



The Impact of the Auditor's Change on the Reaction of the Capital Market: Empirical Study on the Amman Stock Exchange

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ABSTRACT

The purpose of this paper is to examine the influence of information disclosure such as changing the auditor on evaluating the inspected company in the capital market. This article covers cases where the auditor changes during the period without going through the general resolution of the general meeting of shareholders, and the temporary accounting auditor is appointed accordingly (replacement during the term). The replacement during the term is one of the major features of the change in the auditor in Jordan that is not in the US for example, which might be a bad news for investors. In this paper, we compared the cumulative anomaly return with the replacement in the middle of the year and the usual replacement, and examined the effect of the replacement during the term on the stock price of the company being inspected. As a result, an evidence was obtained suggesting that the capital markets responded more negatively to replacement during the period than normal replacement. In other words, the information of the replacement during the term implies a negative information value for investors, which means that it can be a factor that causes a negative investing behavior.

Keywords: Change of Auditor, Capital Markets, Cumulative Abnormal Return

JEL Classifications: F3, M4

1. INTRODUCTION

In the recent years, investors' interest in replacing the auditor has increased. In response to this, from the fiscal year beginning on or after April 2008, it is obligatory to submit a temporary report as one of the disclosure items to be requested to the audited company in the event of a change in the auditor (Jordanian Corporate Act number 22).

The purpose of this paper is to examine how the disclosure of information such as the change of auditor will affect the evaluation of the audited firm in the capital market. