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Does Mandatory Audit Firm Rotation Enhance Auditor Independence? Evidence from Libya

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Abstract:

This paper examines whether mandatory rotation are associated with audit auditor independence. In relation to the impact of mandatory rotation on audit auditor independence. The findings of the study demonstrate that the policy of mandatory rotation of auditor was perceived to be better than long tenure in maintaining the perception of auditor independence. The local audit firms affiliated to a Big Four audit firm are able to charge a higher level of audit fees than other local audit firms. Such affiliation is perceived to be positively associated with the level of auditor independence.

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Keywords: auditor independence, audit quality, mandatory rotation, audit firms

1. Introduction:

The influence exerted to the audit independence by audit tenure has already been attended by the government supervising and managing department. The Sarbanes-Oxley Act passed by United States Congress in 2002 was intended to regain investor's confidence through enhancing the accuracy and the reliability of information that the company disclosed. Long-relationship between auditor and his client could threaten auditor independence (Abu Bakar et al, 2005; DeAngelo, 1981a; Mautz& Sharaf, 1961; Shockley, 1982; Steven & Elaine 2008) because that would create personal relationship with the client management and would tend to spend lower audit hours to examine clients' financial statements (Mautz& Sharaf, 1961). The concept of mandatory rotation, its advantage and

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disadvantages, and relationship with auditor independence are will discussed below.

Carey &Simnett (2006) suggest two reasons to be concerned about lengthy auditor-client associations could product in the creation of private relationships and the audit partner's capability to stay on detached and critical could diminish over time.

In order to fight the risk of long association, audit engagement partners are required to rotate every five in USA. At present in the UK, there is no requirement for audit firms to turn around after a set period. In UK, Hussey (1999) found that over 40% of more than 700 companies had engaged their auditor over and above ten years. However, in Italy every three years audit firms of are required to rotate. Mandatory rotation of audit firm was also in place in Spain until the end of last century (ICAEW, 2002). According to (Anonymous, 2004), the mandatory rotation of audit firms is not required in USA; it is estimated that typically, the richest 1000 public companies retain the same auditor over two decades.

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In the UK the mandatory rotation concept of audit firms as a safeguard the independence of auditor has been checked for long period by two sides' academics and professional bodies. The mandatory rotation of audit firms in the most frequently recommended safeguard against long term independence-impairing the auditor client associations and is the most often suggested course of action 'counter the perception that long-term associations between audit firm and their clients impair the independence of the auditor and professional scepticism' (George, 2004).

1. Literature Review

Empirical research has been carried out by a number of researchers to ascertain the effect of tenure on auditor independence (see, for example; Coplrey& Doucet 1993a;

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Shockley 1981a; Teoh & Lim 1996). Where an auditor and a client have a long-termrelationship, there is familiarity between them and there may be emotional ties and ties of loyalty and these could have an adverse effect upon the professional objectivity as well as the independence of the auditor which could also affect the quality of the audit (Flint 1988).

Shockley (1981a) looked at the way in which independence was perceived in the case of audit firms that were using fixed tenure, together with a consideration of other variables. For the study two main groups were used as the sample, namely certified public accountants as represented by partners from large national audit firms, the big eight, and also partners from local audit firms, as well as users of financial statements, represented in this study by loan officers and financial analysts, so that a comparison could be made between the perceptions of audit firms and groups who made use of financial statements. It was found that it was possible for each variable involved to impact on any assumption of independence and, furthermore, it was possible to see what direction that impact would take. This is consistent with the findings of Copley & Doucet (1993a) who found, by using the government audit services measurements of quality, that the longer the relationship between auditor and client, the greater the likelihood that a substandard audit would result. Dopuch et al. (2001) also used experimental methods in order to make an assessment as to whether an increase in auditor independence as manifested by a reduction in the likelihood of reports biased in favour of the management resulting, was more likely to stem from mandatory rotation of auditors and/or from their retention. To this end auditors' reports were compared across four systems, one where there was no requirement for either rotation or retention and the second that only required retention, the third only requiring rotation, and the fourth requiring both retention and rotation. It was found that in the third and fourth systems examined the auditor's readiness to issue biased reports was lesser compared with the first two regimes where there was no rotation imposed. There were fewer biased reports where both

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retention and rotation were mandatory. These results back up the theory that an increase in auditor independence can result from mandatory rotation. In the same way a study conducted by Abu Bakar et al, (2005) suggests that it is possible that auditor independence could be enhanced as a result of the mandatory rotation of audit firms.

