

Informational Relevance of Audit Rotation: Evidence from Brazil

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Abstract

Objective: This study investigates whether audit rotation provides incremental informational content for participants in the Brazilian capital market.

Method: The value relevance model of Collins et al. (1997) is applied to a sample of 402 companies (2,680 observations) listed on the B3 between 2010 and 2021. The rotation variables were obtained from the firms' Reference Forms and classified by type (audit firm or audit partner), nature (voluntary or mandatory), and audit firm size (Big 4 or non-Big 4).

Results: The results show asymmetrical capital market reactions to audit rotation information. Rotation of signatory partners is positively value relevant, whereas mandatory audit rotation is not. The findings also indicate that replacements from non-Big 4 to Big 4 firms are perceived as value relevant, while any change to a non-Big 4 firm leads to negative investor responses.

Contributions: The study contributes by demonstrating that audit firm rotation constitutes a relevant accounting element for value creation in the market, as it functions as an informational mechanism that signals to investors the reliability of the reported accounting figures and the likelihood of detecting and reporting deviations in accounting practices.

Keywords: Accounting Information, Independent Audit, Value Relevance.

1 Introduction

This study investigates whether audit rotation provides incremental informational value to the Brazilian capital market by capturing potential changes in investors' perceptions of audit quality. It evaluates the effects of three dimensions of rotation—type of change (audit firm or audit partner), nature (voluntary or mandatory), and firm size (Big 4 or non-Big 4)—on stock prices. The premise is that replacing the audit firm or the lead audit partner may influence how investors interpret the credibility and quality of reported accounting numbers, which in turn can affect the firm's valuation.

The literature suggests a trade-off between independence and competence associated with audit rotation (Raiborn et al., 2006). Replacing the auditor reduces excessive familiarity between the auditor and the client, reinforcing professional skepticism; however, this change can compromise the accumulation of client-specific knowledge about the company's internal systems and controls. The fresh eyes effect reinforces this perspective, indicating that the entry of a new auditor—whether the firm or the partner—increases the probability of identifying misstatements in the financial statements (Krishnan & Zhang, 2019).

Independently prepared and technically competent audit reports increase the reliability of financial statements (Ryan et al., 2001). Consequently, investors tend to evaluate companies that disclose higher-quality information more positively (Teoh & Wong, 2003). Thus, changes in the balance between independence and competence resulting from audit rotation may influence stock pricing. However, empirical evidence on this effect remains inconclusive (Cameran et al., 2016; Ghosh & Moon, 2005; Chi et al., 2009; Reid & Carcello, 2017; Krishnan & Zhang, 2019; Horton et al., 2021). A recent meta-analysis of 128 studies reinforces this lack of consensus, particularly in emerging markets (Florio, 2024). This dispersion of findings poses challenges for regulatory policymaking and highlights the importance of further research in the Brazilian context, a key emerging market.

In summary, the effect of rotation on audit quality varies according to the dimension analyzed. Replacing only the signatory partner tends to preserve the knowledge accumulated about the audited company while renewing independence, which may lead to higher audit quality (Bedard & Johnstone, 2010). On the other hand, changing the audit firm entails a greater loss of client-specific competence, leading the market to weigh the gains in independence against the adaptation costs and the learning curve, often resulting in a more ambiguous relationship (Carcello & Nagy, 2004).

Regarding the reasons for rotation, Chi et al. (2009) suggest that voluntary changes signal concern about audit quality, while mandatory rotations do not necessarily result in benefits perceived by the market. Furthermore, Krishnan (2003) indicates that migrations to Big 4 firms tend to strengthen the audited company's reputation and reduce perceived risk, while replacements with smaller firms may be interpreted as a deterioration in quality. Therefore, these mechanisms support the expectation that different forms of rotation affect audit quality and, through their informational relevance, influence stock pricing.

Related studies have used the earnings response coefficient (ERC) or cumulative abnormal returns (CAR) to measure investor perception (Ghosh & Moon, 2005; Chi et al., 2009; Cameran et al., 2016; Reid & Carcello, 2017; Krishnan & Zhang, 2019; Horton et al., 2021; Cimini et al., 2022). This study adopts the value relevance model proposed by Collins et al. (1997), which is considered appropriate for capturing the net effects perceived by investors (DeFond & Zhang, 2014). It also differs from the prevailing Brazilian literature by directly examining the market reaction through stock prices rather than focusing solely on audit reports.

In Brazil, Securities and Exchange Commission (CVM) Instruction No. 308/1999 establishes a limit of five consecutive fiscal years for the provision of audit services by the same firm, extendable for an additional five years when a statutory audit committee is in place. This horizon interacts with the prior duration of the auditor-client relationship (mandate), a variable associated with market value in international studies (Carcello & Nagy, 2004). Santos-Jaén et al. (2025) demonstrate that the interaction between rotation and mandate influences investors' perceptions of the credibility of financial statements.

Unlike other countries, the Brazilian regulatory environment mandates the rotation of both the audit firm and the audit partner every five years, making it a unique case for empirical analysis. While in markets such as the United States, China, South Korea, and Australia rotation applies only to the responsible partner, in the European Union firm rotation is required only after longer periods, generally exceeding ten years. Thus, Brazil constitutes a particularly rigorous institutional context where the effects of rotation on audit quality and investor perception may be more pronounced (Silvestre et al., 2018; Sousa et al., 2021; Sousa et al., 2022).

Furthermore, according to Bell et al. (2015), periodic rotation acts as a risk mitigation mechanism against excessive non-audit services and prolonged auditor-client relationships. In this sense, the Brazilian environment represents fertile ground for investigating whether rotation contributes to restoring perceived independence and enhancing the credibility of financial statements.

