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# The Auditor-to-Client Revolving Door:

## A Structured Literature Review

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# **The Auditor-to-Client Revolving Door: A Structured Literature Review**

## **ABSTRACT**

This study analyses the under-explored research area of audit revolving door (ARD). The analytical framework categorised the reviewed articles by author & article information, citation, research theme, motivational event, jurisdiction, nature of research, regional focus, organisational focus, research method, data analysis, literature focus and findings. Our analysis highlights that no particular aspect can be held true or generalised about the ARD phenomenon. The ARD literature is USA dominated, organisationally based and focused on post-departure issues, employing quantitative approach with obvious lack of perceptions of stakeholders. We call for more *qualitative* research that critiques pre- and post-ARD, addressing the ‘*how*’ and ‘*why*’ questions, soliciting perceptions of various stakeholders. To frame directions for future research, we refer to three areas: threats, benefits and safeguards of ARD. Our findings are relevant to research students reviewing the auditing literature to find their own research and to academic auditing researchers looking for appropriate research outlets.

*Keywords:* audit revolving door, employment of ex-auditor, structured literature review, audit firm alumni/affiliation, former auditor.

## INTRODUCTION

Independence and competence are the two primary qualities that auditors are expected to possess, which were characterised by Barnes and Huan (1993, p. 215) as ‘*mutually inclusive features of an audit*’ and, in the language of Lee and Stone (1995, p. 1171), as ‘*the congenial twins of auditing*’. The lack of one, if not both, is frequently drawing media attention, specifically if corporate failure is the case. While auditor competence is always assumed to exist or, as criticised by Humphrey, Moizer, and Turley (2007), to be given, auditor independence has been the subject of a growing volume of criticism and several reforms, due to the engagement of auditors in audit-quality-threatening behaviours (Clikeman, 1998; Dart, 2011).

Of the various threatening behaviours to actual and apparent auditor independence and therefore audit quality, perhaps the one that is much less explored is the *revolving door phenomenon* between external auditors and their audit clients (henceforth “*audit revolving door*” or “ARD”). The ARD occurs when an audit client hires from the current external audit firm personnel, usually audit managers/partners, for corporate financial reporting (or management/oversight) positions such as chief financial officer, chief accounting officer, controller, director, or any equivalent position (see, for example, Abbott, Brown, & Higgs, 2016, Ahmed, 2015, Wilson, 2017a, 2017b)<sup>2</sup>. The ARD phenomenon is likely to happen in either *direct* move or *indirect* move from audit firms to audit clients. While the *direct* ARD occurs when a member of the audit engagement team is directly hired by a currently/recently being audited client, the *indirect* ARD is to happen when the hired auditor has not previously involved in auditing the hiring company’s financial statements (i.e. the audit client) as well as s/he has worked elsewhere in the corporate sector before moving to the hiring company (Finley, Kim, Lamoreaux, & Lennox, 2018). The *direct/indirect* ARD phenomenon is neither a new nor a simple theoretical issue. Rather, it has been acknowledged as *happening for many years and is still ongoing*.

As a threat to actual and apparent auditor independence, the ARD phenomenon was originally brought to the fore by the United States Congress in the Metcalf Report on ‘The Accounting Establishment’, which specifically examined the issue of auditor independence (US Senate Subcommittee on Reports, 1976, p. 21). In this report, the auditor–management relationship was cited among situations that were believed to be the cause of a general creditability problem, resulting in a lack of independence and a lack of dedication to public protection by accounting firms. Following that, Imhoff Jr. (1978, p. 870) conducted perhaps the earliest academic research investigating and documenting the ARD phenomenon, pointing out that it was ‘*not uncommon for certified public accountants (CPAs) to be offered senior management positions with client firms*’. However, following the high-profile corporate failures in the early 21<sup>st</sup> century, this type of auditor–client relationship has been brought into the sharp focus of the media and regulatory bodies worldwide. For example, Dart and Chandler (2013) remarked that the client employment of external auditors to senior corporate positions was one feature common to most companies involved in accounting

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<sup>2</sup> The ARD phenomenon may also be referred to in the accounting/auditing literature as audit firm alumni, alumni affiliation, alumni effect, affiliated auditors, affiliated hiring, client employment of ex-auditor, auditor–management/client relationship, and/or client employment.

scandals, such as Enron, Waste Management and Global Crossing in the USA; HIH Insurance in Australia; and Independent Insurance in the UK (Geiger, North, & O’Connell, 2005; Guy & Zeff, 2002). Indeed, this confirms what was noted by an American Institute of Certified Public Accountants (AICPA) representative (Wright & Booker, 2005, p. 26), as the prospect of obtaining a corporate position is a key attraction point in entering the accounting profession, and thus any restriction on ARD would limit the career opportunities of accountants, making the profession less attractive.

While restrictions on ARD were debated and proposed in the past, the first time this practice was specifically forbidden was following the high-profile financial scandals in the early 21<sup>st</sup> century (Geiger et al., 2005). Professional bodies issued/revised their ethical standards, and regulators placed controls (primarily a cooling-off period) to mitigate risks, possibly resulting from ARD practice. The AICPA issued an ethics ruling that imposed constraints on auditors to not be involved in the audit when offered a job by a client (AICPA, 1991). This ethics ruling mainly focused on situations where an auditor was being approached by a client for employment purposes during the audit engagement. Likewise, in the UK, the Auditing Practices Board (APB) issued the *Ethical Standards for Auditors* in 2004, addressing ARD practice as a threat to auditor independence and objectivity and dealing with consequences for the audit firm of auditing personnel career moves to audit clients. These ethical standards were then revised in 2008 and 2010 (see APB, 2010). Furthermore, there was no legislation that prohibited an auditor from taking a position with a client until the high-profile corporate failures in the early 2000s. In the USA, in 2002, the Sarbanes–Oxley Act introduced a new requirement of a *one-year cooling-off period* before an auditor can accept a position with an audit client (Abbott, Brown, & Higgs, 2016; US House of Representatives, 2002). Countries are different in the enforcement of the cooling-off period and its length, if it is required. While a two-year cooling-off period was introduced in the UK (Basioudis, 2007), Australia (Martinov-Bennie, Cohen, & Simnett, 2011), Malaysia (Ahmad, 2015) and Germany (Schlaich & Ziegler, 2014), a one-year cooling-off period was announced in Singapore (Koh & Mahathevan, 1993) and Hong Kong (Law, 2010).

Despite the ethical standards and regulations that prohibit auditors from accepting positions with audit clients up to a certain amount of time (i.e. the cooling-off period) after leaving their former audit firms, there is a more-recent evidence that ARD continues to happen. For example, after the collapse of Colonial Bank in 2009, PwC settled a \$5.5bn fraud detection lawsuit because of its failure in detecting and stopping a conspiracy between the executives of Colonial Bank and Taylor, Bean & Whitaker (TBW) (McLannahan, 2016). For the six years before its collapse, Colonial BancGroup, the Colonial Bank’s parent, was given a clean audit opinion by PwC. The collapse has been attributed, however, to the lack of auditor independence resulting from ARD. In 2005 and 2006, PwC continued to audit Colonial, even though one of its senior managers engaged in those audits was appointed to a top financial oversight position at Colonial. Lynn Turner, a former chief accountant for the US Securities said: ‘*PwC should not have cited an “emergency” exemption to standards banning accounting firms from auditing a company for a year after it makes such a hire*’ (McLannahan, 2016). In a similar case, in the UK, the Financial Reporting Council (FRC) fined KPMG £162,500, as one of its partners, Mel Egglenton, became a non-executive director of car dealer Pendragon while at the same time KPMG audited Pendragon accounts for 2010 and 2011 (Agnew, 2015).

The appointment of Mel Eggleton was after only nine months of his stepping down as a partner of KPMG and six months of being engaged in providing consultation to Pendragon (Osborne, 2013). The FRC considered that KPMG procedures were not sufficient to decide whether the appointment of Mel Eggleton would have required the resignation of KPMG from auditing Pendragon.

ARD became an area of interest within the field of audit research when Imhoff Jr. published his paper: *Employment effects on auditor independence*, in the *Accounting Review* in 1978. Since then, studies have mainly investigated the positive and negative consequences of ARD (e.g. Abbott et al., 2016; Basioudis, 2007; Dart & Chandler 2013; Firth, 1981; Geiger et al., 2005; Iyer, Bamber, & Barefield, 2000; Koh & Mahathevan, 1993; Parlin & Bartlett, 1994). However, academic literature on this issue is very *limited* and most importantly is *inconclusive*, resulting in many research questions being unaddressed. For example, while Ahmad (2015) concludes that the appearance of auditor independence is negatively affected by the auditor–client employment issue, in agreement with a number of prior studies (e.g. Firth, 1981; Imhoff Jr., 1978; Kilcommins, 1997; Koh & Mahathevan, 1993; Law, 2010; Wright & Booker, 2005), Sori and Mohamad (2008) and Geiger et al. (2005) generally do not support concerns of significantly impaired auditor independence in these hiring situations. This inconclusive evidence applies to similar issues of ARD impact in relation to audit quality, effectiveness of the cooling-off period, reporting quality and possible benefits resulting from ARD. This perhaps results in one conclusion: the ARD phenomenon remains an area ripe for further research. With this in mind, we believed that a literature review of the existing ARD research would be a crucial starting step in this regard because it would set the status quo of ARD from the perspective of past research, portray the focus of existing major ARD research themes and identify the gaps for future research directions. Accordingly, the present paper aims to review and critique the existing ARD research, thus suggesting ways forward for future ARD research.

Our paper is motivated by the lack of research on pre- and post-departure issues of the ARD phenomenon, as there is little (and inconclusive) empirical evidence of ARD impacts and consequences on the auditing profession and audit clients.<sup>3</sup> This review paper contributes to the emerging literature in two ways. First, this paper represents all available ARD research, with no start or cut-off dates, thus presenting the most comprehensive up-to-date review of the literature on ARD phenomenon. Second, the adoption of the structured literature review (SLR) methodology enables this paper to derive unbiased empirical insights and critique into the current ARD research and to identify possible directions for future ARD research, which may possibly be of interest to academics, audit firms, regulators and professional bodies.