Firth (1981) studied loan decisions made by bankers in the UK and came to the conclusion that even where the relationship with the client was a close one, auditors would behave with independence, and he believed that this finding showed that partner expertise is more significant than any potential bias arising from association with the client. Even where a significant level of association was found, a lower loan was given where a relationship existed between the client and the auditor, compared with circumstances where there was no such relationship. This result is in accord with those of Shockley (1981) and Jackson-Heard (1987) who found that audit tenure was not seen as a threat to the independence of the auditor.

Teoh & Lim (1996) conducted a study in Malaysia and found that there was a threat to auditor independence when the same auditor was retained in excess of five years. They suggested that an alternative to rotating audit firms would be to rotate audit partners.

According to Beattie &Fearnley (1998a) it has been demonstrated that in the UK where audit firms are changed this involves substantial cost both to the companies and to the audit firms. When they reviewed studies that had been undertaken previously, Fearnley& Beattie (2004) came to the conclusion that although in theory auditor independence could be protected by audit firm rotation, where a practical evaluation has been made it suggests the approach of auditor rotation should be rejected. It was also found by Ghosh & Moon (2005) that one result of mandatory rotation could be unintended costs being introduced to market participants.

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Countries across the world practice mandatory rotation differently with Italy, Brazil, Australia and Singapore having a requirement that public companies within those countries rotate their auditors within a stated time period. In Singapore, however, it is only auditors dealing with locally incorporated banking institutions that have to rotate. There has been a requirement in Italy since 1975 that listed companies rotate their auditors every nine years with three years having to elapse before the auditor can be reappointed: in short, that a three year cooling off period must elapse subsequent to the maximum period of engagement before audit firms can be re-appointed to the same company. In a similar way, in Brazil a five or six year period of maximum engagement was imposed which has been effective from May 1999, and also in Austria since 2004. In both countries companies must rotate the firms they use for audit after the maximum number of years and, in addition, the audit firms must wait during a cooling off period of three years in Brazil and one year in Austria, before they can be reappointed. In Singapore, however, a maximum of five years engagement has been stipulated by the regulators before rotation has to take place and this has been effective from March 2002. It is also required by the Singapore Stock Exchange (SSE) that every five years audit partners-in-change of non-banks auditors should be rotated. In other industries existing audit practices are permitted to continue.

According to the US General Accounting Office GAO (2003b) it has been claimed by the Italian securities regulator that Italy's experience of the mandatory rotation of audit firms has been positive and it was also pointed out that the provision had led to a positive perception of auditor independence. However, one disadvantage that exists is pressure brought to bear by listed companies on audit firms for a reduction in fees. The Brazilian regulators hold that the use of mandatory audit firm rotation would bring about an improvement in the supervision of audits and believe that it is better to rotate audit firms rather than partners (GAO, 2003b). In a similar way, the regulators in Austria expect the rule to improve the quality of audits as well as auditor independence. Singaporean regulators expect auditor

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independence will improve as a result of audit firm rotation and that it will also provide a check on the establishment of long term commercial relationships between public accounting firms and the banks that they audit, which in turn will safeguard the professionalism of audit firms because the risk of their compromising their objectivity will be reduced and a new perspective will be provided for the auditing process (GAO, 2003b).

The UK, France, the Netherlands, Japan, Germany and Malaysia, however, have chosen to rotate partners, with the UK, the Netherlands and Malaysia having a five year rotation period, while France and Germany have six years and Japan seven. The concept of the mandatory rotation of audit firms was not supported by the Coordinating Group on Audit and Accounting Issues in the UK because they considered that it was possible that it might give rise to negative effects on the quality of audit and on the efficiency of audit in the years immediately after a rotation. The following are considered to be the weaknesses resulting from mandatory audit firm rotation: the cost of implementing rotation would be substantial; incoming auditors would lack knowledge of their clients; there is no strong evidence that audit quality would be affected positively; larger audit firms might be tempted to collude; those performing the audit would be less likely to make appropriate investment; the cumulative knowledge gleaned by the outgoing auditors would be lost; mandatory rotation could lead to undesirable competition (Arrunada*et. al,* 1997; GAO, 2003b ICAEW, 2002).

