

## THE IMPACT OF AUDITOR ROTATION ON PUBLIC SECTOR AUDIT QUALITY AND ACCOUNTABILITY

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### **Abstract**

This study aims to analyze the impact of auditor rotation on audit quality and accountability in the public sector through a literature review approach. Auditor rotation is a policy designed to maintain auditor independence and minimize the risk of excessive closeness between the auditor and the audited entity. The research method used is a literature review, examining various scientific sources such as journals, books, and research reports relevant to the topics of auditor rotation, audit quality, and public accountability. The results of the study indicate that auditor rotation has a complex impact on audit quality. On the one hand, auditor rotation can enhance independence and objectivity, potentially improving audit quality and financial reporting transparency. However, on the other hand, auditor rotation can also pose challenges in the form of a loss of auditor-specific knowledge of the audited entity, which in the short term can reduce the efficiency and effectiveness of the audit process. Therefore, auditor rotation needs to be balanced with a sound transition strategy to optimize its benefits to audit quality and accountability.

**Keywords:** Auditor Rotation, Audit Quality, Public Accountability, Auditor Independence, Public Sector

### **INTRODUCTION**

The background to this research, "The Impact of Auditor Rotation on Public Sector Audit Quality and Accountability," stems from the increasing demand for transparency and accountability in public sector financial management. In the context of modern governance, audit quality is a key pillar in ensuring that public resource management is carried out effectively,

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efficiently, and in accordance with applicable regulations. Public sector audits serve not only as a means of verifying financial reports but also as a control mechanism that strengthens public trust in government institutions. Therefore, auditor independence and objectivity are crucial factors in determining the quality of audit results and the resulting level of accountability.

As the complexity of public financial management increases, issues related to auditor independence are increasingly becoming a concern. One frequently emerging issue is the potential for long-term relationships between auditors and audited entities, which can create the risk of excessive familiarity (Dayanandan & Kuntluru, 2023). This situation has the potential to reduce the auditor's professional skepticism, thus impacting audit quality. In the public sector, this situation is even more sensitive because it directly relates to the interests of the wider public. When auditors are no longer able to maintain their independence, audit results can potentially be biased and not reflect the true situation, which can ultimately undermine public accountability.

In response to this problem, the concept of auditor rotation was introduced as a mechanism to maintain independence and improve audit quality. Auditor rotation refers to changing auditors or audit teams within a specified period to avoid prolonged relationships between auditors and the audited entity. In practice, auditor rotation policies have been implemented in various countries, both in the private and public sectors, with the aim of minimizing the risk of conflicts of interest and enhancing auditor objectivity (Deliu & Olariu, 2023a). In the public sector, auditor rotation is expected to strengthen the oversight function and increase the credibility of audit reports in the eyes of stakeholders.

However, the implementation of auditor rotation does not always have a uniform impact on audit quality. On the one hand, auditor rotation can enhance independence and bring new perspectives to the audit process, enabling auditors to identify previously overlooked risks and findings. On the other hand, auditor rotation can also pose challenges, such as the loss of institutional knowledge and in-depth understanding of the audited entity. New auditors need time to understand existing systems, processes, and risks, which can impact audit effectiveness and efficiency early in the assignment (Salman & Setyaningrum, 2023a). Thus, there is a trade-off between increased independence and potential decreased efficiency that needs to be carefully considered.

In the context of public accountability, audit quality plays a significant role. High-quality audits can provide stakeholders with reasonable assurance

that government financial reports are presented fairly and free from material misstatement. Furthermore, audits also serve as a tool to detect and prevent irregularities, such as corruption, collusion, and nepotism (Suhayati & Dilyard, 2024a). Therefore, policies that can improve audit quality, including auditor rotation, are crucial in strengthening the public accountability system. However, the effectiveness of these policies depends heavily on how they are implemented and the institutional context in each country.

Research on the impact of auditor rotation on audit quality and accountability in the public sector is becoming increasingly relevant given the distinct characteristics of the public and private sectors. The public sector is more complex, with interconnected political, social, and economic interests. Furthermore, the primary objective of the public sector is not profit, but rather public service (Tessema & Abou-El-Sood, 2023). This means that indicators of audit success in the public sector are not limited to financial aspects but also encompass performance and regulatory compliance. Therefore, the impact of auditor rotation in the public sector requires a more in-depth study to understand how this policy can contribute to improving audit quality and overall accountability.