The remainder of this paper is organised in three further sections. The following section, Section 2, outlines the methodology, in which we describe and justify the adoption of the SLR methodology and explain how we selected the articles for analysis, as well as the development and application of the

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<sup>3</sup> Benefits and/or risk possibly arising from the ARD phenomenon can be classified as those that happen prior to (pre-), or after (post-), a member of the audit engagement team joins the audit client. The factor is the timing when an auditor receives the offer of employment from an audit client: during the audit engagement (pre-departure) or after completing the audit engagement and joining the client (post-departure). Both pre- and post-departure occur through a *direct* (rather than *indirect*) move between the audit firm and the audit client. For more details see, for example, Dart and Chandler (2012), Finley et al. (2018) and Wilson (2017b).

analytical framework. Section 3 presents the answer to the first two research questions through descriptive analysis and a critique of the results. Section 4 provides our views on the future directions of ARD research, addressing the third research question, before offering some closing remarks in the final section.

## **METHODOLOGY**

To achieve the purpose of this paper, our methodology for selecting and reviewing relevant articles was similar to that of other recent reviews of different areas of the accounting literature (e.g. Cuozzo, Dumay, Palmaccio, & Lombardi, 2017; Dumay, Bernardi, Guthrie, & Demartini, 2016) and primarily followed Massaro, Dumay, & Guthrie's (2016, pp. 772-794) SLR methodology.

Massaro et al. (2016, p. 767) define the SLR methodology as 'a method for studying a corpus of scholarly literature, to develop insights, critical reflections, future research paths and research questions'. Traditional literature reviews tend to be narrative, descriptive and lacking critical assessment (Denyer & Tranfield 2006), thus possibly limiting the literature's scope and yielding different outcomes that are indefensible (Dumay, 2014a; Massaro et al., 2016). There could be, therefore, a bias in traditional reviews, as the reviewers report the evidence that supports their story without following a scientific approach (Tranfield, Denyer, & Smart, 2003). In contrast, the SLR methodology offers an empirical grounding that 'aims to minimise bias through exhaustive literature searches of published and unpublished studies and by providing an audit trail of the reviewers' decisions, procedures and conclusions' (Tranfield et al., 2003, p. 209). Consequently, to overcome such shortcomings associated with traditional literature reviews, we employed an SLR methodology in the present literature review.

The different steps taken to assemble and analyse the dataset, before presenting the results and discussion in the next section, are outlined as follows.

### ***The Literature Review Protocol***

Firstly, we document how we arranged the research project. The core objective for this paper was to carry out an SLR of prior research on ARD phenomenon, as stated by Petty and Guthrie (2000, p. 156), to '*categorise it in a way that provides a useful understanding of how and why [the ARD] movement has developed in the way it has*' and to identify '*avenues for future research*'. To achieve these goals, it was important firstly to find out whether to date there had been any other published and/or unpublished comprehensive literature reviews for this topic. We found two published reviews (i.e. Bedard, Deis, Curtis, & Jenkins, 2008; Tepalagul & Lin, 2015). However, (i) these two reviews were mainly concerned with risk monitoring and control in audit firms (Bedard et al., 2008) and auditor independence and audit quality (Tepalagul & Lin, 2015), and, therefore, ARD was part of the review, rather than being the main issue reviewed; (ii) these two reviews were based on a traditional interpretive literature review style, rather than a systematic review; (iii) these two reviews lack empirical justification for how and why the research on ARD has developed in the way it has; and (iv) although these two reviews offer some avenues for future research, the future research questions raised are not grounded on a comprehensive systematic review, and,

therefore, some questions seem to be general concerns and others have already been investigated in the ARD literature. Accordingly, a need for an SLR of prior ARD research has emerged to cover an apparent knowledge gap through addressing the three research questions outlined in the following section.

### ***Research Questions***

Drawing upon Alvesson and Deetz's (2000, pp. 17-20), three tasks of critical research – '*insight*', '*critique*' and '*transformative redefinitions*' – Massaro et al. (2016, p. 774) suggest that at least three generic research questions need answering in an SLR. To this end, our paper responds to Bedard et al.'s (2008), and, most recently, Tepalagul and Lin's (2015), call for further research on ARD by conducting an SLR. Our paper adapts and addresses the three interrelated generic research questions suggested by Massaro et al. (2016), focusing specifically on the ARD literature:

*RQ1.* How has research for inquiring into ARD phenomenon developed?

*RQ2.* What are the focus and critique of the ARD literature?

*RQ3.* What more could/should be done on ARD phenomenon as a research agenda?

### ***The Literature Search***

This section outlines the steps taken to build up the dataset for this review. The first step was to select a search approach. As our SLR was on the specific issue of ARD within the particular field of auditing research, for which (we expected) little literature existed, we employed a *keyword search* approach (Massaro et al., 2016), which has been used in prior academic reviews in different accounting areas (e.g. Cuomo, Mallin, & Zattoni, 2016; Englund & Gerdin, 2014; Hoque, 2014). According to Massaro et al. (2016, p. 777), '*a keyword search is a powerful tool*' that can help in finding '*relevant articles that extend existing topics in a particular field*'. Therefore, the search process began by developing a keywords list containing the terms '*auditor–client employment*', '*ex-/former/previous auditor employment*', '*auditor-to-client revolving door*', '*audit revolving door*', '*accounting/audit firm alumni/affiliation*' and '*auditor cooling-off period*'.

The second step was to identify the inclusion criteria for gathering papers. Given that the topic of our SLR specifically focused on a particular field of research and we expected that little literature existed, we broadened the boundaries of our search to cover published (e.g. articles and book chapters) and unpublished (e.g. conference papers, theses, etc.) research, with no start and cut-off dates. After that, the actual search process started. Two authors searched Google Scholar and physically examined the titles and abstracts of all retrieved research and selected relevant literature. Another round of searching was carried out using the same terms in leading databases (e.g. Business Complete Source, Scopus, Science Direct and JSTOR). Also, a bibliography of the most recent articles collected in the previous two rounds of searching (e.g. Abbott et al., 2016; Ahmad, 2015; Tepalagul & Lin 2015; Wilson, 2017a, 2017b) was examined to pick up any missing data. These rounds of searching were repeated by the third author to ensure that all relevant research had been collected. The authors also checked the titles, abstracts and content of the articles



resulting from the search process to choose relevant articles, as some articles may seem related to ARD but, in reality, are not. As presented in Appendix A, the searching process resulted in a total of 47 research pieces, consisting of 39 academic journal articles, five working papers, two theses/dissertations and a professional article (hereafter referred to *articles* and/or *dataset*). We then downloaded the PDF versions of this data and recorded full referencing details in an Excel spreadsheet.

### ***Article Impact***

To measure the article impact of our 47 articles, we downloaded the number of Google Scholar citations for each article.<sup>4</sup> Google Scholar citations, as a metric of article impact, have been used by a number of prior literature reviews (e.g. Cuomo et al., 2016; Cuzzo et al., 2017; Dumay & Cai, 2014; Dumay et al., 2016). Google Scholar was chosen, rather than Thomson Reuters or Scopus, as it is a comprehensive source covering non-peer-reviewed articles such as conference papers, working papers, theses/dissertations and professional articles, in addition to peer-reviewed articles (Harzing & van der Wal, 2008). Table 1 shows *the top ten cited articles* based on the number of Google Scholar citations.

*INSERT TABLE 1 HERE*

In order to account for the time effect on the number of citations, as newly published articles may have a lower number of citations in comparison with earlier published ones, we also calculated the citations per year (CPY, Google Scholar citations / (2018 – year of publication)), as recommended by Dumay et al. (2016), and used in Harzing’s Publish or Perish software – see Table 2 for the top ten articles by CPY.

*INSERT TABLE 2 HERE*

Comparing the rankings in Table 1 and Table 2, there are nine common articles (Bedard et al., 2008; Geiger et al., 2005; Kaplan & Whitecotton, 2001; Lennox, 2005; Lennox & Park 2007; Menon & Williams, 2004; Naiker & Sharma, 2009; Tepalagul & Lin, 2015; Ye, Carson, & Simnett, 2011). The work by Menon and Williams (2004) in the *Accounting Review*, which investigates the relationship between former audit partners and earnings management, is a leading article in both rankings. It is worth mentioning that the earnings management literature is a large body of literature, which may explain the high number of citations for this article in both rankings, even though it was published in 2004. It seems that scholars link audit quality and earnings management. Surprisingly, a recent article published by Tepalagul and Lin (2015) comes first in the CPY ranking. Being a literature review paper on auditor independence and audit quality may explain the high number of citations for this paper, as it can be widely cited in many papers on audit quality and/or auditor independence topics. Another recent work by Baber, Krishnan, and Zhang (2014), published in *Review of Accounting Studies*, ranked eighth in the CPY table. This paper also related to earnings quality and the employment of an ex-auditor. Generally speaking, the most cited articles either are

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<sup>4</sup> This was undertaken as of 28<sup>th</sup> January 2017 and then updated as of 18<sup>th</sup> March 2018, during the journal’s blind review process.

related to earnings quality research or are literature review articles on audit quality, and they are published in high-ranking journals. Surprisingly, perhaps the first paper to document ARD (Imhoff Jr., 1978), published in the *Accounting Review*, is not among the top ten articles by Google Scholar citations and does not appear among the top ten articles by CPY. This highlights that once ARD had gained great attention from the media and regulatory bodies after the corporate scandals in the beginning of the 21<sup>st</sup> century, researchers started to investigate the phenomenon.

To provide a more relevant impact analysis of the ARD research, while some of the ARD top ten cited articles have other focuses such as earnings management, we further analysed the citing research (i.e. citations) of the top ten cited articles to explore whether the citing research also discusses the ARD phenomenon, at least placed within the auditing research area, or having a different focus. As demonstrated in Table 1, citing research was categorised to mainly three groups based on the topic being researched: ARD, Auditing, and Non-Auditing, with a fourth group assigned for citing research written in a non-English language (e.g. Chinese, German, Portuguese, etc.), which is beyond our capabilities to analyse.

Although ranked eighth based on number of citations, Geiger et al.'s (2005) research appears the most relatively impactful article within the ARD top ten cited articles, with 15.3% (or 15 out of 98) of citations or citing studies discuss the ARD phenomenon. Surprisingly, although published in 2011, Ye et al. (2011), and ranked the ninth within the ARD top ten cited articles, it was not cited by any of the 17 ARD articles published since 2011. The overall view that can be drawn from analysing the citing studies is that the ARD top ten cited articles are of greater relative impact (ranged 26% of Iyer et al., 1997 to 72% of Ye et al., 2011) on the auditing related research such as audit quality, auditor independence, audit firm tenure, and internal audit than in non-auditing research such as corporate governance and earnings quality (ranged 12% of Lennox 2005 to 50% of Iyer et al., 1997), assuming the exclusion of the research written in a non-English language. With this in mind, although Google Scholar could be regarded as a feasible and reliable source for citations in identifying highly cited articles/documents, caution should be exercised 'as its indexing quality still remains a challenge' (Halevi, Moed, & Bar-Ilan, 2017, p. 823) and citations (i.e. citing work) may not relate to the main topic of the cited article.