Finally, the requirement for mandatory rotation of audit firms was withdrawn by the Spanish regulators in 1995. This requirement had initially been imposed in 1989 in the hope that it would increase auditor independence and bring about fair competition. When the requirement was withdrawn Spain's Company Law and Audit Law had to be changed so that companies were able to engage the same auditor on an annual basis. The Spanish experience had been that there was a significant increase in the training costs of educating new audit teams (GAO 2003b). In November 2002 the Spanish Audit Law

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was amended to include a requirement that audit team members that were engaged, including audit partners, managers, supervisors, and junior staff should, in specific types of companies which would include all listed companies, companies subject to public supervision and those with an annual revenue in excess of 30 million Euros, rotate every seven years.

The above literature showed conflicting evidence as to the effects of audit firm tenure on perceived auditor independence. Some theoretical arguments and empirical studies believed that long association between auditors and their clients may lead to the development of an "over-cosy relationship" that could adversely affect auditor impendence and reduce the reliability and quality of audit. Therefore, mandatory rotation of audit firm was proposed as remedy to this issue. Others believed that costs of audit firm rotation outweigh the benefits and experience and knowledge that is gained over time in improving quality work would be wasted with the appointment of a new auditor. In addition, problems with audit reporting and independence may be more likely to arise in the earlier years of the auditor-client relationship. Although, audit firm rotation may be a suitable solution to sustain public confidence in the audit process in developed countries with adequate qualified auditors, such policy may be not justified for countries such as Libya where there is a relatively small auditing community capable to provide a high quality audit.

2. The Population and Sampling of the Research

An aspect of the research that impacts significantly on the quality of the data that is collected is the selection of those who will participate in the research. For this reason Denscombe (2001) strongly recommends that in order to be able to use the best population sample for the research, the researchers should be able to make their own selection. Sekaran (2003, P.265) defines population as:

"The entire group of people, events or things of interest that the researcher wishes to investigate"

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For this study, the population was made up of two Libyan groups, the first being drawn from the staff of audit firms and the second being drawn from staff of industrial public companies. Within each group a further selection was made of three categories, these being auditors, managing partners and audit supervisors in the case of audit firms, and in the case of public companies, internal auditors, financial managers and accounts managers. These specific groups were chosen since earlier researches had identified that these were the most appropriate groups to use for a study of auditor independence, since their perceptions of auditor independence were highly relevant and worth consideration. These two groups are comprised of individuals who all have professional qualifications and a high degree of training and were therefore able to make informed observations that were pertinent to this area of study. The following gives the reasons why these groups have been chosen as targets.

Audit firms: who belong to the Libyan Accountants and Auditors Association (LAAA), have the right to practise as auditors and accountants, particularly, those who are registered with the General People's Committee and therefore fall under the People’s control, these firms were chosen because they are employed by the government to audit the financial statements of its corporations . In this study is to meet its objective of making an examination of a number of factors that impact on perceptions of auditor independence, it is vital to be aware of audit firms’ own perceptions of themselves in relation to each of the selected variables which may have an effect on auditor independence

Industrial public companies**:** The choice was made of Industrial public companies because they have a wide experience of dealing with auditing firms and are the longest established and biggest firms dealing with the Libyan audit market, and therefore will hold opinions relating to auditor independence since they will have contracts with external auditors who will be responsible for the auditing of their financial statements. It is therefore of significant importance to know how the staff who are part of these companies, such as internal auditors, financial managers and account managers, perceive the external auditors’

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independence, particular, these three classes were chosen because they have direct connection with the external auditors. The Libyan government currently owns about 121 industrial public companies .

3. The process of sampling

Once the population to be used for this study had been defined, a section of that population that could be seen as representative of the whole had to be selected, this process being known as sampling. Sekaran (2003, P.266) defined sampling as:

"The process of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible for us to generalise such properties or characteristics to the population elements".