Furthermore, previous literature has shown mixed results regarding the impact of auditor rotation. Some studies find that auditor rotation can improve independence and audit quality, while others suggest that excessive rotation can actually decrease audit quality due to the auditor's lack of understanding of the audited entity. These differing findings indicate that the relationship between auditor rotation and audit quality is complex and influenced by various factors, such as rotation duration, auditor competency level, and the regulatory environment. In the public sector context, these factors become even more important due to the political and bureaucratic pressures that can influence the audit process.

Considering these various factors, this study is crucial for comprehensively examining how auditor rotation affects audit quality and accountability in the public sector. This research is expected to provide theoretical contributions by enriching the literature on public sector audits, as well as practical contributions for policymakers in designing effective auditor rotation policies. Furthermore, this study is also expected to provide recommendations that can help improve audit quality and strengthen public accountability, ultimately increasing public trust in government institutions.

## **RESEARCH METHOD**

This study uses a qualitative approach with a literature review method to analyze the impact of auditor rotation on audit quality and accountability in the public sector. The data used is secondary data obtained from various scientific sources, such as indexed journals, academic books, official agency reports, and related publications relevant to the research topic. The data collection process was carried out systematically by searching academic databases using appropriate keywords, then selecting based on inclusion criteria such as topic relevance, source credibility, and the most recent publication year to ensure the validity of the information used.

Next, the data analysis technique was conducted using a content analysis method, in which the researcher reviewed, compared, and synthesized various findings from the selected literature. This process aims to identify patterns, relationships, and research gaps related to the effect of auditor rotation on increasing independence, audit quality, and accountability levels in the public sector. The results of the analysis were then interpreted descriptively to generate a comprehensive understanding and provide a conceptual contribution to the development of research in the field of public sector auditing.

## **RESULT AND DISCUSSION**

### **The Impact of Auditor Rotation on the Quality of Audit Findings**

Auditor rotation is a policy designed to maintain auditor independence and objectivity in performing audit duties (Suhayati & Dilyard, 2024b). In both the public and private sectors, this policy is believed to reduce the potential for excessive familiarity between the auditor and the audited entity, which often becomes a source of bias in the audit process. The impact of auditor rotation on the quality of audit findings is an important issue to study, as the quality of audit findings is a key indicator of the audit function's effectiveness in uncovering irregularities, weaknesses in internal control systems, and risks that could impact organizational accountability.

Conceptually, auditor rotation can improve the quality of audit findings through an independence perspective. New auditors on an assignment tend to have a fresher perspective and are less influenced by historical relationships with clients. This allows auditors to more critically evaluate financial statements and existing internal control systems (Salman & Setyaningrum, 2023b). Thus, new auditors have a greater opportunity to identify findings that previous auditors may have previously missed due to cognitive biases or established

work habits. In this regard, auditor rotation serves as a professional refresher mechanism that encourages increased audit analytical acumen.

However, this positive impact is not without challenges that arise in the initial phase of a new auditor's assignment. Newly rotated auditors typically face limited understanding of organizational characteristics, operational systems, and the specific risks inherent in the audited entity. This lack of contextual knowledge can hinder the effectiveness of the audit process in the initial stages, potentially reducing the quality of audit findings, particularly in terms of analytical depth. Auditors need time to understand business processes, the control environment, and complex transaction patterns (Tessema & Abou-El-Sood, 2022a). Therefore, in the short term, auditor rotation can lead to decreased efficiency and accuracy in identifying audit findings.

Furthermore, the quality of audit findings is determined not only by independence but also by the auditor's competence and experience. Auditor rotation that is not balanced with the readiness of competent human resources can pose a risk of declining audit quality. New auditors may have a different level of experience than previous auditors, affecting their ability to detect material errors or fraud (Kamarudin et al., 2022). This suggests that auditor rotation needs to be strategically designed, taking competency into account, focusing not only on independence but also on the sustainability of audit quality.

Furthermore, auditor rotation can also impact the quality of audit findings through the dynamics of the relationship between auditor and auditee. New auditors tend to be more cautious in their interactions with auditees, which can enhance professionalism in the audit process. However, at the same time, the lack of a well-established working relationship can hinder access to the information necessary to comprehensively identify findings. In some cases, auditees may not be fully open with the new auditor, affecting the completeness of the data obtained. This situation suggests a trade-off between independence and effective communication in the audit process (Salehi et al., 2022a).