Cases of corporate fraud undetected by external auditors—including firms belonging to the Big 4—have gained prominence in the global capital market, highlighting that, despite their reputation, these firms are also exposed to failures and high risks (Gul et al., 2006). In this context, this study proposes that audit rotation can be interpreted by investors as a signal, depending on whether they perceive an increase or decrease in the probability of detecting and reporting accounting misstatements. Therefore, this study tests the hypothesis that audit rotation—analyzed from a value relevance perspective—provides incremental informational content to the Brazilian capital market.

The study uses a sample of 402 companies (2,680 observations) listed on the B3 between 2010 and 2021. The results indicate that the replacement of the signatory partner tends to be perceived favorably by investors, while mandatory firm changes do not produce discernible effects in the market. The findings also show that changes to Big 4 firms are associated with greater confidence in accounting information, whereas changes to non-Big 4 firms tend to raise caution among market participants. Overall, the study demonstrates that audit rotation acts as a relevant informational mechanism in the Brazilian context, with effects that vary according to the type of change and the size of the firm, thereby offering theoretical and practical contributions for regulators, managers, and auditors.

2 Literature Review and Hypotheses

2.1 Audit rotation and investors' perceptions

External auditing aims to attest to the conformity of accounting information with prevailing standards (Kueppers & Sullivan, 2010), thereby contributing to the reduction of informational asymmetry between managers and investors and, consequently, mitigating the risks associated with capital allocation (Healy & Palepu, 2001; Lu & Sivaramakrishnan, 2009). Since DeAngelo (1981), audit quality has been modeled based on two dimensions: independence (the probability of reporting violations) and competence (the probability of identifying them). Both attributes influence the value attributed by investors (Chi et al., 2009); therefore, variations in audit quality tend to be reflected in stock prices through value relevance.

Audit rotation pits independence against competence: it reduces familiarity between the auditor and the client, strengthening independence, but it also imposes new learning costs that may compromise accumulated competence (Bedard & Johnstone, 2010; Carcello & Nagy, 2004; Geiger & Raghunandan, 2002). Recent evidence points to the occurrence of the fresh-eyes effect, according to which newly appointed auditors introduce relevant changes to key audit matters (KAMs), indicating an informational benefit resulting from the replacement (Federsel, 2025).

Independence manifests itself both in fact and in appearance (Raiborn et al., 2006). While the former reflects the auditor's mental state, the latter arises from stakeholders' assessments. When the appearance of independence deteriorates, the market responds with reduced confidence in the opinion, lowering the perceived value of the audit service (Martinez & Reis, 2010). Such a loss of credibility can lead auditors to endorse aggressive accounting practices or fail to report material misstatements (Myers et al., 2003).

Although audit rotation reinforces independence, the quality of the audit work can deteriorate as the mandate progresses, due to increased familiarity with the client and a possible reduction in professional skepticism (Arel et al., 2006). This concern led the Public Company Accounting Oversight Board (PCAOB) to issue the new EI 1000 standard in 2024, which strengthens the requirements for integrity and objectivity (PCAOB, 2024). In this context, the extension of the mandate and the deepening of the auditor-client relationship can compromise impartiality, so rotation—of either firm or partner—is recommended as a mechanism to mitigate the adverse effects of this prolonged relationship (Carey & Simnett, 2006; Kalanjati et al., 2019).

From another perspective, audit rotation can reduce the competence of the audit team. Studies highlight the existence of a learning curve: auditors need time to adequately understand the processes, policies, and critical areas of the audited company (Carcello & Nagy, 2004; Gul et al., 2009; Raiborn et al., 2006). This concern is illustrated by a statement from Deloitte's CEO, who notes that each audit rotation results in the loss of accumulated team experience and requires a continual restart of the learning process (Daniels & Booker, 2011).

Audit quality tends to follow a non-linear trajectory throughout the auditor's tenure: initially, it improves as auditors gain knowledge about the business; subsequently, excessive familiarity can lead to complacency and a gradual deterioration in quality. Geiger and Raghunandan (2002) show that flaws in audit reports are more common in the early years of the contractual relationship, while Myers et al. (2003) point out that excessively long tenures are also associated with greater earnings management. Although the literature acknowledges this non-linear trajectory, empirical evidence on the net effect of the trade-off between familiarity and independence remains inconclusive, possibly due to the diversity of quality proxies used—such as modified opinions, identified flaws, and discretionary accruals (Dattin, 2017).

The excessive prolongation of the auditor-client relationship is identified in the literature as a factor that may compromise the auditor's independence and objectivity. As the professional relationship extends, social and cognitive ties can emerge, reducing skepticism and increasing the risk of complacency in judgments (Bell et al., 2015; Tepalagul & Lin, 2015). This effect tends to generate concerns among investors and creditors, who begin to question the auditor's ability to act impartially. Consequently, prolonged familiarity can deteriorate the quality of audit services and the disclosed financial statements, creating conditions for opportunistic management practices and intentional manipulation of results (Sousa et al., 2022).

Considering that investors tend to place greater value on high-quality earnings (Teoh & Wong, 2003) and that independent and technically competent audits enhance the credibility of accounting information (Ryan et al., 2001), it is plausible to assume that characteristics associated with higher-quality audits are positively reflected in stock pricing, as they are perceived as a sign of greater reliability and persistence of the reported results.

Recent evidence reinforces the importance of independence and the duration of the auditor-client relationship for the quality of financial statements, especially in emerging markets. Tran et al. (2025) show, in Vietnam, that long audit partner tenures favor earnings management, particularly in companies with weak governance. Similarly, Salehi et al. (2022) found, in Iran, that mandatory rotation did not reduce opportunistic practices. Finally, Duong Thi (2023) highlights that audit quality and the institutional environment influence earnings management in newly listed companies. These findings reinforce that the effects of rotation and tenure vary according to the context and governance characteristics of the firms.