Samples are used for the collection of data, rather than an entire population, because it is more manageable in terms of cost and the use of various other resources, in particular where there are a number of elements involved and they are geographically wide-spread. It is important to choose the right technique for sampling from among the range of methods that exist. Commenting on this, Collis & Hussey, (2003) suggest that what makes a representative and good sample is one where the results that are collected from the sample can be relied upon to apply to the population as a whole. They also state that a good sample must be:

1- chosen at random meaning that each member within the population stands a chance of being chosen;
2- of a sufficient size to enable it to meet the needs of the investigation;
3- an unbiased sample.

Sekaran (2003) maintains that there are two main ways in which a sample may be designed. The first is probability sampling which allows for each element of a population to have a chance which is known and equal of being a selected subject, and the

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second is non-probability where those potentially taking part do not have a known or predetermined chance of selection. In this study probability sampling was used in order for subjects from each of the target groups, that is the staff of audit firms and the staff of public companies, to be selected. The use of a random sampling method ensures that that there is an equal probability of each person in the targeted class being selected as part of the sample. This method of sampling also makes use of non-replacement sampling so that there is no chance of choosing a specific respondent more than once. The reasons for opting to use this method are firstly that it offers greater generalisability and the sample that is most representative, and second it helps to eliminate bias which means that it is possible to make an estimation of possible sampling errors (Sekaran, 2003). Since Tripoli, the capital of Libya, Benghazi, Mosratah and Al-Zawiah are the cities where most of the financial and commercial activities of Libya take place (Khorwatt, 2006; Mahmud, 1997), these were the locations where sampling dealing with the selection of subjects from the two targeted groups took place. This was for the following reasons:

1- in excess of 80% of those audit firms registered with the General People's Committee for the People’s control and inspection are located in these cities;

2- most of the economic and business activity take place here.

3- and these four cities have more than 85% of the industrial public companies in Libya.

Saunders et al (2007) maintain that in order to have a good likelihood of obtaining a sampling distribution that is close to the norm, the sample size needs to be not less than 30%. They also make the point that where a sample is of a large absolute size there is the likelihood that it will better represent the population from which it is drawn than would be the case with a smaller sample. However, Cohen & Manion (1980) take the view that it is not possible to set down an exact number or percentage that needs to be used by all studies. It has been suggested by some

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authors that there are a number of considerations that need to be taken into account of when deciding on the size of the sample that is to be selected, such as the nature of the statistical analysis that is to be used, and how much variability is expected within the sample and the results; these considerations should be based on experience, the conventions that exist in a particular area of research in relation to what is considered an appropriate sample size, as well as the size of the whole population and issues of time and costs (Collis & Hussey, 2003; Saunders et al 2007).

After due consideration being given to the issues discussed above relating to the size of the sample which, in this case, will receive questionnaires, the size of the sample to be taken from each targeted population was decided to be more than 50% of the population as follows; the first segment of the questionnaire sample involved 67 public companies and 137 audit firms working in Libya. The questionnaire was given to three different classes of public company respondents, namely, internal auditors, financial managers and accounts managers; while it was also given to three different classes of audit firm respondents, namely, managing partners, audit supervisors and auditors. The total number of questionnaires distributed to the public companies was 201: 67 questionnaires of each class in the public companies mentioned above. The total number of questionnaires distributed to audit firms working in Libya was 411; 137 questionnaires to people in each position in the audit firms listed above. On the one hand, on the demand side, the three classes in public companies were chosen because they were leaders in their company's business activities and, hence, needed a monitoring mechanism to report on their performance (Jensen and Meckling 1976). On the supply side, three classes of audit firms were considered because they were the main subjects in the issue of interest, supplying the documentation and/or information to the shareholders to evaluate for credibility (Humphrey 1997).

According to Saunders, *et al* (2009) maintains that there are several structures for administering questionnaires: postal questionnaire, the delivery and collection approach, interviewer administered and questionnaire by telephone. In order to receive

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a high level of valid responses in the present case, the delivery and collection method was selected for gathering the data. The researcher distributed the questionnaire to the respondents and collected them again individually. This structure was meant to guarantee an adequate answer rate for the questionnaire survey. In addition, to establish contact for the interview phase later in the study, the delivery and collection method was most appropriate. Furthermore, a postal questionnaire was also sent to respondents located in far-away places outside the chosen cities. To raise the number of responses, the respondents were given the option to send their reply in a reply paid envelope, which was already included in every copy of the questionnaire that was sent out.