### ***The Analytical Framework***

In this section, we outline how the applied analytical framework was developed. Massaro et al. (2016, p. 783) state that, to accomplish an SLR, '*researchers must identify units of analysis within selected papers and treat them as independent elements to be measured and analysed.*' To develop our SLR's analytical framework, we first began with Guthrie, Ricceri, and Dumay's (2012, p. 71) analytical framework as one of the most widely cited reviews, and the most widely adopted framework, in the research field of accounting. We pilot-tested the framework with authors who had independently coded a sample of articles, and we then compared results. This resulted in a need to refine the framework to ensure that the chosen criteria/attributes were relevant to our SLR's topic, which was different from the purpose of Guthrie et al.'s (2012) framework (i.e. intellectual capital accounting (ICA)).

We modified some categories, namely: organisational focus (added two new attributes: accounting firms and mixed), research location/regional focus (added a new attribute: nil, in the case of literature review papers), literature focus (replaced all attributes with ones more relevant to the topic of our SLR) and research methods (replaced commentary/policy/normative with experiment). We removed the category of ICA framework and model, as it was not relevant to our SLR. To build a comprehensive SLR, we further added ten new categories, as used in prior academic reviews, namely: journal focus (Dumay & Cai, 2014), year of publication (e.g. Dumay, 2014a, 2014b; Serenko & Dumay, 2015), authorship (e.g. de Villiers & Dumay 2013; Serenko & Dumay, 2015), academics and practitioners (Dumay et al., 2016), affiliation of authors (Brown & Jones, 2015; Serenko & Dumay, 2015), research theme (Hoque, 2014), nature of research (Cuomo et al., 2016; de Villiers & Dumay, 2013), data analysis approach (Cuomo et al., 2016; Hoque, 2014) and findings (Dumay & Cai, 2014a). Given that the SOX Act 2002 could be regarded as a polarising issue to this research area, we further added *motivational event* as an analytical criterion.

Instead of explaining each criterion and associated attributes at this point, we will outline these details in Section 3 when discussing the results and critique developed from the meta-analysis. Table 3 presents the final analytical framework, where there are 14 different criteria, with 2–8 attributes each.

*INSERT TABLE 3 HERE*

### ***Article Coding and Establishing Reliability***

After defining the analytical framework, given the manageable size of the data, two authors independently manually coded the collected research papers and recorded the results in an Excel spreadsheet. This coding process allowed the two coders to use their implicit knowledge of the auditing discipline to ‘*effectively interpret idiomatic and metaphorical text*’ (Guthrie et al., 2012, p. 71). To establish the analytical framework’s and the coding’s reliability, we computed Krippendorff’s alpha (K-alpha) as the reliability measure (Hayes & Krippendorff, 2007), resulting in a K-alpha score of 0.91, which is above the recommended score of 0.80 (Krippendorff, 2013, p. 325). Finally, some items required discussion due to disagreement in coding, and these were revised jointly by the three authors to resolve the inconsistencies. Agreement was reached, and some elements were recoded before developing tables of results.

### ***Testing Validity***

We carried out several checks to ensure the external validity and thus the generalisation of our SLR’s findings. This can be evidenced by the literature search process as explained earlier, where two authors searched various sources (e.g. Google Scholar) and databases (e.g. Science Direct and JSTOR) using similar search terms, and the whole search process was then repeated by the third author to ensure that the selected dataset was comprehensive of the available literature (Massaro et al., 2016). This was also complemented by the fact that the research team read the abstracts, and in many cases the full articles, to ensure the relevance of the selected articles and thus the accuracy of the SLR’s findings. Further, the coding

process started with a sample of the selected articles and was then completed by two authors independently after expanding the analytical framework.

## **LITERATURE REVIEW META-ANALYSIS: INSIGHTS AND CRITIQUE**

In this section, we attempt to address the first two research questions: *How has research for inquiring into ARD phenomenon developed?* and *What are the focus and critique of the ARD literature?* In each of the following subsections, we describe each analysis criterion and its associated attributes (see Table 3), the reasons for choosing it, and the insights and the critique from the analysis.

### ***Basic Data: Articles and Authors***

Each article was scrutinised to extract basic data related to research and author criteria. A range of research information was collected from each paper about: journal focus (A), year of publication (B) and author-related information, namely: authorship (C), academics and practitioners (D), and institutional affiliation (E).

Journals were classified based on their focus on auditing (A1), non-auditing (A2) and others (A3), where journals that had ‘*audit*’ in their titles were classified as auditing and those that did not were classified as non-auditing. SSRN articles, working papers, conference papers and research theses were classified as others. Surprisingly, of the 47 collected and analysed articles, 32 (68%) were published in 24 non-auditing-specialised journals. This perhaps could be explained when it is revealed that the ARD phenomenon is a manifold topic that has been studied in interaction with other accounting topics, such as earnings management and the reliability of financial reporting.

It is essential for an SLR to identify the time period when the topic being investigated became a ‘hot’ field of research, which can be proved by reviewing the year of publication (B). As Table 4 indicates, on average, the number of articles published on ARD phenomenon (35) during the period from 2002 to March 2018 almost tripled the number published (12) during the period from 1978 to 2001. This perhaps represents the Enron scandal (late 2001) and the issuance of SOX Act as a turning point when the topic became ‘hot’ and, therefore, the majority of the articles were published. This issue will be further analysed in the *motivational events* section.

### ***INSERT TABLE 4 HERE***

It is argued that highly cited articles are generally well written and presumed to cover a ‘hot’ topic (Hannerz, 2010) and most importantly, therefore, are believed to be written by authors with strong reputations (Bornmann, Schier, Marx, & Daniel, 2012). Therefore, it was crucial to identify authorship (C) and their affiliations (E) to reveal any dominant trends and biases (Serenko & Dumay, 2015). As Table 3 exhibits, 11 articles were written by a sole author (C1), 20 articles were co-authored by two authors (C2), 12 were written by three co-authors (C3) and four articles were written by four co-authors (C4). The 47

articles were written by total of 103 authors, on average 2.19 authors per article. Of these, 13 authors had multiple publications: two authors published three articles each and 11 authors published two articles each (see Table 5). Surprisingly, Menon and Williams, the authors of the most cited article (Menon & Williams, 2004), are not on the list of the authors with multiple publications. This means that they have only published one article; however, they are more influential in the ARD research area than authors who have published two or three articles. Also, 68% (or 70) of 103 authors were North American, suggesting a dominance of the ARD research area by mainly US authors, while authors from the Australasia region represent 20%. The dominance of North American, mostly USA, authors to the ARD research area is arguably due to the case of Enron and the volume of regulations imposed following that in early 2000s. This is to be confirmed by results in the following *motivational events* section (where SOX Act found being the motivation for 51% of the ARD available research) and the *regional focus* section (where USA found being the most (64%) studied region in the ARD available research). Arguably, in support of this, the number of North American accounting researchers and journals is significantly higher comparing to any other regions, making the dominance of North American authors is more likely to be something that is inherent to the general accounting literature (Jones & Roberts, 2005).

#### *INSERT TABLE 5 HERE*

Following Dumay et al. (2016), we adapted the criterion of academics and practitioners (D) into the analysis to identify contributors to the ARD literature. In doing so, we coded articles as authored by academics (D1), practitioners (D2), academics and practitioners (D3) or an unknown group (D4), in cases where we were not able to identify the status of the author(s) of the research. As Table 3 exhibits, we found that almost all (45) articles were written by academics, indicating a lack of collaborative research with practitioners over a very important “practical” issue.

#### ***Research Themes***

The research theme criterion (F) addresses the contribution areas of the articles. This criterion was adapted from Chiu, Liu, and Vasarhelyi (2014), as we created five classifications according to the issues discussed in the ARD literature. We classified research themes as follows: auditor independence (F1); earnings quality (F2); audit quality (F3); benefits of the ARD (F4); and others (F5). The last was for studies that did not fall into the first four categories.

As demonstrated in Table 3, the evidence suggests that the most common research theme is the employment of an ex-auditor and independence (18 articles), which represents 38% (e.g. Ahmad, 2015; Dart & Chandler, 2013; Koh & Mahathevan, 1993), followed by the employment of an ex-auditor and earnings quality (eight articles), which represents 17% (e.g. Baber et al., 2014; Geiger et al., 2005). Four articles looked at the employment of an ex-auditor and audit quality (Bird, Ho, Li & Ruchti, 2015; Lennox, 2005), while seven papers focused on the benefits of employing an ex-auditor (e.g. Beasley, Carcello, & Hermanson, 2000; Iyer & Raghunandan, 2002).

These results are not surprising, as previous studies have suggested that the client employment of a former auditor influences auditor independence (e.g. Tepalagul & Lin, 2015) and earnings quality (e.g. Menon & Williams, 2004). One possible interpretation of this finding is that ARD phenomenon is a relatively emerging research area; therefore, a large portion of ARD research is related to two major auditing and accounting research areas. This suggests that the other research themes related to ARD have not been extensively studied yet. For instance, the majority of reviewed articles are mainly concerned with ARD issues post to the auditor entering the client workforce, suggesting a less research on the pre-ARD issues. In particular, we found only seven empirical studies explore the issues relate to the pre-departure of the auditor. Primarily, the available pre-ARD research examines whether a job offer made to a member of the audit engagement team by a client could influence the auditor independence (Lindsay, Rennie, Murphy & Silvester, 1987; Bartlett, 1997; Sori & Mohamad, 2008; Ahmed, 2015; Wilson, 2017b), based on views of accountants/auditors, users of financial statements, bankers, managers, and nonprofessional investors. Furthermore, while Beasley, Carcello and Hermanson (2000) discuss the benefits and risks of offering a job to a current auditor, Kaplan and Whitecotton (2001) empirically investigate reporting intention of auditors when informed with the knowledge that an audit manager is considering employment offer with the client.

### ***Motivational Events***

Reviewing the year of publication (B) and the major research themes (F), stimulate us to investigate the cross relationship between the number of research articles in each period, the main themes studied and the major motivational events (G) behind these studies. This offers a deeper explanation to exactly how and why the focus of ARD research has changed over time. The number of research studies in a given period was found to be a function of various motivational events preceding the time period studied. By reviewing the events that were identified as motivations for ARD research, we were able to converge the main motivational events into four categories, as follows: pre-SOX regulations and professional guidelines (G1); SOX Act 2002 (G2); post-SOX regulations and professional guidelines (G3); and general (G4).