2.2 Hypotheses development

No studies have yet been identified that directly examine investors' perceptions of audit rotation in Brazil. In the international literature, findings remain inconclusive regarding the impact of rotation on the quality of audit services and, consequently, on investors' perceptions. Part of this heterogeneity can be attributed to the institutional particularities of the countries analyzed.

Ghosh and Moon (2005) found that longer tenures are associated with a higher perception of audit quality among investors. Similarly, Chi et al. (2009) found no evidence that partner rotation increases the perceived quality of audits in Thai companies. Reid and Carcello (2017), in turn, observed a negative reaction from the US market to audit firm rotation, especially when it involved replacing a Big 4 firm.

Cameran et al. (2016) identified an increase in the perception of audit quality in the period preceding partner rotation in Italian companies. Similarly, Krishnan and Zhang (2019) found an increase in the informativeness of earnings and a reduction in the cost of equity capital after the replacement of the signatory partner in US companies. Horton et al. (2021) also found that investors perceive the benefits of partner rotation as outweighing the associated costs in the Italian context. In a multinational study, Cimini et al. (2022) showed that the extension of audit mandates reduces the informational relevance of accounting figures, especially in countries with low investor protection.

In the Brazilian context, the results also diverge. Sousa et al. (2021) indicate that the mandatory rotation of the firm and the partner does not compromise the comparability of financial reports. Regarding earnings management, Martinez and Reis (2010) and Azevedo and Costa (2012) found no evidence of improved earnings quality, while Silvestre et al. (2018) and Parreira et al. (2020) identified a reduction in discretionary accruals after changing the audit firm, suggesting a favorable perception on the part of shareholders. It is important to emphasize, however, that these studies did not isolate the specific effect of replacing signatory partners. Brazil presents a distinct regulatory context, as it requires the mandatory rotation of both the audit firm and the signatory partner every five years (Silvestre et al., 2018; Sousa et al., 2021; Sousa et al., 2022). This model differs from that of other jurisdictions, which either require only partner rotation or mandate firm rotation at longer intervals.

While prolonging the auditor-client relationship can foster knowledge about the company's internal processes, it also tends to decrease professional skepticism and increase complacency, compromising audit quality (Tepalagul & Lin, 2015; Bell et al., 2015). In this context, audit rotation emerges as a regulatory mechanism to mitigate the risks associated with auditor-client familiarity and reinforce the independence perceived by investors (Raiborn et al., 2006; Krishnan & Zhang, 2019).

The literature distinguishes between the effects of firm and audit partner rotation, but both are associated with increased independence and an improved perception of quality. Partner rotation introduces the “fresh-eyes effect” into the audit process, and evidence indicates that auditors themselves recognize gains in independence, even when the rotation occurs within the same firm (Daugherty et al., 2012; Horton et al., 2021).

In a study conducted in Indonesia, Kalanjati et al. (2019) identified improved audit quality associated with partner rotation, while firm replacement was related to poorer performance, suggesting positive net effects when only the partner is rotated. Prolonged tenures can generate excessive confidence in the management of the audited company or reluctance to question the published reports (Lennox et al., 2014). Furthermore, partner rotation reduces accounting aggressiveness in clients audited by Big 5 firms (Hamilton et al., 2005), and the probability of issuing unqualified opinions tends to decrease over the tenure, signaling a deterioration in quality—especially among Big N auditors (Carey & Simnett, 2006).

Despite the informational asymmetry in the early years of a new tenure, longer periods favor the accumulation of business knowledge and more accurate estimates (Ghosh & Moon, 2005; Myers et al., 2003). Even so, prior research shows that audit quality can improve after a replacement, due to the gain in independence and the additional effort typically devoted in the first years by the incoming auditor (Bedard & Johnstone, 2010; Lennox et al., 2014).

Brazilian Securities and Exchange Commission (CVM) Instruction No. 308/1999 established the mandatory rotation of audit firms every five years in Brazil. This regime was made more flexible by CVM Instruction No. 509/2011, now incorporated into CVM Resolution No. 23/2021, which allows the extension of the mandate to up to ten years, provided that the company maintains a Statutory Audit Committee (CAE) in permanent operation. At the same time, the obligation to replace the signatory partner every five years remains, in line with international practices.

This prolonged regulatory experience tends to normalize the turnover of audit firms, reducing their informational content. By contrast, the replacement of the signatory partner continues to signal a genuinely fresh perspective on the financial statements. Furthermore, the audit market in Brazil is heavily concentrated in the Big 4 and exhibits a low risk of litigation—conditions that tend to mitigate the impact of firm turnover, but not that of signatory partner turnover.

When the rotation involves the audit firm, there is a complete replacement of the control structure and procedures applied, renewing perceived independence; however, it entails a partial loss of client-specific knowledge. By contrast, the replacement of the signatory partner preserves the firm’s technical competence and accumulated history while introducing a new perspective on the financial statements. In both cases, the event tends to be interpreted by the market as a means of strengthening audit quality and, consequently, the reliability of accounting information (Bedard & Johnstone, 2010; Carcello & Nagy, 2004).

These particularities suggest that the Brazilian market tends to react positively to the rotation of the audit firm or the signatory partner, since both represent the end of a prolonged relationship that could compromise the auditor’s independence and the quality of the financial statements. Thus, the following hypotheses are formulated:

H_{1a} : Audit firm rotation is positively value relevant in investors’ perceptions.

H_{1b} : Audit partner rotation is positively value relevant in investors’ perceptions.