In the questionnaire survey, to obtain better responses, a reminder was sent to those respondents who had not yet sent in their questionnaire. This step was taken with due care and diligence, for if the researcher demonstrates inter-personal skills the respondents can become more co-operative. The total number of questionnaires completed and collected from public companies was 89; 28 (31.5%) from the internal auditors, 31 (34.9%) from the financial managers and 30 (33.6%) from the accounts managers, while the total number of questionnaires completed and collected from the audit firms was 192 questionnaires; 46 (26.8%) questionnaires from the managing partners, 52 (25%) questionnaire from the audit supervisors and 94 (48.2%) from the auditors.

5. Results and Discussion

To test the provision of non-audit services, public companies respondents were asked to point out whether they had received NAS from their audit firmand audit firm respondents were asked to point out whether they had supplied NAS to their customers.

Table 1 shows that (34.8%) of public company respondents had not received any type of non-audit services from their audit firm, whereas (65.2%) had received non-audit services from their audit firm. whereas, about (59.9%) of audit firm respondents had

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supplied NAS to their audit clients, while (39.1%) did not supply any type of NAS to their audit clients. The minor inconsistency in these results can be explained by some audit firms being relatively specialised in the provision of NAS as well having a client profile containing some private as opposed to public companies

Table 1: the percentage of Respondents who Received or supplied Non-Audit Services (NAS) in 2007

Public Companies			Audit Firms		
Received (NAS)	Frequency	%	Supplied (NAS)	Frequency	%
Yes	58	65.2	Yes	115	59.9
No	31	34.8	No	75	39.1
Total	89	100	Total	192	100

In the analysis that follows, the 89 Libyan public companies and 192 audit firms that responded to the questionnaire are analysed in terms of (1) the respondents' position and (2) type of audit firm.

5.1) Respondents' Position:

The questionnaire was sent to three different classes of public company respondents: internal auditors, financial managers and accounts managers, and to other three different classes of audit firm respondents: auditors, managing partners, and audit supervisors.

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Researchers such as Humphrey (1997) studied samples of supply side (audit firms staff) as they are the main subjects that provide reports and/or information to stakeholders. In this study we go further classifying respondents according to their positions. Table 2 shows respondents' positions and frequencies.

Table 2: Respondents' Position and frequencies

Public Companies Staff			Audit Firms Staff		
Position	**Frequency**	**%**	**Position**	**Frequency**	**%**
Internal Auditor	28	31.5	Managing Partner	46	26.8
Financial Manager	31	34.9	Audit Supervisor	52	25
Accounts Manager	30	33.6	Auditor	94	48.2
Total	**89**	**100**	**Total**	**192**	**100**

In the public companies there was an even distribution of respondents between, accounts, financial management and audit whilst in the audit firms the hierarchy of responsibility was clearly evident in the data. Given the nature of the sample and on the basis of this data each partner, on average had a span of control of just over three reflecting the relatively small size of audit firms in Libya.

5.2)The Policy of Mandatory Rotation of Audit Firm

To establish the perceptions of the association between the policy of mandatory rotation of audit firm and auditor independence, the

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respondents in public companies and audit firms were asked to indicate on the scale ranging from 1 indicating 'strongly disagree', and 6 indicating 'strongly agree', their views on eight statements presented in Table 3.

Table 3 shows that the majority of public company respondents were disagreed with the statements: Mandatory rotation can harm the competence and independence of the auditor, Mandatory rotation makes the audit market less competitive, Long tenure should only be allowed with large companies and there is negatively associated between mandatory rotation and auditor independence. Meanwhile, the majority of them were agreed with the statements: Long tenure with a client impairs auditor independence, Long tenure with a client leads to lower audit hours by an auditor, Long tenure with a client gives an auditor more experience about the business and accounting system of the client and Policy of mandatory rotation lead to eliminate any relationship between the client and auditor.