In the long term, auditor rotation has the potential to positively impact the quality of audit findings if implemented consistently and supported by an adequate system. Periodic rotation can create an organizational learning cycle, where each auditor brings a different approach and methodology. This can enrich the audit process and increase the likelihood of uncovering various types of findings, both administrative and related to strategic risks. Thus, auditor rotation can contribute to the continuous improvement of audit quality.

Furthermore, the role of technology in the audit process is also an important factor that can moderate the impact of auditor rotation on the quality of audit findings. The use of technology-based audit systems, such as data analytics and audit tools, can help new auditors understand data and transaction patterns more quickly. Technology enables auditors to conduct more in-depth analysis even with limited experience with the audited entity. With technological support, the negative impact of auditor rotation in the initial stages can be minimized, thereby maintaining the quality of audit findings.

### **The Impact of Auditor Rotation on the Accountability of Public Institutions**

The impact of auditor rotation on the accountability of public institutions is a persistent concern in the public sector audit literature, particularly in the context of efforts to increase transparency, integrity, and public trust in state financial management. Auditor rotation, which essentially involves changing auditors within a specified period, is designed to minimize the risk of an overly close relationship between the auditor and the audited entity. This excessive closeness has the potential to create bias, conflicts of interest, and diminish the auditor's independence in providing audit opinions. In the context of public institutions, auditor independence is crucial because audit results not only impact internal decision-making but also influence public perception of government performance and the institution's legitimacy (Deliu & Olariu, 2023b).

Conceptually, auditor rotation can enhance the accountability of public institutions by increasing objectivity in the audit process. New auditors tend to bring a fresh perspective and a more critical approach to the internal control system and audited financial statements. This allows for the identification of potential errors, irregularities, or inefficient practices that may have previously been overlooked by the previous auditor (Setyaningrum et al., 2025). Thus, auditor rotation can strengthen external oversight and encourage public institutions to be more prudent in managing resources, due to the expectation that the new auditor will conduct more independent evaluations and be unaffected by historical relationships.

Furthermore, auditor rotation also contributes to strengthening the checks and balances mechanism in public sector governance (Steccolini, 2025). In practice, accountability is not only related to the presentation of reliable financial reports, but also encompasses compliance with regulations, efficient budget use, and the achievement of public program objectives. Auditors who change periodically have a greater opportunity to reexamine the assumptions

used by the previous auditor and evaluate whether audit recommendations have been adequately followed up. This creates positive pressure on public institution management to improve reporting quality and address identified weaknesses, thereby indirectly enhancing institutional accountability.

However, the impact of auditor rotation on accountability is not always linear and without consequences. One major challenge that arises is the potential for decreased audit effectiveness in the initial stages of an auditor change. New auditors need time to understand the organizational characteristics, internal control systems, and operational complexities of the public institution being audited. This learning process can reduce audit efficiency in the short term and potentially lead to important information not being optimally detected. In this context, excessively frequent auditor rotation can actually weaken audit quality, ultimately negatively impacting the accountability of public institutions (Salehi et al., 2022b).

Furthermore, there are cost implications that need to be considered. Auditor rotation can increase audit costs due to the need for transition processes, re-collection of information, and adjustments to audit methodology by the new auditor. In a public sector environment often faced with budget constraints, these increased costs can be an additional burden that needs to be managed wisely. Therefore, auditor rotation policies must be designed by considering the balance between the benefits of increased independence and the potential costs and risks involved.

Furthermore, the effectiveness of auditor rotation in enhancing accountability is also significantly influenced by institutional and regulatory factors. If internal oversight systems are weak or follow-up on audit findings is inconsistent, auditor rotation will not have a significant impact on improving accountability. Conversely, in an environment with a strong commitment to transparency and good governance, auditor rotation can be an effective instrument for strengthening the integrity of the audit system. This shows that auditor rotation is not a single solution, but rather part of a broader governance ecosystem that includes the role of oversight institutions, strict regulations, and an organizational culture that upholds accountability (Parker & Favotto, 2026).

More broadly, auditor rotation also impacts public trust. Public institutions that implement auditor rotation transparently and consistently tend to be perceived as more accountable because they demonstrate a commitment to maintaining the independence of the audit process. Public trust is a crucial asset for the government, particularly in the context of state financial management involving public funds. Increased public trust strengthens the

legitimacy of government policies and programs, thus supporting the effectiveness of development implementation.