Evidence regarding auditor rotation encompasses both mandatory and voluntary regimes. Bamber and Bamber (2009) argue that the independence gains provided by rotation rarely compensate for the loss of accumulated knowledge, since audit effectiveness tends to decrease when intellectual capital must be rebuilt (Cimini et al., 2022). In mandatory contexts, the learning effect tends to prevail: as the mandate progresses, auditors become more efficient, so mandatory replacement eliminates part of this benefit (Cameran et al., 2016; Ghosh & Moon, 2005). Consistent with this, Chi et al. (2009) found no evidence that mandatory rotation increases investors' perception of audit quality.

This finding partially stems from altered incentives: when contractual continuity is prohibited, the auditor internalizes lower future benefits from the client relationship, which can lead to a reduction in marginal effort as the end of the mandate approaches (Cameran et al., 2016). Imhoff (2003) observes that, in the absence of the prospect of reappointment, the auditor tends to intensify their efforts only in the final year of the mandate, in order to minimize the risk of failures that may be identified by the successor firm. Furthermore, the mandatory rotation regime neutralizes informational signals that voluntary rotation would otherwise send to the market—such as resignations motivated by high litigation risk (Jackson et al., 2008; Lennox et al., 2014). In short, the empirical literature suggests that mandatory rotation, on its own, does not guarantee an increase in audit quality (Ghosh & Moon, 2005; Myers et al., 2003).

In Brazil, the mandatory rotation of audit firms, established by CVM Instruction No. 308/1999 and its amendments, has become an institutionalized practice: investors already anticipate that the change will occur due to regulatory imposition, and not necessarily as an additional sign of independence. In an environment dominated by Big 4 firms, with low litigation risk and rules that allow the extension of mandates, mandatory rotation tends to be perceived as a mere formality, with reduced informational content.

However, even in stricter regulatory contexts, mandatory rotation still represents the end of a prolonged relationship between auditor and client—a factor that, in itself, can restore some of the perceived independence and reinforce the credibility of financial reports. Therefore, it is plausible to assume that the Brazilian market also interprets compliance with mandatory rotation as a sign of renewal and a strengthening of audit quality. Given this context, the following hypothesis is formulated:

H_2 : Mandatory auditor rotation is positively value relevant in investors' perceptions.

There is consensus in the literature that audits performed by Big N firms offer superior quality compared to those of non-Big N firms. DeAngelo (1981) attributes this advantage to the greater reputational capital of large firms, while Teoh and Wong (1993) show that the market tends to assign an informational premium to reports issued by these entities. It is presumed that Big N firms have a greater capacity to identify irregularities and issue modified opinions. Furthermore, the impact of rotation tends to be mitigated when it involves Big N firms, given that these organizations seek to protect their reputation and have greater robustness in terms of human capital and technological infrastructure (Lawrence et al., 2011).

The Brazilian market is highly concentrated in the Big 4, and national studies reflect this scenario. Silvestre et al. (2018) demonstrate that the presence of a Big 4 firm constrains earnings management practices, while Parreira et al. (2020) find a reduction in discretionary accruals when companies rotate from non-Big 4 to Big 4 auditors. Consistently, Krishnan (2003) reports that the market attributes greater relevance to the accruals of firms audited by Big N firms, and Lee and Lee (2013) confirm greater value relevance in these contexts. In regulatory environments with low litigation risk, such as Brazil, engagement with a Big 4 firm can operate as a surrogate signal of good governance practices, while remaining with or migrating to a non-Big 4 auditor can be interpreted as indicative of less rigorous reporting.

In summary, the replacement of a non-Big 4 auditor with a Big 4 firm tends to be interpreted positively by the market, whereas the opposite movement may reduce investor confidence in audit quality. Based on these considerations, the following hypotheses are formulated:

H_{3a} : Rotations to non-Big 4 firms are negatively value relevant in investors' perceptions.

H_{3b} : Rotations to Big 4 firms are positively value relevant in investors' perceptions.

3 Methodological Procedures

3.1 Population and sample

The population of this study comprises all publicly traded Brazilian companies listed on B3 S.A. — Brasil, Bolsa, Balcão — between 2010 and 2021. To define the sample, only the shares with the highest average annual trading volume were considered, based on data extracted from the Economatica platform. The sample selection followed the criteria described in Table 1.

Tabela 1

Sample composition

Panel A – Sample composition procedures		
Description of Procedures	Firms	Observations
Initial sample between 2010 and 2021	402	4,824
(–) Missing data for the value relevance model	(0)	(1,708)
(–) Outlier observations	(0)	(164)
(–) Observations with negative equity	(0)	(272)
Final sample	402	2,680
Panel B – Sample distribution by rotation		
Rotation subsample	Observations	Percentage(a)
Rotation of the audit firm and the audit partner	2,601	97.1%
Reason for rotation (mandatory or voluntary)	401	15.0%
Rotation by audit firm size	510	19.0%

Note: (a) percentage relative to the study's final sample.

Source: developed by the authors.

The initial sample comprised 2,680 observations. However, due to missing accounting data and the specific requirements of the variables of interest, the analysis was conducted using three subsamples, as described in Table 1. Outlier detection was performed using the Blocked Adaptive Computationally Efficient Outlier Nominators (BACON) algorithm, as proposed by Billor et al. (2000), and implemented in Stata®. The 1st and 99th percentile cutoffs were applied to exclude extreme values.

All data regarding audit rotation were collected manually from the companies' Reference Forms (Item 2.1) available on the B3 S.A. website. When this information was not disclosed, it was obtained from the independent auditors' reports. Data collection took place between August 16, 2022, and April 25, 2023, and followed systematic procedures to minimize errors in identifying audit rotation. Thus, the study's database is original, constructed directly from a manual data collection process, since this information is not available in databases such as Economatica.