In Table 3 and according to the respondents' responses of audit firm, the majority of them were agreed with the statements: Policy of mandatory rotation lead to eliminate any relationship between the client and auditor, Long tenure with a client leads to lower audit hours by an auditor, Long tenure with a client impairs auditor independence and Long tenure with a client gives an auditor more experience about the business and accounting system of the client

Whereas, the majority of audit firm respondents were disagreed with the statements: There is negatively associated between mandatory rotation and auditor independence,Long tenure should only be allowed with large companies, Mandatory rotation can harm the competence and independence of the auditor and Mandatory rotation makes the audit market less competitive.

From the evaluation of the respondents' responses on both sides (public companies and audit firms,), they prefer the policy of mandatory rotation. This result is consistent with the results of previous studies such as Hoyle (1978) and Brody & Moscove

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(1998), who believed that by implementing a mandatory rotation, a new approach would be brought into each company audit, as independent audit firms are likely to become lazy in their work when they audit the same client for long period. The auditor does not become economically dependent on any one customer either. Dopuch et al. (2001) pointed out that 'rotation requirements decreased auditor-subjects' willingness to issue biased reports', and that also can increase auditor independence.

From the above analysis, it is clear that the responses from public companies and audit firms are not completely uniform; therefore, further analysis was done to isolate the determinants of responses by public company and audit firm respondents. The further analysis was by (1) position of respondents and (2) type of audit firm *(Local Audit Firms, Local affiliated to Arabic and International audit firm, and Local affiliated to one of the big audit firms)* using the Kruskal Wallis test. In Table 6.13 the differences of responses between the public company and audit firm respondents revealed two significant differences at the 1% level of significance, as measured by the Mann Whitney U test.

The level of agreement with the statement *Long tenure with a client impairs auditor independence,* was significantly higher in public company respondents than audit firm respondents at the 1% level of significance. Meanwhile, the level of agreement with the statement *Long tenure should only be allowed with large companies*, was significantly lower in public company respondents than audit firm respondents at the 1% level of significance. These results were unexpected since the public companies in Libya are allowed to engage an external auditor for long period. Moreover, neither public company nor audit firm respondents were in favour of large companies being allowed to engage an external auditor for a long period of tenure. This finding is inconsistent with the argument of Hoyle (1978) and Summer (1998) that the complexity and size of the majority of new industries simply do not permit short audit engagements, as it takes any external auditor some time to become acquainted with a corporation business system and audit requests. The cause behind that possibly lies in the nature of audit environment in

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Libya, where there are not many big and complex corporations; therefore, generalization of the notion may have a negative influence on auditor independence, and also on the level of audit quality.

Table 3: Respondents' Perceptions of the Relationship between the Mandatory Rotation of audit Firm and Auditor Independence

Statement	Audit Firms (N=192)									Companies Staff (N=89)									Sig
	SD %	QSD %	SD%	A%	QSA %	SA%	Standard Deviatio	Median	Mean	SD %	QSD %	SD%	A%	QSA %	SA%	Standard Deviatio	Median	Mean	
1. Mandatory rotation can harm the competence and independence of the auditor	2.1	19.3	42.2	17.2	14.6	4.7	1.150	3.00	3.37	4.5	25.8	31.5	27.0	6.7	4.5	1.167	3.00	3.19	
2. Mandatory rotation makes the audit market less competitive	3.1	12.5	44.8	20.8	17.2	1.6	1.060	3.00	3.41	6.7	23.6	31.5	11.2	20.2	6.7	1.391	3.00	3.35	
3. Long tenure with a client impairs auditor independence	1.0	18.2	27.6	19.8	26.6	6.8	1.253	4.00	3.73	6.7	10.1	10.1	32.6	19.1	21.3	1.473	4.00	4.11	*
4. Long tenure with a client gives an auditor more experience about the business and accounting system of the client	7.3	18.2	22.9	26.0	17.2	8.3	1.380	4.00	3.53	10.1	15.7	21.3	31.5	19.1	2.2	1.303	4.00	3.40	
5. Long tenure with a client leads to lower audit hours by an auditor	2.6	7.8	31.2	28.1	27.1	3.1	1.103	4.00	3.79	7.9	15.7	7.9	25.8	41.6	1.1	1.364	4.00	3.81	
6. Long tenure should only be allowed with large companies	11.5	20.8	26.6	19.8	15.6	5.7	1.398	3.00	3.24	13.5	28.1	33.7	14.6	9.0	1.1	1.186	3.00	2.18	*
7. policy of mandatory rotation lead to eliminate any relationship between the client and auditor	4.7	5.2	20.8	40.6	18.8	9.9	1.194	4.00	3.93	6.7	16.9	25.8	16.9	25.8	7.9	1.410	4.00	3.62	
8. There is negatively associated between mandatory rotation and auditor independence.	.5	14.6	44.8	22.9	13.5	3.6	1.032	3.00	3.45	2.2	19.1	32.6	30.3	13.5	2.2	1.084	3.00	3.40	