As illustrated in Table 6, we found that the main motivational event for the ARD research is SOX Act 2002 (G2). Half of the reviewed papers (24) explicitly declare that SOX is the motivational event for the research (e.g. Bhattacharjee & Brown, 2018; Favere-Marchesi & Emby, 2018; Finley et al., 2018; Ittonena et al., 2017; Wilson, 2017a, 2017b). SOX Acted and still acting as a catalyst for the ARD research as half of these articles (12) were published during the last five years. This is followed by the pre-SOX regulations and professional guidelines (G1) that were the motivational events for ten articles (e.g. Firth, 1981; Imhoff Jr, 1978; Kilcommins, 1997). Post-SOX regulations and professional guidelines (G3) came in the third rank as a motivational event for eight articles (e.g. Baumann & Ratzinger-Sakel 2017; Chapple & Koh 2007; Martinov-Bennie et al. 2011; Scalan 2017; Sori & Mohamad 2008). It is noteworthy that SOX Act 2002 in the US has later been reflected in other acts in different countries, many of which mandate a cooling-off period (e.g. CLERP 9, 2004 in Australia; B-1 Professional Independence, 2004 in Malaysia; European Union audit reform, 2014; and Russian Code of Corporate Governance, 2014). Finally, only five articles did not identify an event as a motivation for research, therefore were classified as general (G4).

SOX (G2) Section 206 mandated a one-year cooling-off period before a former audit personnel may accept employment in certain client's management positions. Exacerbating concern around impaired auditor independence arising from the ARD phenomenon, were audit team alumni holding key financial reporting positions (such as at Enron, Cendant, Global Crossing, Phar-Mor and Waste Management), was the main motivation behind this requirement. This is reflected in the number of articles motivated by SOX and studied auditor independence theme (7 out of 18). An independent auditor is expected to limit earnings management. Therefore, imposed SOX requirements presume that affiliated hiring adversely affects earning quality and might impair audit quality. This could explain that SOX is the main motivation for research investigating the impact of ARD on earning quality (7 out of 8) and audit quality (3 out of 4). While SOX intended to eliminate the ARD, it was argued that companies may have benefited from hiring individuals familiar with their systems, organization and staff. Therefore, SOX was not the main motivation to study the benefits of ARD, as only two articles out of seven were motivated by SOX.

*INSERT TABLE 6 HERE*

Pre-SOX regulations and professional guidelines (G1) focused mainly on enhancing auditor independence, including: independence guideline (ICAEW, 1977; ICAS, 1978); the Metcalf report on the accounting establishment (US senate 1976); the Moss report on federal regulation and regulatory reform (US house of representatives, 1976); International auditing guidelines No. 3 (IFAC, 1980); Code of practice (AICPA, 1994); and Professional Standards (AICPA, 1993). These attempted to give the appearance of auditor independence by restricting auditor-client relationships. Therefore, half of the articles motivated by pre-SOX regulations and professional guidelines focused on investigating the impact of ARD on auditor independence. The second theme that was motivated by pre-SOX regulations and professional guidelines is the benefits of ARD specially for small companies that have fewer resources to search for officers.

Post-SOX regulations and professional guidelines (G3) responses to auditor independence dilemmas and directed the research towards the debate about alumni effect and the provision of non-audit services to audit clients and how this may compromise auditors' independence. This means that despite the heightened scrutiny by regulators and the new rules in relation to the alumni affiliation in the highly regulated post-SOX period, ARD may continue to be a risk and new safeguards will be needed such as the extension of the prohibition beyond the audit team to members of the audit firm including non-audit services providers.

This section contributes to evidence the current impact of SOX requirements on motivating ARD research to investigate the impact of ARD on auditor independence, audit quality, earning quality and the benefits of ARD appointment. While in the past similar employment restrictions had been proposed, the SOX restriction was the first to preclude auditors from moving directly into senior roles at their clients.

### ***Jurisdiction***

Classifying the research conducted into different levels of jurisdiction reflects the distribution of nations investigated and the levels of the structures within them. Following Broadbent and Guthrie (2008),

Guthrie and Murthy (2009), Dumay (2014a, 2014b) and Dumay et al. (2016), we created seven classifications for the jurisdiction level criterion (H). An article was classified as supra-national/international/comparative – general (H1) if it was not empirical and not based on a specific country. International or comparative studies focusing on industries in more than one country fell into the category supra-national/international/comparative – industry (H1.1). Studies using different organisations across countries were classified as supra-national/international/comparative – organisational (H1.2). Similarly, non-empirical articles based on one country or region were considered national – general (H2). If articles used industries in one country, they were considered national – industry (H2.1), whereas articles that used organisations in a nation fell under the category national – organisational (H2.2). The last category, one organisation (H3), included articles using one organisation. Given the fact that a great deal of the ARD literature examines the perceptions of ex-auditors about ARD practice, we considered a study as organisational if the ex-auditors were working in organisations in various industries, rather than a specific industry. If the sample included former auditors in a specific industry, we put the study under the industry classification.

We note that most studies belonged to the national – organisational category (H2.2) (with 27 articles) (e.g. Abbott et al., 2016; Ahmad, 2015), followed by national – industry (H2.1) (with 15 papers) (e.g. Imhoff Jr. 1978; Kaplan & Whitecotton, 2001), while none of the empirical studies were international (H1.1 and H1.2) or used one organisation (H3). Only three articles were classified as H1 (Bedard et al., 2008; Chapple & Koh 2007; Tepalagul & Lin, 2015), as these articles were either literature reviews or research syntheses. Two papers (Beasley et al., 2000; Daugherty & Dickins, 2008) were classified as national – general (H2), as they were non-empirical articles based in the USA.

The evidence demonstrates that the majority of research is organisationally based studies, and the second most popular area focuses on national-level analysis. This is perhaps unsurprising because all jurisdictions have many different organisations. Organisations provide the bulk of research sites due to their ease of access. Furthermore, the reason behind the high number of ARD studies at the country level could be the domination of this research area by researchers in North America, as discussed earlier in *Basic Data: Articles and Authors* section, who have focused mainly on the USA, especially in the post-Enron era. As such, comparative studies on ARD practices across countries and in different jurisdictions represent a future research area.

### ***Nature of Research***

Content analysis of the selected articles was conducted in order to codify them based on whether the research included empirical data collection or not. This criterion (I) was adopted from Cuomo et al. (2016) and de Villiers and Dumay (2013), under which studies were classified as either empirical (I1) or conceptual (I2). The conceptual category contained all non-empirical articles, such as literature review papers, discussion papers and commentaries. The results indicate that the majority of studies were empirical (42 articles), representing 89%, while only five papers were conceptual (Beasley et al., 2000; Bedard et al., 2008; Chapple & Koh 2007; Daugherty & Dickins, 2008; Tepalagul & Lin, 2015).



As such, researchers are departing more from the normative (conceptual) approach, which describes what should be done, to examine what is occurring in real life, more specifically moving towards the (empirical) positive approach, as clearly echoed in the research method criterion (L), as discussed below. However, it is risky to heavily depend on empirical research without a solid theoretical underpinning, especially when the area/topic being studied is emerging or not well covered in prior research. Therefore, more attention could be devoted to analytical studies to balance normative and empirical research and to tie the theoretical constructs and empirical aspects.

### ***Regional Focus***

The regional focus is the geographical sites in which researchers are conducting their studies. Analysing the regional focus is important because it allows us to understand the more-investigated geographic locations and to identify the other regions that might require more attention as fruitful avenues of inquiry. Similar to the location of the affiliation of the author criterion (E) described in an earlier section, we adapted Guthrie et al.'s (2012) classification scheme for our regional focus (J) criterion, adding 'nil' to the original attributes, as there are a number of conceptual contributions that have no specific regional focus.

We found that North America (J1) was the most active region where ARD was being investigated, representing 64% of all articles (e.g. Abbott et al., 2016; Baber et al., 2014; Naiker, Sharma, & Sharma, 2013), followed by Australasia (J2) with 13% (e.g. Ahmad, 2015; Martinov-Bennie et al., 2011; Ye et al., 2011). The United Kingdom (J3), as a regional focus, (e.g. Basioudis, 2007; Dart & Chandler, 2013; Firth, 1981), and Continental Europe (J4) (e.g. Kilcommins, 1997 in Ireland; Schlaich & Ziegler, 2014 in Germany) represented the lowest contribution, with only 6% each. Research has not been published in other (J5) parts of the world. The conceptual contributions, with no regional focus, (J6) were 11% (e.g. Beasley et al., 2000; Bedard et al., 2008; Tepalagul & Lin, 2015).

It is worth noting that a strong presence of American studies was found in contrast to Canadian studies when we separated the two. The regional focus of 29 out of the 30 North American articles was the USA; with only one article focused on Canada. Another interesting note is that the USA is at the forefront, especially following the collapse of Enron and other financial scandals in the USA, when issues that may affect auditor independence were brought into sharp focus. This is confirmed by Law (2010), who reports that most prior studies have been conducted in the USA. Audit failures in the USA such as Enron, which hired its chief accounting officer from Arthur Andersen, its auditor, have increased attention towards the ARD phenomenon. This significant contribution of the ARD research in the USA can be justified in light of the high degree of governance regulations in the USA, following the high-profile corporate failures in the early 2000s. Although the second highest number of contributions was from Australasia, some of these articles aimed at comparing the similarities and differences of the regulatory responses between Australia and the USA (e.g. Chapple & Koh, 2007). Finally, it remains rare to find that the ARD phenomenon has been explored in developing economies, which are a completely unexplored area of the world in this regard. Conducting research in other countries would make international comparisons viable.

## ***Organisational Focus***

Analysing organisational focus allows a view of research in terms of the different types of organisations studied. This criterion was adapted from Harrison and McKinnon (1999), Guthrie and Murthy (2009), Chenhall and Smith (2011), Guthrie et al. (2012), Dumay (2014a, 2014b) and Dumay et al. (2016). Organisational focus was divided into eight categories: publicly listed (K1); private SMEs (K2); private others (K3); accounting firms (K4); public sector (K5); not-for-profit (K6); mixed (K7); and general/other (K8) for firms that did not fall into any of the previous seven classifications. In studies investigating the views of ex-auditors, managers and other users, we looked at the company in which the participants worked to classify the article. If the participants were working in a publicly traded company, the study would be categorised under publicly listed (K1). If the participants were working in an accounting firm, the study would fall into K4. If the participants were from different types of companies, we used mixed (K7).