3.2 Variables and data collection

Initially, the occurrence of audit firm rotation ($RODF$) or audit partner rotation ($RODA$) was identified. For this purpose, the names of the audit firm and the signatory partner responsible for analyzing the financial statements in each fiscal year were collected and compared with those from the immediately preceding year. The variables $RODF$ and $RODA$ were coded as binary indicators, taking the value 1 when a firm or partner replacement was observed and 0 otherwise.

The motivation for the replacement ($RODM_{it}$) was analyzed for all cases in which rotation was identified ($RODF=1$ or $RODA=1$). This variable was constructed by reviewing the companies' Reference Forms and interpreting the justification provided for the change. $RODM_{it}$ takes the value 1 when the rotation was motivated by a legal requirement and 0 in all other cases. Mandatory changes were defined as those that explicitly mentioned CVM Instruction No. 308/1999 (and its amendments) or whose wording allowed a clear legal inference of mandatory nature (e.g., "mandatory rotation," "in accordance with the instruction," "termination due to legal expiration"). Vague or generic justifications, such as "contract termination" or "audit rotation," were excluded from the classification. In other words, when the available justification was insufficient to confirm mandatory status, the event was not classified as either mandatory or voluntary.

Unlike previous research, this study also considers the relevance of rotation direction according to the audit firm's size: $BIG4$ to $BIG4$ ($B4B4$), $BIG4$ to $NB4$ ($B4NB4$), $NB4$ to $BIG4$ ($NB4B4$), and $NB4$ to $NB4$ ($NB4NB4$). For empirical purposes, each of these variables takes the value 1 when the corresponding change is identified and 0 otherwise. The literature identifies EY, Deloitte, PwC, and KPMG as the largest audit firms globally (Lawrence et al., 2011; Lee & Lee, 2013), and this classification was adopted for defining the Big 4 group in this study. The variable definitions are presented in Table 2.

Table 2

Rotation by audit firms' size

Scenario	Description	Variable
1	$BIG4$ to $BIG4$	$B4B4$
2	$BIG4$ to $NB4$	$B4NB4$
3	$NB4$ to $BIG4$	$NB4B4$
4	$NB4$ to $NB4$	$NB4NB4$

Source: developed by the authors.

According to the literature, the use of binary variables is common for measuring the effect of audit rotation on market perception and for analyzing the impacts of mandatory regulation on the value of audited companies (Chi et al., 2009; Krishnan & Zhang, 2019; Horton et al., 2021).

The remaining variables related to the value relevance model adopted in the study were collected from the Economatica® database and include price (P), book value per share ($PLPA$), and earnings per share ($LLPA$).

3.3 Econometric models

To assess how the market perceives the net effect—that is, the combined costs and benefits—of audit rotation, this study adopts the value relevance model proposed by Collins et al. (1997), which is grounded in the Ohlson (1995) framework. This model assumes that a firm's value can be explained by accounting variables such as earnings and book value per share, disregarding "residual profits." The specification is presented in Equation 1.

$$P_{it} = \beta_0 + \beta_1 PLPA_{it} + \beta_2 LLPA_{it} + \gamma_t + \delta_s + \varepsilon_{it} \quad (1)$$

To test the hypothesis that audit rotation has value relevance in investors' perceptions of firm valuation, the variables related to audit rotation were incorporated into the regression model. The coefficients were estimated using models derived from Equation 2.

$$P_{it} = \beta_0 + \beta_1 PLPA_{it} + \beta_2 LLPA_{it} + \beta_3 RODZ_{it} + \gamma_t + \delta_s + \varepsilon_{it} \quad (2)$$

Where P_{it} is the share price of company i in the fourth month after the end of period t ; $PLPA_{it}$ is the book value per share of company i at the end of period t ; and $LLPA_{it}$ is the net profit per share of company i at the end of period t . $RODZ_{it}$ individually represents the audit firm rotation ($RODF_{it}$), audit partner rotation ($RODA_{it}$), the reason for audit rotation ($RODM_{it}$), and rotation by firm size: from $BIG4$ to $BIG4$ ($B4B4_{it}$), from $NB4$ to $NB4$ ($NB4NB4_{it}$), from $NB4$ to $BIG4$ ($NB4B4_{it}$), and from $BIG4$ to $NB4$ ($B4NB4_{it}$).

The models were estimated using ordinary least squares (OLS), with year and industry fixed effects (γ_t and δ_s). OLS was chosen rather than random-effects or pooled estimators in line with the value relevance literature (Al-Dhamari & Chandren, 2018; Cimini et al., 2022; Gul et al., 2006), which focuses on assessing the informational content of accounting variables in a cross-sectional framework rather than on intra-firm temporal variation. Accordingly, the model captures the average effect of accounting information and audit rotation on share prices, controlling for year and industry fixed effects.

The assumptions of the regression model were evaluated according to the empirical literature of value relevance. Multicollinearity was assessed using the variance inflation factor (VIF) test. Heteroscedasticity and first-order serial autocorrelation were addressed by applying the robust Newey-West covariance matrix, which corrects potential distortions in standard errors and ensures consistent estimates. These procedures help ensure that the results are not influenced by material violations of the OLS assumptions.

Although the objective of this study was not to establish causal relationships, the possibility of endogeneity between auditor selection and firm characteristics is acknowledged. In line with the value relevance literature (Cimini et al., 2022; Hohenfels, 2016; Horton et al., 2021; Reid & Carcello, 2017), this limitation is mitigated by the inclusion of year and industry fixed effects, the use of robust standard errors, and multicollinearity diagnostics (VIF). These procedures help reduce the influence of unobservable factors and provide greater consistency in the estimated coefficients. This limitation is recognized and suggests opportunities for future research to employ models with instrumental variables (e.g., 2SLS or GMM) to isolate causal effects of audit rotation on market perception.