### **The Role of Auditor Rotation in Safeguarding the Integrity of Public Sector Financial Statements**

The role of auditor rotation in maintaining the integrity of public sector financial reports has become an increasingly relevant issue with increasing demands for transparency and accountability in state financial management (Osamuede, 2022). Financial report integrity is determined not only by compliance with accounting standards but also by the auditor's independence and objectivity in conducting audits. In this context, auditor rotation is seen as an institutional mechanism capable of mitigating the risk of excessive closeness between the auditor and the audited entity, which has the potential to reduce audit quality (Al Astal et al., 2024). When the working relationship lasts too long, auditors can experience a decline in professional skepticism, making them more tolerant of irregularities or errors in the financial statements.

Auditor rotation serves as an instrument to maintain professional distance between auditor and auditee. By periodically changing auditors, public sector organizations can gain fresh perspectives in the audit process. New auditors generally bring different approaches, experiences, and perspectives to identifying risks and evaluating internal control systems. This allows for the detection of weaknesses that may have previously been overlooked by the previous auditor. In the long term, this condition contributes to improving the quality of financial reporting because the potential bias caused by long-term relationships can be minimized (Antipova, 2022).

Furthermore, auditor rotation also plays a role in strengthening the public's perception of independence. In the public sector, public trust in financial reports is crucial because these reports serve as the basis for decision-making and government performance assessments. When auditors are changed regularly, the public tends to perceive the audit process as being more objective and unaffected by vested interests. This perception is important because the integrity of financial reports is not only substantive but also related to the social legitimacy accorded to public institutions by the public (Tessema & Abou-El-Sood, 2022b).

However, implementing auditor rotation is not without challenges. One issue that often arises is the potential for decreased efficiency at the start of a new auditor's assignment. New auditors need time to understand the organization's characteristics, internal control systems, and the complexity of

existing transactions. This learning process can lead to increased audit costs and the risk of errors in the initial stages. However, in the long term, the benefits of increased independence and audit quality are often considered to outweigh these transition costs.

On the other hand, auditor rotation also encourages improvements in auditor competency. Through rotation, auditors are expected to have high adaptability and a broad understanding of various types of public sector organizations. This indirectly enhances auditor professionalism as they are required to continuously update their knowledge and skills. In this context, rotation serves not only as a control mechanism but also as a means of developing human resource capacity within the audit profession (Tessema & Abou-El-Sood, 2022b).

Furthermore, auditor rotation can strengthen governance systems in public sector organizations. Good governance requires an effective and independent oversight mechanism. Auditor rotation can minimize the risk of collusion between auditors and management, enabling optimal oversight. This improves the quality of internal control and compliance with applicable regulations. Ultimately, these conditions are reflected in financial reports that are more reliable, transparent, and free from material misstatement (Hubais et al., 2023).

Within the regulatory framework, auditor rotation policies are often established to ensure a balance between independence and efficiency. Determining the appropriate rotation period is key to maximizing the benefits of rotation without significantly disrupting the audit process. If the rotation period is too short, auditors will not have sufficient time to gain a deep understanding of the organization. Conversely, if the period is too long, the risk of diminished independence increases. Therefore, rotation policies must be designed proportionately, taking into account the complex and dynamic characteristics of the public sector.

Overall, auditor rotation plays a strategic role in maintaining the integrity of public sector financial reports. By enhancing independence, strengthening objectivity, and updating audit perspectives, auditor rotation can minimize the risk of bias and improve the quality of audit results. Although there are challenges in its implementation, especially related to the efficiency and adaptation process of new auditors, the long-term benefits generated in the form of increased public trust and quality of governance make auditor rotation a relevant and important policy in the public sector financial oversight system.

## CONCLUSION

This study concludes that auditor rotation plays a crucial role in improving audit quality in the public sector, particularly by strengthening auditor independence and objectivity. By limiting the term of assignment, auditors tend to avoid overly close relationships with the audited entity, thereby minimizing the risk of bias and conflicts of interest. This positively impacts the accuracy of assessments, the quality of audit findings, and the reliability of the resulting reports. However, the effectiveness of auditor rotation is also significantly influenced by institutional readiness, the competence of the replacement auditor, and a well-functioning transition mechanism to avoid disrupting the continuity of the audit process.

On the other hand, auditor rotation also contributes to increased accountability in public sector management. The presence of a new auditor brings a fresh perspective to the evaluation of control systems and organizational performance, making potential irregularities more easily detected. However, this study also emphasizes that auditor rotation is not the sole determinant of accountability; it must be supported by a strong oversight system, a transparent organizational culture, and a commitment to good governance. Therefore, auditor rotation policies need to be implemented in a balanced manner, considering both the benefits and challenges, to achieve optimal impact on audit quality and public sector accountability.

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