

The correlation test of the several hypotheses indicated that audit rotation has significant relation with creative accounting. The more often auditors are rotated the lesser the opportunity for creative accounting acts by employees of the corporate bodies. This result agreed with the studies of Dechow et al (1996) and Geiger and Raghunandan (2002). The implication is that audit rotation reduces familiarity threat a root cause for tolerating creative accounting by most auditors.

From table 4.2, the result shows that audit rotation is positively related with audit objectivity, where auditors are frequently rotated, every new auditor will be more careful on the job, this will result to objectivity and effectiveness on the job and performance will improve with quality. This result confirms the studies of Bazerman, Loewenstein, and Moore.(2002), Myers, Myers, Palmrose and Scholz. (2003b).

The result from table 4.3 gives credence to the fact that audit rotation guarantees audit independence. The relationship is positive and significance. This result further collaborates the study of Appah and Oyadonghan (2011) that audit rotation is a veritable tool for audit independence.

Also the analysis in table 4.4 shows a positive relationship between audit rotation and financial discipline in corporate organisations. The reason being that auditors are the custodians of the internal control system of an organisation (Oyadonghan 2006). This being the case a strong internal control is guaranteed by the independence of the auditor. Since audit rotation contributes to auditors independence, a trek-down effect of it is the

strengthening of the internal control system of an auditee, further resulting to financial prudence, compliance with regulatory policies and frame work, statutory guidelines and financial discipline.

CONCLUSION AND RECOMMENDATIONS

This study had discussed the effects of audit rotation on financial prudence and objectivity by firms; it also provided scientific evidence on the relevance of audit rotation to elimination of creative accounting, promoting audit independence, objectivity and financial discipline. The results all point to one fact; that is, "audit rotation is a veritable tool for corporate governance and effective financial reporting and corporate survival.

For the above reasons the researcher is recommending that audit rotation should be seen by shareholders, relevant regulatory authorities, investors, corporate providers of interest capital and intervention fund along with the Governments as a means of guaranteeing corporate survival in this desperate get rich quick laden economy. They should insist on companies audited financial statements based on rotational auditors, a requisite document for share issues, bonds issues, loan applications and grant of intervention capital or fund to corporate bodies.

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