Note: * Indicates that the distribution of responses between the categories is significantly different at the 1% level (Mann Whitney U test).

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As previously the intensity of belief was examined by comparison of the mean and median. Only is question 7 was there an out of range response of public companies staff by indicating to their dissatisfaction with that large companies being allowed to engage an external auditor for a long period of tenure. The reason behind that probably lies in the nature of audit environment in Libya, where there are not many big and complex corporations; therefore, generalization of the notion may have a negative influence on auditor independence, and also on the level of audit quality

5.3) The Respondents' Perceptions of the Relationship between the Policy of Mandatory Rotation of Audit Firms and Auditor Independence Analysed by Position

The table 4 indicates that analysis by position has given no significant differences in the distribution of public company and audit firm respondents, responses at either the 1% level or 5% level of significance.

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Table 4: The Respondents' Perceptions of the Relationship between the Mandatory Rotation of Audit Firms and Auditor Independence Analysed by position.

Statement	Audit Firms staff									Public Companies Staff									S
	Managing Partner N=46			Audit Supervisor N=52			Auditor N=94			Internal Auditor N=28			Financial Manager N=31			Accounts Manager N=30			
	S.D	Median	Mean	S.D	Median	Mean	S.D	Median	Mean	S.D	Median	Mean	S.D	Median	Mean	S.D	Median	Mean	
1. Mandatory rotation can harm the competence and independence of the auditor.	1.326	3.00	3.41	1.092	3.00	3.56	1.084	3.00	3.24	1.016	3.00	3.07	1.460	3.00	3.26	0.971	3.00	3.23	
2. Mandatory rotation makes the audit market less competitive	0.889	3.00	3.24	1.019	3.00	3.46	1.152	3.00	3.47	1.297	3.00	3.14	1.458	3.00	3.52	1.426	3.00	3.37	
3. Long tenure with a client impairs auditor independence	1.128	4.00	3.87	1.300	4.00	3.73	1.291	3.00	3.66	1.343	4.00	3.89	1.542	5.00	4.39	1.520	4.00	4.03	
4. Long tenure with a client gives an auditor more experience about the business and accounting system of the client	1.490	4.00	3.85	1.335	3.50	3.54	1.335	3.00	3.36	1.393	3.00	3.36	1.482	3.00	3.06	0.887	4.00	3.80	
5. Long tenure with a client leads to lower audit hours by an auditor	1.021	4.00	3.74	1.125	4.00	3.60	1.123	4.00	3.91	1.201	4.00	4.04	1.400	4.00	3.68	1.484	4.00	3.73	
6. Long tenure should only be allowed with large companies	1.573	3.00	3.28	1.362	3.00	3.21	1.342	3.00	3.24	1.170	3.00	3.69	1.189	3.00	3.71	1.223	4.00	3.77	
7. policy of mandatory rotation lead to eliminate any relationship between the client and auditor	1.220	4.00	3.61	1.092	4.00	3.94	1.215	4.00	4.09	1.427	3.00	3.46	1.359	4.00	3.77	1.476	4.00	3.60	
8. There is negatively associated between mandatory rotation and auditor independence.	0.900	3.00	3.35	0.886	3.00	3.19	1.133	3.00	3.65	1.290	4.00	3.54	0.749	3.00	3.19	1.167	3.00	3.50	
The distribution of responses between the categories indicates that there is no significantly different found at the 1% and 5% levels respectively (using Krushal Wallis test)																			

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5.4)The Respondents' Perceptions of the Relationship between the Policy of Mandatory Rotation of Audit Firms and Auditor Independence Analysed by the type of audit Firm.