The results show that publicly listed companies (K1), apart from general/other (K8), were the most used organisations in the ARD literature, with 16 articles (e.g. Baber et al., 2014; Basioudis, 2007; Lennox, 2005). Studies that used mixed organisations (K7) came second, with 11 articles (e.g. Dart & Chandler 2013; Imhoff Jr., 1978). This was followed by studies that researched accounting firms (K4), with seven articles (e.g. Kaplan & Whitecotton, 2001; Law, 2010). Analysis of the organisational focus highlights the lack of studies with a focus on K2, K3, K5 and K6. We note that researchers have focused primarily on publicly traded companies, as auditing is mandatory in public firms but voluntary for private companies. In future, researchers may investigate the ARD effects on voluntary audits in private companies or compare the effects of ARD practices on mandatory and voluntary audits.

## ***Research Methods***

Analysing the employed research methods depicts the spread of research instruments used to investigate the ARD phenomenon. The research methods criterion (L) was adapted from Chenhall and Smith (2011), Guthrie et al. (2012) and Hoque (2014). This criterion contained six attributes: survey/questionnaire/other empirical (L1); case study/field study/interview (L2); archival studies, which utilise sources from database records (L3); experiments, which employ primary data collected from interviews and/or surveys (L4); mixed (L5); and nil (L6), which includes mainly commentaries and conceptual reviews.

Our analysis results show that the most commonly and equally employed methods were archival (L3) (e.g. Baber et al., 2014; Basioudis, 2007; Bird et al., 2015; Lennox, 2005; Menon & Williams, 2004; Ye et al., 2011) and survey/questionnaire/other empirical (L1) (e.g. Ahmad, 2015; Dart and Chandler, 2013; Imhoff Jr., 1978; Iyer & Raghunandan, 2002; Kaplan & Whitecotton, 2001; Parlin & Bartlett, 1994), with 62%, representing almost two-thirds of the ARD available research. Next, experimental methods (L4) (e.g. Abbott et al., 2016; Wilson, 2017a, 2017b; Wright & Booker, 2010; Martinov-Bennie et al., 2011) represented 19%. The nil category (L6) represented 11% of the total papers (e.g. Beasley et al., 2000; Chapple & Koh, 2007; Daugherty & Dickins, 2008). Only 6% of the papers used mixed methods (L5): a

combination of qualitative and quantitative methods, such as interviews and surveys (Kilcommins, 1997; Law, 2010). There was almost an absence of case study/field study/interview (L2) methods, which remain the least applied research methods, with only one paper (Sori & Mohamad, 2008).

Interestingly, a strong preference for archival research was noted in this review. Data from large databases, such as the Audit Analytics database, EDGAR, COMPUSTAT, Lexis-Nexis, IBES and CRSP, were used. For instance, Bird et al. (2015) conducted an archival study using a dataset consisting of biographical data on over 63,000 accounting employees working at S&P 1500 companies who had been previously employed at public accounting firms to study the effect of alumni affiliations on audit quality. They used COMPUSTAT as the source for company financial data, publicly available professional networking websites for employee information and the Audit Analytics database for auditor change data. In the same vein, Lennox (2005) used SEC registrants recorded on COMPUSTAT and EDGAR to study the impact of financial reporting executives' affiliations with auditors on financial reporting quality and auditor independence. Furthermore, Baber et al. (2014) used IBES to get quarterly earnings forecasts, COMPUSTAT to obtain financial variables and CRSP to get daily stock returns. The reason behind the high number of archival studies could be the high cost of collecting affiliation data for a large number of observations.

A sizeable number of the articles used a mail-out survey of questionnaires asking recipients to judge a hypothetical situation in which the ex-auditor accepted a position within a client company (e.g. Imhoff Jr., 1978; Kaplan & Whitecotton, 2001; Parlin & Bartlett, 1994). Parlin and Bartlett (1994) obtained evidence from a survey that suggested that the employment of an ex-auditor by a client generated trust in the integrity of the client's financial statements. However, the sample was 38 respondents, representing a response rate of 24%. Therefore, some doubt remains about the representativeness of the evidence produced. Notwithstanding, the large number of papers applying the survey method have inherent limitations common to survey research, such as respondent representativeness, respondents' different interpretations of the questions, low response rates and non-response bias.

Although experimental research is less popular, a number of studies have used behavioural experiments to test their hypotheses or to ask subjects to comment on a case. In the vast majority of cases, the experimental subjects were groups of MBA students as surrogates for nonprofessional investors, users of financial reports or other decision-makers (e.g. Wilson, 2017a). In a few cases, experiments were conducted using professional groups. Abbott et al. (2016) asked financially literate participants to act as surrogates for audit committee members. It is possible that some researchers see experimental research as 'artificial', claiming that those in practice face more-complicated situations.

Researchers have collected data using surveys and archival approaches and have employed experiments and, in limited cases, case studies. An examination of research methods indicates that the number of papers using surveys and archival data actually outstripped the number using case study methods. There was little record of studies deploying qualitative case studies. The dearth of studies using

case studies might appear to preclude contributions to this literature. More field-based studies in future may capture the real view of practice in a variety of contexts.

### ***Data Analysis Approach***

We included a data analysis approaches criterion (M) to analyse the analytical contributions made by researchers in the area of ARD practice. We adopted the classification of Hoque (2014) to categorise the analysis approaches as follows: quantitative (M1), qualitative (M2), mixed (M3) and nil (M4).

In keeping with the high use of archival and survey methods, analysis of quantitative data was the most widely used data analysis approach, representing 83% of the total papers (e.g. Wilson, 2017b; Wright and Booker 2010; Ye et al., 2011). In total, 11% of the articles, which were primarily of a review or commentary nature, made no mention of a data analysis approach (e.g. Bedard et al., 2008; Chapple & Koh, 2007; Tepalagul & Lin, 2015). Only two papers used a mixed data analysis approach (Law, 2010; Schlaich & Ziegler, 2014). In accordance with the research methods used, only one paper used a qualitative data analysis approach (Sori & Mohamad, 2008).

Quantitative analysis encompassing multiple regressions (e.g. Basioudis, 2007), ANOVA/MANOVA/ANCOVA (e.g. Abbott et al., 2016), a Wilcoxon matched-pairs signed-rank test (e.g. Ahmad, 2015) and descriptive statistics (e.g. Baber et al., 2014) was chosen by other researchers. Mixed analysis of variance (ANOVA) was employed to analyse survey responses and qualitative analysis was employed to analyse interview responses by Law (2010).

### ***Literature Focus***

The literature focus (N) analysis was important because it shows the different streams of debate in the literature about the consequences of the ARD phenomenon. We classified the literature focus into five specific categories: auditor independence (N1); auditor–client relationships (N2); earnings quality and audit quality (N3); and mixed (N4), which was used when the literature focus of an article proved to be problematic to classify into an exact category, as two or three topics may have been covered. All the articles that could not be coded into the above-mentioned classifications were coded as other (N5).

We found that the most popular category in literature focus was auditor independence (N1), with 51% of all articles (e.g. Ahmad, 2015; Baber et al., 2014; Sori & Mohamad, 2007). The second (13%) literature focus was on earnings quality and audit quality (N3) (e.g. Bird et al., 2015; Dowdell & Krishnan, 2004; Geiger et al., 2005). Next, an equal number of papers, 11%, were classified as auditor–client relationships (N2) (e.g. Beasley et al., 2000; Firth, 1981; Ye et al., 2011) and as mixed (N4) (Lennox, 2005; Menon & Williams, 2004; Naiker et al., 2013). The remaining 15% of the articles were checked for similarities to determine whether we could create another category. However, we could not find any significant similarities to create a new category, and thus we coded six articles as other (N5), covering a range of subjects. Among these were audit regulations (Abbott et al., 2016), auditors' engagement risk (Basioudis

et al., 2007), organisational identification (Iyer, Bamber, & Barefield, 1997) and the potential benefits and problems of the ARD phenomenon (Naiker & Sharma, 2009).

Although the majority of the articles' literature focus was auditor independence (N1), there was no agreement on the impact of ARD on auditor independence. The literature focus of the articles shows a negative impact on auditor independence. For instance, Imhoff Jr. (1978) found that auditor independence was more likely to be impaired when hiring an ex-auditor who was in a supervisory position. Subsequently, Koh and Mahathevan (1993) supported this finding, as they revealed that independence was questioned more when an auditor accepted a position as a preparer of financial statements. In the same vein, Wright and Booker (2005) provide evidence that the employment of senior auditors in a client company was perceived to damage auditor independence. While most prior literature concerning companies hiring ex-auditors seems consistent in regard to perceived impact on auditor independence, the results of Sori and Mohamad (2007) are not. They report that the impact of auditor employment was minimal. Consistent with prior findings, Dart and Chandler (2013) show that investors did not perceive the client's employment of an ex-auditor as a threat to auditor independence.

Audit quality (N3), as measured by both material misstatements and absolute abnormal accruals, was evidenced to be negatively affected by having auditor alumni among accounting employees in the company (Bird et al., 2015). Other studies (Dowdell & Krishnan, 2004; Geiger et al., 2005) examined the effect of revolving door appointments on earnings quality but did not find an association.

Studies that had a mixed (N4) literature focus included articles that focused on the impact of ARD on audit outcomes and non-audit services. For example, Naiker et al. (2013) reveal that the presence of a former audit firm partner affiliated with the current auditor on a client's audit committee could lead to greater levels of non-audit services from the auditor. Others focus on auditor–client relationships and auditor independence. Lennox (2005) hypothesises that executive–auditor affiliations impair audit independence by reducing the likelihood of problem discovery and/or reporting a discovered problem. Auditor independence and accounting quality are the literature focus of Menon and Williams (2004).

## ***Findings***

In addition to the above criteria, following Dumay and Cai (2014), we analysed the findings revealed in the reviewed ARD articles. We compared and contrasted the key findings of the reviewed articles. Despite various research efforts, we found that the findings differed from one article to another for the same issue being studied; thus, no particular ARD aspect can be held true or generalised. Appendix B summarises the contradictory findings over five ARD related aspects: auditor independence; cooling-off period; earnings management; benefits to audit firms; and audit quality, which will be outlined as follows.

Researchers have been concerned with the impact of the ARD phenomenon on *auditor independence*, and the evidence that has been found is contradictory. For example, Ahmad (2015) concludes that the appearance of auditor independence is negatively affected by the auditor–client employment issue,

consistent with the majority of prior studies (e.g. Chapple & Koh, 2007; Firth, 1981; Imhoff Jr., 1978; Iyer & Raghunandan, 2002; Kilcommins, 1997; Koh & Mahathevan, 1993; Law, 2010; Wright & Booker, 2005). Moreover, Baber et al. (2014) conclude that hiring affiliated auditors into financial positions undermines the appearance of auditor independence, if not auditor independence in fact. Also, Dart and Chandler (2013) found that private investors demonstrated significantly greater levels of concern about issues related to auditor independence. However, these results contradict the findings of other research. For example, the impact of a client employment offer on the independence of external auditors was evidenced by Sori and Mohamad (2008) to be minimal. In the same vein, Dart and Chandler (2013) found little evidence of concern from institutional investors about the threat to auditor independence by auditors joining former client companies. Geiger et al. (2005) generally do not support regulators' concerns of significantly impaired auditor independence in these hiring situations.

