

SA12046

Bank Loan Officers' Perceptions of Independence Safeguards for the Revolving Door Practice

C. Shane Warrick

Southern Arkansas University

Quinton Booker

Jackson State University

Abstract submission for the 2012 AABRI Conference in San Antonio

## ABSTRACT

Maintaining an independent relationship with an audit client is required of audit firms. This study investigates how an audit firm implemented safeguard may protect a firm's independence in appearance and perceived audit quality for a nonpublic client audit engagement experiencing a revolving door practice situation. The revolving door situation characterizes an engagement team audit manager who leaves the audit firm to join the engagement client in the controller position. Whether an audit firm safeguard reduces or eliminates the risk to independence is measured by bank loan officers' perceptions of varying audit firm employed safeguards. The loan officers analyze four potential safeguards consisting of: the current AICPA guidance, a mandatory peer review, a mandatory internal cooling-off period, and a mandatory external cooling-off period for their effectiveness in maintaining independence in appearance and audit quality.

The study results relate to a national survey of bank loan officers. There are 108 respondents providing information to the study's survey questionnaire. The results for the study suggest that bank loan officers perceive a difference in safeguard forms. The analysis indicates that stricter safeguard forms improve independence perceptions of the audit firm. The analysis also indicates that stricter safeguard forms improve audit quality perceptions.

This is the first study on the revolving door practice to specifically compare potential safeguard forms for effectiveness. The study provides information useful to accounting authorities responsible for establishing policy on independence and audit quality for audit engagements involving nonpublic companies. The study may assist audit firms in designing policies and procedures to manage their independence reputation.