(Local Audit Firms, Local audit firm affiliated to Arabic and International audit firm, and Local audit firm affiliated to one of the big audit firms)
Table 5 shows the analysis by kinds of audit firm as indicated to three significant differences between the responses of the three groups of audit firms at the 1% and 5% levels of significance, respectively, as measured by the Kruskal Wallis test.
The two interesting differences at the level 1% are in the responses to the statements: Long tenure with a client gives an auditor more experience about the business and accounting system of the client, and Policy of mandatory rotation leads to eliminate any relationship between the client and auditor, the level of agreement with these statements was significantly higher by local audit firms affiliated to one of the big audit firm respondents than it was by two other types of audit firms respondents, (local audit firms and local audit firms affiliated to Arabic and international audit firms). This finding indicates that due to the situation in audit market in Libya there is a preference for the local audit firms affiliated to foreign and the big fouraudit firms.
A further significant difference at the level 5% was with the statement Long tenure should only be allowed with large companies,the levelof agreement with that statement was significantly higher for local audit firms affiliated to one of the big four audit firm respondents than it was for the local audit firm affiliated to Arabic and international audit firms and local audit firms. This finding indicates that due to the situation in audit market in Libya there is a preference for the local audit firms affiliated to foreign and local audit firms affiliated to one of the big four audit firms. Moreover, they have more expertise than local audit firms, and they prefer long periods with clients rather than mandatory rotation, for several reasons, such as that long tenure gives the auditor the opportunity to accumulate more knowledge of client business, and gives the auditor more experience about the accounting framework of the client. This is consistent with Hoyle (1978) who pointed out that the size and complexity of the majority of current businesses simply do not permit short audit engagements since it takes any external auditor

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some time to become acquainted with a corporation business system and audit requests.

Table 5 : Respondents' Perceptions of the Relationship between Mandatory Rotation of audit firm and Auditor Independence Analyzed by Type of Audit firm

Statement	Local audit firms (N=115)			Local audit firms affiliated to an Arabic and International audit firms (N=58)			Local audit firms affiliated to one of the Big Four audit firms (N=19)			Sig
	Standard Deviation	Median	Mean	Standard Deviation	Median	Mean	Standard Deviation	Median	Mean	
1. Mandatory rotation can harm the competence and independence of the auditor	1.224	3.00	3.50	0.914	3.00	3.28	1.243	3.00	2.89	
2.Mandatory rotation makes the audit market less competitive	1.055	3.00	3.37	1.094	3.00	3.57	0.965	3.00	3.16	
3. Long tenure with a client impair auditor independence	1.244	4.00	3.70	1.294	4.00	3.90	1.170	3.00	3.42	
4. Long tenure with a client gives an auditor more experience about the business and accounting system of the client	1.332	3.00	3.30	1.364	4.00	3.71	1.416	5.00	4.32	**
5. Long tenure with a client leads to lower audit hours by an auditor.	0.990	4.00	3.86	1.083	4.00	3.81	1.628	3.00	3.26	
6. Long tenure should only be allowed with large companies	1.248	3.00	3.25	1.486	3.00	3.97	1.715	4.00	4.05	*
7. policy of mandatory rotation lead to eliminate any relationship between the client and auditor	1.181	4.00	3.72	1.052	4.00	4.06	1.437	4.00	4.21	**
8. There is negatively associated between mandatory rotation and auditor independence	1.037	3.00	3.46	1.080	3.00	3.47	0.895	3.00	3.37	

Note: *, ** Indicates that the distribution of responses between the categories is significantly different at the 1% and 5% level, respectively (using Kruskal Wallis test).

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5. Summary and Review of Findings

According to the perceptions of the association between the policy of mandatory rotation of audit firms and auditor independence, the respondent sides believed that long tenure with a client impairs auditor independence. More particularly, the respondents of both main groups perceived mandatory rotation of external auditors to be beneficial for enhancing the level of auditor independence. On the other hand, public companies were in favour for permitting only large companies to engage external auditors for long periods, as audit firms require plenty of time to gain a clear picture of the accounting system of large companies.

This study has made a contribution to the literature by indicating the importance of adopting the policy of mandatory rotation in the auditing environment in Libya. This enhances the level of auditor independence by terminating any possibility of creating a benefit relationship between the client and audit firm that might influence the level or perception of auditor independence.

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