The only qualitative article, by Sori and Mohamad (2008), attempted to justify the study's mixed results due to the small size of the Malaysian audit market, which allows close relationships among the market players. Therefore, auditors and their clients have a strong interest to behave consistent with the recommendations outlined in professional conduct, as any negative events arising from ARD practice might damage their reputation<sup>5</sup>. Moreover, they refer to the different cultures, working practices, ownership structures, audit competitiveness and working structures of audit firms in Malaysia and those in developed countries. In contrast and more recently, Ahmad (2015) studied the issue from the perspective of financial statement users also in Malaysia using quantitative methods, but the researcher found opposite evidence. This might be perhaps because of the qualitative methodology applied or because the major interviewees were accounting professionals who feared that further restrictions could hamper their own mobility.

Research regarding the impact of a *cooling-off period* on mitigating the possible negative impact of ARD practice has two directions and controversial findings. Imhoff Jr. (1978) found that changing the cooling-off period in an experiment did have a significant impact on the responses regarding auditor independence. Additionally, Koh and Mahathevan (1993) conclude that the shorter the time lapse, the more independence is questioned. Wright and Booker (2005) reported evidence that the lack of a cooling-off period threatens a CPA firm's independence. However, other studies have argued that a cooling-off period prohibits many suitably qualified candidates from accepting appointments, the former auditors' knowledge about the client is reduced after the cooling-off period and adversely affects the service provided, and there is no guarantee that a gap will sufficiently weaken an affiliation built on long tenure. For example, Geiger,

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<sup>5</sup> Herbig, Milewicz and Golden (1994, p.23) define reputation as '... the estimation of the consistency over time of an attribute of an entity. This estimation is based upon the entity's willingness and ability to repeatedly perform an activity in a similar fashion. ... [it] is an aggregate composite of all previous transactions over the life of the entity, a historical notion, and requires consistency of an entity's actions over a prolonged time for its formation.' In the audit society, reputation of an audit firm is a multidimensional construct, and therefore an audit firm will have multiple reputations reflecting quality work in numerous services that it offers e.g. auditing, taxation, advisory, etc. These various reputations for each of the services offered are supposed to influence each other. For example, good reputation for quality work in the audit service is likely to positively influence the reputation for the taxation service that the firm offers, and vice versa. With this in mind, despite reputation of an audit firm is not determined primarily by the quality of its audit service, a relatively low image of the audit service (e.g. as a result of ARD practice) could negatively contribute to the overall reputation of the audit firm in the financial community (see Moizer, 1997).

Lennox, and North (2008) found that a cooling-off period restriction on ARD practice may be unnecessary and will not do much to protect shareholders. Geiger et al.'s (2008) concern with the appointments of senior financial reporting officers and their findings are consistent, from the perspective of shareholders, with the argument that small companies would suffer most from the restriction on revolving door appointments. In the same vein, Dowdell and Krishnan (2004) found that there was no difference in the level of accruals for CFOs who joined less than a year compared to those who joined more than a year after leaving the audit firm. Furthermore, Naiker and Sharma (2009) report evidence that suggests that the cooling-off period may be unwarranted and deserves further attention. Wilson (2017a) found no evidence that the addition of SOX Section 206's cooling-off period significantly improves perceptions of revolving door firms' independence. Abbott et al. (2016) found that a 13-month cooling-off period is unable to completely alleviate audit committee members' perceptions of impaired auditor independence, while Ahmad (2015) found that a two-year cooling-off period may reduce the negative effect of the revolving door on independence. Moreover, Naiker et al. (2013) found that a three-year cooling-off period may not be warranted and deserves additional investigation. Wright and Booker (2010) found that perceptions of independence increase significantly with a one-year cooling-off period; However, increasing the cooling-off period from a year to two years does not significantly increase perceptions of audit independence.

Many factors contribute to the differences in results regarding the cooling-off period. Some of these are the sample size, the sample group, whether the study was conducted in the pre- or post-SOX era, the research context and the research method applied. For example, an archival study by Naiker et al. (2013) used a sample of 2,748 observations during 2004–2005. By contrast, Abbott et al. (2016) employed a 2×2 experiment using 740 financially literate participants.

Prior studies have focused on the *earnings management* consequences of affiliated hiring; however, results are mixed. For example, Dowdell and Krishnan (2004) found that firms with affiliated CFOs are associated with greater earnings management than those with unaffiliated CFOs. Further investigation revealed that the mixed evidence on the effect of affiliated hires on earnings management indicated that discretionary accruals are higher for the affiliated hires compared to the unaffiliated hires, while absolute discretionary accruals are not significantly different. Recently, Baber et al. (2014) found that earnings quality declines after affiliated hires (not unaffiliated hires) of financial executives. However, based on further investigation, they report that changes were attributable to perceived, rather than real, changes in earnings management following affiliated hires. On the other side, using both the discretionary total accruals model and the measure of non-operating accruals, Geiger et al. (2005) found that earnings management is not greater immediately after ARD practice with a senior financial reporting executive. Geiger et al. (2008), using the cumulative abnormal returns, report evidence that the ARD appointments of accounting and finance officers are not associated with lower financial reporting quality. In the same direction, using the performance-adjusted discretionary accruals, Naiker and Sharma (2009) found that the presence of former audit partners at the audit committee level is negatively associated with more-effective monitoring of internal controls and financial reporting. These mixed results could be attributed to the impact

of the different measures used for earnings management or as proxies for the quality of financial reporting and the level of ARD appointments.

Audit firm alumni tend to *benefit their former audit firm* by buying non-audit services, sending business opportunities, referring the accounting firm to others and/or behaving softly in audit fee negotiations. However, articles offer debatable and mixed results regarding such economic benefits. From the perspective of audit firm alumni, Iyer et al. (1997) measured the alumni's inclination to benefit their former audit firms and found that audit firms can influence alumni's inclination to benefit their former firms. Later, Iyer et al. (2000) report evidence that alumni who have had stronger personal contact with former colleagues are more likely to benefit their former audit firms. Lennox and Park (2007) provide archival evidence on how alumni provide economic benefits to their former firms. They document that an audit firm is more likely to be appointed if the company's officer is an alumnus of that firm. Again, the level of the ARD appointment affects the results regarding the benefits gained by the former audit firms. While Ye et al. (2011) indicate that alumni directors tend to benefit their former audit firms by offering non-audit services to them, Naiker et al. (2013) found that the presence of former audit partners on audit committees does not lead to greater non-audit services from the auditor; rather, it leads to fewer non-audit services from the auditor.

Research results regarding the impact of the revolving door on *audit quality* are mixed as well. While Lennox (2005) found that affiliated companies are significantly more likely to receive clean audit opinions and improved audit quality, Bird et al. (2015) found that the more alumni accounting employees, the fewer reported financial misstatements and the lower absolute abnormal accruals. This suggests that auditor-accounting employee alumni affiliations improve audit quality. The reason for the conflict in the results is perhaps again the level of ARD appointment. The first study focused on the executive officers' affiliations, while the second studied the impact of non-executive accounting employees' affiliations.

## **FUTURE RESEARCH PATHS AND QUESTIONS**

The previous section addressed the first two research questions: *How has research for inquiring into ARD phenomenon developed?* And *What are the focus and critique of the ARD literature?* utilising a meta-analysis of the existing ARD research. Overall, our study shows that there is an apparent lack of ARD research and no particular issue can be generalised about the ARD phenomenon, with focus on the USA region and post-ARD issues, using mainly quantitative approach. With this in mind, in the following section, we advocate three directions for the ARD future research in answering the final research question: *What more could/should be done on ARD phenomenon as a research agenda?*

### ***Threats/Risks of ARD***

Our research themes analysis suggests some unexplored areas in the field of ARD risks. Studies investigating the perceptions of different parties on ARD and auditor independence (e.g. Ahmad, 2015; Parlin & Bartlett, 1994; Wilson, 2017b) have explored the views of one or two of the following



stakeholders; investors, loan officers, bankers, analysts, auditors and managers. If the debate is to be moved forward, a better understanding of the views of a broader group of stakeholders needs to be developed to complete the picture of ARD risks that possibly arise prior/post to the auditor joining the client. This group may include audit committees, professional bodies and regulators. As such, given that the research methods analysis indicated an evident lack of *qualitative* research, there could be interview-based studies that explore the perceptions of those stakeholder groups on whether they consider ARD as a threat to auditor independence, audit quality, and why, as well as what they could do (pre-/post-departure) further to mitigate the potential negative effects of ARD.

Research themes analysis of the effect of ARD on different types of earnings management indicates a promise for future research. While there are prior studies on the relationship between ARD and earnings management (e.g. Baber et al., 2014; Dowdell & Krishnan, 2004), The focus was on accruals earnings management; however, firms can manage earnings by taking real actions, such as decreasing R&D expenses, delaying a project (Graham, Harvey, & Rajgopal, 2005) or accelerating sales by giving discounts (Roychowdhury, 2006). By doing so, managers maintain the accounting appearance but sacrifice economic value, as they may give up projects with positive NPVs (Graham et al., 2005). Cohen, Dey, and Lys (2008) found that firms replaced accruals earnings management with real earnings management in the aftermath of SOX. As it is harder to detect (Cohen et al., 2008; Graham et al., 2005), firms may shift to real earnings management, though it is costly, to escape coming under criticism and perhaps scrutiny, especially after hiring a former auditor. Further studies regarding the relationship between the threats of ARD and both accruals and real earnings management would be, therefore, worthwhile.

Understanding the role of corporate governance mechanisms in minimising the negative effects of ARD is also an opportunity for future research. Farber (2005) questions whether the quality of corporate governance mechanisms influences financial reporting quality, finding that fraudulent companies tend to have poor corporate governance mechanisms in the year before the fraud is detected. Naiker and Sharma (2009) conclude that the presence of a former audit partner, affiliated or non-affiliated, on an audit committee increases the effectiveness of internal controls. In a more recent study, Naiker et al. (2013) found that non-audit services are not influenced by the presence of affiliated or non-affiliated former audit partners. Future research could address the following questions: does the quality of corporate governance mechanisms have an impact on the extent of accruals and real earnings management following the appointment of an ex-auditor? Do strong corporate governance mechanisms reduce the threats of ARD?

The issue of ARD practices in non-public firms is an intriguing one that could be usefully explored in further research, as our analysis shows a focus on public firms. In comparison with publicly traded firms, non-public firms are of higher ownership concentration and generally have controlling shareholders; therefore, the role of auditing may be different in private firms (Coffee, 2005). In addition, both reputation and litigation risks are lower in non-public firms than in publicly traded firms (Hope & Langli, 2010). With such setting differences, the results of studies that have examined the threats of ARD practices in public

firms may not apply to private firms. Future studies may investigate whether the threats of ARD in public firms and private firms are the same.

Another possible area of future research would be to investigate whether audit firm size and brand influence the risks of ARD. Prior research has reported a relationship between audit firm size and audit quality, in that the large size of an audit firm governs the auditors' incentives in a way that leads to higher audit quality (e.g. DeAngelo, 1981). Likewise, the brand of an audit firm could have an impact on audit quality, as DeFond (1992) confirms that both audit firm size and brand matter in determining the ability of an audit firm to mitigate agency problems. This raises questions on the relationship between audit firm size/brand and the threats of ARD. Future research could address whether the ARD risks differ with the differences in audit firm quality, captured by size and brand name.

Given that the existing ARD research focuses mainly on the USA region, a fruitful area for further research would be to analyse the possible effects of cultural factors on threats arise from ARD. Cultural factors have been identified, among others, as determinants of accounting practices (Gray, 1988; Perera, 1989). Building on Hofstede's (1980, 1983) work, Gray (1988) discusses how culture contributes to the international differences in accounting systems and identifies four values of accounting sub-culture, namely professionalism, uniformity, conservatism and secrecy. Perera (1989) linked those values with specific accounting practices: professionalism with authority, uniformity with application, conservatism with measurement, and secrecy with disclosure. Those accounting values may explain the differences in the effects of ARD. For example, higher secrecy means less information available to the public (Perera, 1989), and, therefore, the negative effects of ARD could be higher. Conservatism could influence both the accounting measurement and the level of disclosure (Perera, 1989), so there could be an impact on the threats that ARD poses. Thus, there is a need for an investigation of the effects of culture on ARD threats.

### ***Benefits of ARD***

Our analysis shows a small number of articles discussing the benefits of ARD. Interpretations of the consequences of ARD are not straightforward, as contradictory results were found as to whether ARD carries more threats than benefits. Although there are threats/risks associated with ARD, hiring ex-auditors could also carry some benefits to auditors, audit firms, companies, and the profession itself (Beasley et al., 2000). For example, the potential for obtaining a corporate position is a key attraction point in entering the accounting profession, therefore, more restrictions (than rigorous organisation) could result in making the profession less attractive (Wright & Booker, 2005). Therefore, we believe that ARD will continue to be an important issue, and we urge conducting further research, as its benefits to all involved parties alike have not yet been sufficiently revealed. More specifically, factors that affect the relative benefits of ARD likely differ across firms and cultural contexts (Baber et al., 2014). For example, fast-growing companies, more-complex companies and companies with higher leverage receive greater benefits from ARD (Bird et al., 2015). As a result, future research needs to assess: what are the aspects that play an important role in determining when the benefits of an affiliated hire outweigh the costs, as perceived by auditors, companies, audit firms, professional bodies, and regulators?

ARD can arguably provide real benefits to corporate financial reporting and audit quality (Bird et al., 2015) because of the audit personnel's specialised accounting and systems knowledge of the client's firm and industry (Dowdell & Krishnan, 2004; Geiger et al., 2008). Given that, future research may investigate: what are the most attractive (perceived) attributes for clients to hire former employees from their audit firms? This may include the level of training in audit firms, exposure to numerous types of businesses and industries, exposure to complex accounting, familiarity with clients' business strategies and financial reporting processes, the ability to observe the auditor over a period of years, the smooth working relations with auditors, and influence over affiliated audit firms (Lennox, 2005; Menon & Williams, 2004). How does this affect companies' financial reporting and audit quality?

If benefits are expected from ARD practice, a positive market reaction would be observed. ARD may also provide the market with a positive signal about the company's future, more so in small rather than large companies (Geiger et al., 2008). The direction and extent of the investors' reactions to ARD is dependent on other company-specific governance factors (Daugherty & Dickins, 2008). Governance factors may include audit committee independence, company-specific disclosures and ownership structure. Ultimately, then, it is an empirical question: how do different types of investors/shareholders view ARD? Positively or negatively? Future research might usefully explore whether perceptions differ between different stakeholders and investigate what causes such differences. Is the market reaction attributable to perceived economic benefits or to signalling? Also, whether ARD hiring as financial executives affects the perceptions of market participants represents an avenue for further research.

In some cases, perceptions of earnings quality may be improved following ARD practice (Baber et al., 2014). Firms with former partners are more likely to just meet analyst forecasts (Menon & Williams, 2004). Thus, future studies may find out: what are the factors that make market participants interpret the effect of ARD on earnings quality favourably? Are the perceived benefits of ARD appointments actually resulting in improved financial reporting quality?

The restriction on ARD may reduce the ARD economic benefits to clients, audit firms, auditors and the whole economy from the 'alumni effect' (Basioudis, 2007). Alumni are inclined to provide economic benefits, including buying non-audit services (NAS), to their former audit firms, which they have attachments towards (Iyer et al., 1997). Further research could identify whether ARD results in cheaper audits for the client and audit firms. Future research could also examine how a body of alumni who are engaged in ARD constitute an influential competitive advantage. How should firms re-evaluate their human resource policies in view of the evidence on networking in marketing? What are the motivations for alumni to appoint their former firms? whether ARD helps the audit firm to receive additional clients?

### ***Safeguards Against ARD Threats/Risks***

Our analysis shows that the ARD literature is highly limited regarding the safeguards against ARD, focusing on one type – the cooling-off period – and even the reached findings are mixed, suggesting more research not only on the cooling-off period in different contexts (as mainly investigated in the USA region),

but also on what other possible safeguards can be implemented to enhance any perceived benefits, and mitigate risks/threats, thus maintaining auditor independence and audit quality.

Our analysis reveals mixed results regarding the impact of the cooling-off period. While some studies (e.g. Imhoff Jr., 1978; Koh and Mahathavan, 1993; Wright and Booker, 2005) concluded that the lack of a cooling-off period threatens auditor independence, others (e.g. Geiger et al., 2008; Naiker & Sharma, 2009; Wilson, 2017a) reported no evidence that the cooling-off period may be necessary but rather will adversely affect the profession. Given that, we encourage future research to explore the perceptions of various stakeholder groups (e.g. auditors, clients, investors, professional bodies and regulators) on a total prohibition/approval on ARD; why there should, or should not, be restrictions on ARD; whether the presence/absence of restrictions improves perceptions of auditor independence; whether cultural factors play a role in prohibiting/approving ARD; and whether one size/type of restriction fits all or if there is a need for context-specific (e.g. audit partner vs. junior auditor employment; listed companies vs. unlisted companies) measures.

Our regional focus analysis revealed that almost all existing ARD research has been undertaken in North America, Australasia, the United Kingdom and Continental Europe. These regions are different in the length of the required cooling-off period, varying from one year to two years. Coupling this finding with the mixed results on the necessity/effectiveness of the cooling-off period leads to a number of research questions that are still not clearly answered in the prior literature: what constitutes an optimal/effective cooling-off period? What are the positive/negative effects associated with a cooling-off period? On what basis do regulatory bodies identify the length of a cooling-off period? Does one length of cooling-off period (per country) fit all, or is there a need for a context-specific (e.g. auditor rank, audit firms size, or corporate size) cooling-off period? How is a cooling-off period valued by various stakeholder groups (e.g. auditors, clients, investors, professional bodies and regulators)?

According to the Independence Standards Board (ISB), *Independence Standard No.3* (2000), and the International Ethics Standards Board for Accountants (IESBA), *the Handbook of the Code of Ethics for Professional Accountants* (IFAC, 2016), safeguards should be implemented pre- and post-ARD. The pre-ARD safeguards include that the auditor being offered a job by a client should immediately report to the audit firm such a possible employment with the client. The audit firm then should remove that auditor from the audit engagement team immediately, and also review their audits to ensure the application of appropriate degree of professional scepticism through the audit. After joining the client, the ongoing engagement team should review the audit plan and even may modify it because of the risk of circumvention by the former auditor. The post-employment relationship between the former auditor and the team could impair the team's objectivity. The audit firm, therefore, should introduce procedures to guarantee that the engagement team maintain their objectivity when dealing with the former auditor. A reviewer uninvolved in the audit should review the next following annual audit when the former auditor joins the client within one year of disassociating from the audit firm and keeps a significant interaction with the engagement team. Finally, a clear disclosure of the identity of the former auditor should be made either in the annual report

or in the audit client's proxy statement within five years of leaving the audit firm. In general, we argue that the safeguards that should be implemented depend on the existence and significance of the threats, which are determined by several factors. These are the former position of the ex-auditor within the firm or the engagement team, the length of time the ex-auditor was associated with the audit firm, the position the ex-auditor has moved to within the client workforce, and the level/type of future interaction between the ex-auditor and the audit firm/team (IFAC, 2016).

Given that we encourage future research to investigate: what other effective safeguards (e.g. audit firm internal cooling-off period, change the audit team, change the audit methodology to the concerned client, apply further audit tests, increase/decrease the level of professional scepticism, etc.) could be implemented to mitigate the risks/threats of pre- and post-ARD; whether audit firm, and/or audit partner, rotation could mitigate the possible risks/threats of ARD; whether various safeguards against ARD risks could improve the perceptions of financial information users about auditor independence; how different codes ethics deal with ARD; and the extent to which members of a professional body are aware of ARD and how their codes of ethics deal with it. How ARD safeguards are implemented in different audit markets.

## **CONCLUDING REMARKS**

Although the number of articles reviewed and analysed in this study is relatively limited, it demonstrates the importance of the ARD phenomenon as an emerging research area. The detailed and systematic analysis of the existing ARD research has identified gaps for future research. Using an SLR methodology, we illustrated the characteristics of the ARD literature across the different categories of content, including authors, biographies, research themes, motivational events, regional focus, research jurisdiction, organisational focus, the nature of the data employed and research methods. This has offered insights into the characteristics of the available literature to contribute to the development of knowledge in ARD research and then to draw some conclusions about the contributions of different researchers and the most studied topics. Our results provide evidence of the domination of the research by quantitative methods and authors from the USA after SOX. Researchers have collected data using surveys, archival approaches, experiments and, in limited cases, case studies. Within these conclusions, we offer some guidance for future research directions.