The research hypotheses are tested based on the statistical significance of the β_3 coefficient, indicating whether information on audit rotation exerts any informative effect on prices, consistent with the incremental association approach of value relevance (Holthausen & Watts, 2001). This study also examines the residual informational effect of including audit rotation variables by comparing the change in R^2 between the primitive model and the models that incorporate the variables of interest. To avoid scale effects—i.e., the artificial increase in the value relevance of accounting information over time caused by inappropriate comparisons across different samples (Brown et al., 1999)—the analysis compares results using identical samples.

4 Analysis and Discussion of Results

4.1 Descriptive analysis of the data

The descriptive statistics for the variables used in the Collins et al. (1997) model, as well as those related to audit rotation, are presented in Table 3. The averages of price (P), book value per share ($PLPA$) and earnings per share ($LLPA$) show considerable distance from their respective medians, suggesting an asymmetrical distribution of the data.

Table 3

Descriptive statistics of value relevance and audit rotation

Variables	Observations	Minimum	Median	Mean	Maximum	SD
Value relevance						
P	2601	0.12	10.25	15.70	190.00	18.26
$PLPA$	2601	0.00	8.39	15.85	290.16	27.21
$LLPA$	2601	-93.17	0.66	0.36	42.06	6.77
Audit rotation						
$RODF$	2601	0.00	0.00	0.20	1.00	0.40
$RODA$	2601	0.00	0.00	0.36	1.00	0.48
$RODM$	401	0.00	1.00	0.75	1.00	0.43
$B4B4$	510	0.00	1.00	0.68	1.00	0.47
$B4NB4$	510	0.00	0.00	0.10	1.00	0.30
$NB4NB4$	510	0.00	0.00	0.15	1.00	0.35
$NB4B4$	510	0.00	0.00	0.07	1.00	0.26

Legend: P_{it} : price; $PLPA_{it}$: book value per share; $LLPA_{it}$: earnings per share; $RODF_{it}$: audit firm rotation; $RODA_{it}$: audit partner rotation; $RODM_{it}$: mandatory audit rotation; $B4B4_{it}$, $B4NB4_{it}$, $NB4NB4_{it}$, $NB4B4_{it}$: $BIG4 - BIG4$, $BIG4 - NBIG4$, $NBIG4 - NBIG4$ and $NBIG4 - BIG4$, respectively.

Source: developed by the authors.

The results also show that partner rotations (36%) were more frequent than audit firm rotations (20%), with nearly two partner changes for every firm change. Regarding motivations, most identified rotations were mandatory. Furthermore, several replacements occurred between Big 4 firms, suggesting that companies tend to prefer maintaining similar audit structures, likely aiming to preserve perceived quality standards.

In comparative terms, the proportions reported in Table 3 are consistent with the Brazilian pattern of higher frequency of partner turnover relative to firm turnover. This pattern aligns with Sousa et al. (2022), who document shorter average mandates for partners (~2.2 years) than for firms (~2.89 years), under maximum limits of six and ten years, respectively. Furthermore, the average turnover rate per firm is similar to the average turnover indicator (~0.217) reported by Silvestre et al. (2018) for the 2008-2015 period, suggesting stability of the phenomenon over time despite differences in sample size.

Regarding the nature of the event, the average rate of mandatory rotation indicates a higher prevalence of mandatory cases among the identified observations, whereas Parreira et al. (2020) report more balanced aggregate proportions—50.7% voluntary and 49.3% mandatory. This difference is consistent with the conservative coding criterion adopted in this study, which naturally increases the share of mandatory events among those with clear textual evidence. The Brazilian audit market exhibits a high concentration of Big 4 firms. Historical evidence shows that approximately 61% of companies were audited by Big 4 firms as early as 2008 (Firmino et al., 2010), a level that aligns with more recent studies documenting the predominance of Big 4 auditors in the B3 (Silvestre et al., 2018; Sousa et al., 2021). This concentrated structure reinforces the role of Big 4 firms as reputational signals of audit quality and governance, creating a context in which the presence of a Big 4 auditor tends to be perceived by the market as the status quo.

From a comparative perspective, audit rotation is more frequent in Brazil than in other countries. Horton et al. (2021) reported average incidences of 0.069 for firm rotation and 0.136 for partner rotation, whereas in this study the corresponding values are 0.20 and 0.36—figures similar to the 0.217 documented by Silvestre et al. (2018). In international markets, such as those examined by Cimini et al. (2022), Hohenfels (2016), and Reid and Carcello (2017), rotation occurs at longer intervals, reflecting less restrictive regulatory regimes. Taken together, these results confirm that Brazil has a more intense rotation dynamic, driven by the mandatory simultaneous replacement of both the audit firm and audit partner.

4.2 Results of the econometric models

The results of the econometric estimations are presented in Table 4. The primary models (VR1, VR2, VR3), based on Collins et al. (1997), confirm the proposition that investors perceive equity and earnings as relevant and reliable when evaluating firms, reinforcing the findings of Gul et al. (2006), Al-Dhamari and Chandren (2018), and Cimini et al. (2022).

The audit firm rotation (*RODF*) exhibited a positive but statistically insignificant coefficient ($\beta_3 = 0.988$, $p > 0.10$), whereas audit partner rotation (*RODA*) was positively value relevant ($\beta_3 = 1.102$, $p < 0.10$). These results suggest that *RODA* carries informational content perceived by the market, reflecting an appreciation by investors. The findings also show that mandatory rotation (*RODM*) does not influence stock prices ($\beta_3 = 1.060$, $p > 0.10$), although it added a small amount of informational content ($\Delta R^2 = 0.13\%$).

Table 4

Value relevance of audit firm rotation and audit partner rotation and rotation reason

Variables	VR1	RODF	RODA	VR2	RODM	VR3	B4B4	B4NB4	NB4NB4	NB4B4
<i>PLPA</i>	0.382*** (0.032)	0.382*** (0.032)	0.382*** (0.032)	0.423*** (0.078)	0.422*** (0.078)	0.393*** (0.056)	0.400*** (0.057)	0.392*** (0.055)	0.396*** (0.056)	0.393*** (0.056)
<i>LLPA</i>	0.348*** (0.100)	0.350*** (0.100)	0.347*** (0.100)	0.321* (0.192)	0.313 (0.195)	0.309* (0.166)	0.297* (0.160)	0.280* (0.155)	0.309* (0.167)	0.309* (0.166)
<i>RODF</i>		0.988 (0.773)								
<i>RODA</i>			1.102* (0.651)							
<i>RODM</i>					1.060 (2.165)					
<i>B4B4</i>							5.940*** (1.444)			
<i>B4NB4</i>								-7.816*** (1.582)		
<i>NB4NB4</i>									-4.616** (2.093)	
<i>NB4B4</i>										-0.019 (2.376)
Constant	6.318*** (1.449)	6.255*** (1.447)	6.277*** (1.451)	8.757* (4.820)	8.217* (4.849)	7.463 (4.614)	2.628 (4.844)	6.939 (4.576)	8.173* (4.622)	7.465 (4.584)
EF Sector	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
EF Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F statistics	15.71***	15.11***	15.13***	2.86***	2.74***	3.77***	4.21***	4.42***	3.84***	3.64***
Maximum VIF	2.31	2.31	2.39	7.61	7.72	6.00	6.01	6.04	6.02	6.03
<i>R</i> ² (%)	36.10	36.15	36.18	37.71	37.76	38.69	40.73	40.19	39.38	38.69
Observations	2.601	2.601	2.601	401	401	510	510	510	510	510

Legend: *PLPA*_{*it*}: book value per share; *LLPA*_{*it*}: earnings per share; *RODF*_{*it*}: audit firm rotation; *RODA*_{*it*}: audit partner rotation; *RODM*_{*it*}: mandatory audit rotation; *B4B4*_{*it*}, *B4NB4*_{*it*}, *NB4NB4*_{*it*}, *NB4B4*_{*it*}: *BIG4* – *BIG4*, *BIG4* – *NBIG4*, *NBIG4* – *NBIG4* and *NBIG4* – *BIG4*, respectively. VIF = variance inflation factor for multicollinearity. ***, **, and * represent significance levels of 1%, 5%, and 10%, respectively.

Notes: Breusch–Pagan/Cook–Weisberg and heteroscedasticity and Wooldridge autocorrelation tests were performed, and the results were statistically significant, justifying the use of robust standard errors (in parentheses) for autocorrelation and heteroscedasticity. For each firm *i* at the end of year *t*, the dependent variable is the share price *P*_{*it*}.

Source: developed by the authors.

Finally, the results show that rotations between Big 4 firms are perceived positively by the market ($\beta_3 = 5.940$, $p < 0.01$), with a 5.27% increase in R^2 . This suggests that maintaining audits conducted by large firms signals quality and stability, thereby increasing the value attributed to the audited companies. Conversely, when a *BIG4* firm is replaced by an *NBIG4* firm ($\beta_3 = -7.816$, $p < 0.01$), or even when rotation occurs between *NBIG4* firms ($\beta_3 = -4.616$, $p < 0.05$), the effects on share prices are negative and statistically significant, explaining reductions of –1.50% and –0.69% in market value, respectively. Notably, the negative effect of migrating to an *NBIG4* firm outweighs—in magnitude—the benefit generated by remaining with a *BIG4*. Moreover, the replacement of an *NBIG4* with a *BIG4* did not produce statistically significant effects on prices, suggesting that the mere entry of a larger firm is not, by itself, sufficient to alter market perception.

4.3 Discussion of results

The results indicate that audit partner rotation (*RODA*) is positively relevant in investors' perception ($\beta_3 = 0.988$, $p > 0.10$), suggesting that the event carries informational content. This evidence supports hypothesis H_{1b} and implies that investors interpret partner rotation as a sign of enhanced auditor independence and audit quality.

These findings converge with the fresh-eyes effect documented by Kalanjati et al. (2019) and Horton et al. (2021), who argue that partner rotation provides a new perspective on accounting reports without a significant loss of technical competence. Similarly, Krishnan and Zhang (2019) report an increase in the informativeness of earnings following partner rotation, reinforcing the notion that the renewal of the signatory enhances credibility.

These findings align with Daugherty et al. (2012) and Lu and Sivaramakrishnan (2009), who emphasize that newly assigned auditors tend to exercise greater rigor in professional judgment. They also contradict the perspective of Raiborn et al. (2006) and Myers et al. (2003), who predicted a loss of client-specific knowledge following a change. Thus, partner rotation is perceived as a mechanism for mitigating excessive familiarity between auditor and client (Bedard & Johnstone, 2010; Carcello & Nagy, 2004; Geiger & Raghunandan, 2002).

In contrast, audit firm rotation (*RODF*) showed a positive but statistically insignificant coefficient ($\beta_3 = 0.988$; $p > 0.10$), providing no evidence that the event affects investors' perceptions. This lack of significance supports the rejection of hypothesis H_{1a} . The result reinforces the notion that, although firm rotation may strengthen formal independence, it also entails a loss of organizational knowledge and learning costs, which limits its informational value. The neutral market reaction suggests that, in Brazil, firm rotation is viewed as an expected regulatory requirement, without meaningful implications for firms' market value.

Mandatory audit rotation (*RODM*) did not show a statistically significant effect on stock prices ($\beta_3 = 1.060$; $p > 0.10$), although it added a small amount of explained variation ($\Delta R^2 = 0.13\%$). This evidence converges with Myers et al. (2003), Ghosh & Moon (2005), and Chi et al. (2009), who find that regulation-imposed rotation generally produces neutral effects on market perception. Thus, hypothesis H_2 is rejected.

In markets with mandatory rotation regimes, Chi et al. (2009) show that investors do not perceive quality gains from partner replacement, while Reid and Carcello (2017) observe negative reactions to events that increase the probability of replacement. These results are consistent with Jackson et al. (2008) and Imhoff (2003), who argue that when contractual continuity is prohibited, auditors' incentives change, and part of the audit effort is shifted to the final year of the engagement.

In the Brazilian context, where rotation is mandatory and periodic under CVM Instruction No. 308/1999, investors seem to anticipate these replacements, interpreting them as predictable events with low informational content.

The results regarding audit firm size indicate that rotations between *BIG4* firms are perceived positively by the market ($\beta_3 = 5.940$; $p < 0.01$), whereas replacements involving *NBIG4* firms produce significant negative effects—whether from *BIG4* to *NBIG4* ($\beta_3 = -7.816$; $p < 0.01$), or between *NBIG4* firms ($\beta_3 = -4.616$; $p < 0.05$). Therefore, hypothesis H_{3a} , which predicts that rotations to *NBIG4* firms negatively affect investor perception, cannot be rejected. In contrast, hypothesis H_{3b} , which predicts that rotations to *BIG4* firms are positively relevant, is rejected.

These results reinforce DeAngelo's (1981) classic argument that the reputational capital of large firms is a key determinant of perceived audit quality. They are also consistent with Martinez and Reis (2010), Parreira et al. (2020), and Silvestre et al. (2018), who document lower levels of earnings management when audits are conducted by Big N firms.

The market's appreciation of Big 4 audits is also in line with Krishnan (2003) and Lee and Lee (2013), who highlight the greater informational relevance of accruals and accounting figures audited by large firms. Conversely, negative reactions to replacements with non-Big 4s reflect the reputational asymmetry described by Lawrence et al. (2011) and the results of Reid and Carcello (2017), according to which the market reacts unfavorably to the loss of auditors with expertise and international recognition.

Overall, the findings confirm that the Brazilian market distinguishes between changes imposed by regulation and those perceived as voluntary. The trade-off between auditor independence and competence is evaluated positively only when the reputational seal of the Big 4 is preserved.

This evidence complements Brazilian studies, such as Sousa et al. (2021), Azevedo and Costa (2012), and Silvestre et al. (2018), and suggests that regulatory policies should prioritize the internal renewal of signatory partners—who preserve independence and reputation—rather than imposing rigid deadlines for audit firm rotation. It also alerts managers and advisors to the potential capital costs of migrating to smaller audit firms, whose reputation and technical capacity are less valued by investors.

Table 5 summarizes the formulated hypotheses and the decision regarding their rejection, or not, based on the estimated models.

Hypotheses	Decision
H_{1a} : Audit firm rotation is positively value relevant in investors' perceptions.	Rejected
H_{1b} : Audit partner rotation is positively value relevant in investors' perceptions.	Not rejected
H_2 : Mandatory auditor rotation is positively value relevant in investors' perceptions.	Rejected
H_{3a} : Rotations to non-Big 4 firms are negatively value relevant in investors' perceptions.	Not rejected
H_{3b} : Rotations to Big 4 firms are positively value relevant in investors' perceptions.	Rejected

Source: developed by the authors

In general, the findings confirm that investors react differently to different types of external audit rotation. These results reinforce that the Brazilian market distinguishes between changes imposed by regulation and those perceived as a voluntary signal of enhanced independence and audit quality.

5 Conclusion

This study achieved its objective of investigating whether audit rotation provides incremental informational content to participants in the Brazilian capital market. The results indicate that rotation of the signatory partner is valued by investors, reinforcing its relevance to the perception of audit quality. In contrast, mandatory firm rotation does not appear to be value relevant, suggesting that compulsory replacement is interpreted as a regulatory requirement without additional informational content. Furthermore, rotations that result in the hiring of non-Big 4 firms are associated with a reduction in the market value of the audited companies, highlighting the importance of reputation and perceived technical competence.

The conclusion is that external audit rotation provides signals incorporated by investors into stock prices, reflecting the balance between independence and competence. These results align with international evidence (Cameran et al., 2016; Krishnan & Zhang, 2019; Horton et al., 2021; Cimini et al., 2022), indicating that the market reacts positively to changes that reinforce perceived independence and negatively to those that may compromise technical quality. Thus, the Brazilian context, characterized by the simultaneous mandatory rotation of the audit firm and audit partner, constitutes a unique environment for understanding how investors evaluate different aspects of auditor rotation.

These findings have important theoretical and practical implications. From a regulatory standpoint, the results suggest that mandatory rotation, as stipulated in CVM Instruction No. 308/1999, may not fully achieve its purpose of strengthening independence, highlighting the need to reassess its frequency and effectiveness. For managers and board members, the importance of choosing Big 4 auditors is evident, as their reputation serves as a signal of credibility in the market. For audit firms, the findings reinforce the value of continuous technical improvement and internal partner rotation as a strategy for preserving perceived independence.

Finally, one of this study's limitations concerns the fact that the results are based on the value relevance model, which captures the net effects perceived by investors. Future research could employ additional approaches, such as Earnings Response Coefficient (ERC) or Cumulative Abnormal Returns (CAR), as well as investigate the duration of the mandate and its interaction with rotation, thereby broadening the understanding of the effect of independence and competence on the value of audited companies. Another possibility is to use return-based relevance models, as done by Hohenfels (2016), to examine the consistency of the findings in the Brazilian market. Future studies could also compare the effect of rotation in different regulatory contexts and explore behavioral dimensions, such as auditor reputation and investor risk perception, further broadening the understanding of the role of auditing as a governance mechanism.

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