We suggest that the range of locations studied could be more extensive. Investigating ARD and their effects on auditor independence, audit quality and corporate reporting quality in a variety of contextual settings presents a potentially rich area for future ARD research. More significantly, future ARD research requires a quite specific look at the research methods applied, different stakeholders' views, the risks and benefits of ARD, and the different safeguards against ARD. There is a real gap to be filled in the consideration of issues related to ARD research. There is a need for more balance between normative and empirical work. Given the fact that most previous studies have employed quantitative methods, the use of qualitative methods in ARD studies could hold much promise for future research in this field. This is important to address the 'how' and 'why' questions associated with the positive/negative effects of ARD. These aspects require the academic community to move forward to build links with accounting/auditing

professionals and to construct a body of practice-informed knowledge, rather than simply to produce a set of disparate, though interesting, ideas.

If we do not succeed in understanding the evidence rooted in the real life empirically, then academia may not be able to influence the practice in the business world. We wish to emphasise the need to go beyond just understanding the reality of ARD by moving to improving actual practice. Therefore, research ideas are better generated with reference to the perceptions of practitioners. This might facilitate improved collaborations between academics and practitioners. Doing so might minimise the ongoing gap between academic research and accounting practice.

Our results have also some implications for regulators, accounting firms and auditors. While various current safeguards are important and influential in mitigating ARD risks, also the true benefits gained from the ARD must be carefully addressed. Although many regulators and professional bodies require a cooling-off period, the embedment in the corporate governance codes with additional interpretation of this safeguard as well as other more effective safeguards may be necessary to reinforce the integrity of regulatory processes. As there is no consensus among the regulators, extra clarifications should be provided regarding who should be covered by the cooling-off period? The appropriate length of this period for each ARD case? When does this period start? What hiring position is relevant? Moreover, regulators and policy makers should consider the additional cost associated with record maintenance to comply with standards as well as the opportunity cost to audit firm clients because of not being allowed to hire directly from their current auditor. Therefore, not to dismiss the benefits of ARD, regulators may require that companies should disclose hiring a former auditor, the reasons behind the appointment and the measures employed to mitigate any associated risks.

To avoid the pre-departure risks of ARD, inspections of a random sample of audits should take place within accounting firms annually to check for any possible conflict of interests. Any discovered prospect job offers to one of the audit team from a client should be properly reported in a timely manner to the upper level management, who should react immediately and appropriately. Stricter conflict of interest rules should be enforced as required.

Imposing restrictions on the ability of auditors to seek employment elsewhere may have a great impact on their career progression. Moreover, in some countries this could be illegal. Therefore, it is recommended to address, in the profession codes of ethics, the reasonable measurements and considerations that should be addressed in case of an audit to accept an employment offer from a client, instead of hindering this move.

To conclude, our research calls for clear guidance on the pre- and post-ARD issue and measures to be used to enhance its benefits and mitigate any arising risks. This guidance needs to be clearly and sufficiently addressed and communicated within corporate governance code, professional code of ethics, and ethics rules within accounting firms.

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**Table 1:** Top ten articles by Google Scholar citations

	Reference	Article	Google Scholar citations
1	Menon and Williams (2004)	Former audit partners and abnormal accruals	370
2	Lennox (2005)	Audit quality and executive officers' affiliations with CPA firms	210
3	Naiker and Sharma (2009)	Former audit partners on the audit committee and internal control deficiencies	176
4	Bedard, Deis, Curtis and Jenkins (2008)	Risk monitoring and control in audit firms: A research synthesis	132
5	Kaplan and Whitecotton (2001)	An examination of auditors' reporting intentions when another auditor is offered client employment	129
6	Iyer, Bamber and Barefield (1997)	Identification of accounting firm alumni with their former firm: Antecedents and outcomes	125
7	Lennox and Park (2007)	Audit firm appointments, audit firm alumni and audit committee independence	113
8	Geiger, North and O'Connell (2005)	The auditor-to-client revolving door and earnings management	98
9	Ye, Carson and Simnett (2011)	Threats to auditor independence: The impact of relationship and economic bonds	87
10	Tepalagul and Lin (2015)	Auditor independence and audit quality: A literature review	84

**Table 2:** Top ten articles by CPY

	Reference	Article
1	Tepalagul and Lin (2015)	Auditor independence and audit quality: A literature review
2	Menon and Williams (2004)	Former audit partners and abnormal accruals
3	Naiker and Sharma (2009)	Former audit partners on the audit committee and internal control deficiencies
4	Lennox (2005)	Audit quality and executive officers' affiliations with CPA firms
5	Bedard, Deis, Curtis and Jenkins (2008)	Risk monitoring and control in audit firms: A research synthesis
6	Ye, Carson and Simnett (2011)	Threats to auditor independence: The impact of relationship and economic bonds
7	Lennox and Park (2007)	Audit firm appointments, audit firm alumni, and audit committee independence
8	Baber, Krishnan and Zhang (2014)	Investor perceptions of the earnings quality consequences of hiring an affiliated auditor
9	Kaplan and Whitecotton (2001)	An examination of auditors' reporting intentions when another auditor is offered client
10	Geiger, North and O'Connell (2005)	The auditor-to-client revolving door and earnings management

**Table 3:** Analytical framework criteria and results of dataset analysis

<b>A</b>	<b>Journal</b>	<b>B</b>	<b>Year of Publication</b>	<b>C</b>	<b>Authorship</b>
A1	Auditing Journal	8	B1 Before Enron (up to 2001)	12	C1 Sole Author
A2	Non-Auditing Journal	32	B2 After Enron (after 2001)	35	C2 Two Authors
A3	Other	7	<i>Total</i>	47	C3 Three Authors
	<i>Total</i>	47			C4 Four Authors
					<i>Total</i>
<b>E</b>	<b>Institutional Affiliation</b>	<b>F</b>	<b>Themes</b>	<b>G</b>	<b>Motivational Event</b>
E1	North America	70	F1 Auditor Independence	18	G1 Pre-SOX
E2	Australasia	21	F2 Earnings Quality	8	G2 SOX Act 2002
E3	United Kingdom	4	F3 Audit Quality	4	G3 Post-SOX
E4	Continental Europe	6	F4 Benefits of ARD	7	G4 General
E5	Other	1	F5 Others	10	<i>Total</i>
E6	Unknown	1	<i>Total</i>	47	
	<i>Total</i>	103			
<b>I</b>	<b>Nature of Research</b>	<b>J</b>	<b>Regional Focus</b>	<b>K</b>	<b>Organisational Focus</b>
I1	Empirical	42	J1 North America	30	K1 Publicly Listed
I2	Conceptual	5	J2 Australasia	6	K2 Private SMEs
	<i>Total</i>	47	J3 United Kingdom	3	K3 Private Others
			J4 Continental Europe	3	K4 Accounting Firms
			J5 Other	0	K5 Public Sector
			J6 Nil	5	K6 Not-for-Profit
			<i>Total</i>	47	K7 Mixed
					K8 General/Other
<b>M</b>	<b>Data Analysis</b>	<b>N</b>	<b>Literature Focus</b>		
M1	Quantitative	39	N1 Auditor Independence	24	<i>Total</i>
M2	Qualitative	1	N2 Auditor–Client Relationships	5	
M3	Mixed	2	N3 Earnings Quality and Audit Quality	6	
M4	Nil	5	N4 Mixed	5	
	<i>Total</i>	47	N5 Other	7	
			<i>Total</i>	47	

**Table 4:** Articles by year and journal focus

Year of publication		No. of articles	No. of articles per journal focus			Total
			Auditing journals	Non-auditing journals	Others	
Before Enron	1978	1		1		12
	1981	1		1		
	1993	1		1		
	1994	2		2		
	1997	4		3	1	
	2000	2		2		
	2001	1	1			
After Enron	2002	1		1		35
	2004	2		2		
	2005	3	1	2		
	2007	3		3		
	2008	4	2	2		
	2009	1		1		
	2010	2	1	1		
	2011	2	2			
	2013	2		2		
	2014	2		1	1	
	2015	3	1	1	1	
	2016	2		1	1	
	2017	5		3	2	
2018	3		2	1		
Total		47	8	32	7	47

**Table 5:** Authors who have published at least two articles

Name	No. of articles	Name	No. of articles
Iyer, V.	3	Naiker, V.	2
Lennox, C.	3	North, D.	2
Bamber, E.	2	Sharma, D.	2
Barefield, R.	2	Simnett, R.	2
Booker, Q.	2	Wilson, R.	2
Geiger, M.	2	Wright, C.	2
Krishnan, J.	2		

**Table 6:** Research themes by motivational events

Major themes	Motivational Events			
	Pre- SOX regulations and professional guidelines	SOX Act-2002	Post-SOX regulations and professional guidelines	C
Auditor independence	5	7	5	
Earning quality	1	7	0	
Audit quality	0	3	1	
Benefits of ARD	2	2	0	
Others	2	5	2	
Total	10	24	8	



## Appendix A

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## Appendix B

Issue	Contradictory findings	Authors
Auditor independence	Auditor independence is negatively affected by auditor–client employment	Imhoff Jr. (1978); Firth (1981); Koh and Mahathavan (1993); Kilcommins (1997); Menon and Williams (2004); Lennox (2005); Chapple and Koh (2007); Law (2010); Dart and Chandler (2013); Baber et al. (2014); Ahmad (2015); Wilson (2017a, 2017b).
	Auditor independence is not negatively affected by auditor–client employment	Geiger et al. (2005); Sori and Mohamad (2008); Dart and Chandler (2013); Martinov-Bennie et al. (2011).
Cooling-off period	A cooling-off period could reduce the negative impact on independence	Imhoff Jr. (1978); Koh and Mahathavan (1993); Wright and Booker (2005, 2010); Ahmad (2015); Abbott et al. (2016).
	A cooling-off period may have been unnecessary	Dowdell and Krishnan (2004); Geiger et al. (2008); Naiker and Sharma (2009); Naiker et al. (2013); Wilson (2017a).
Earnings management	Greater earnings management	Kilcommins (1997); Dowdell and Krishnan (2004); Menon and Williams (2004); Baber et al. (2014).
	No greater earnings management	Geiger et al. (2005, 2008); Naiker and Sharma (2009).
ARD benefit	Alumni inclined to benefit their former firms	Iyer et al. (1997, 2000); Lennox and Park (2007); Ye et al. (2011).
	Alumni not inclined to benefit their former firms	Naiker et al. (2013).
Audit quality	Affiliations can impair audit quality	Lennox (2005).
	Affiliations help to improve audit quality	Bird et al. (2015).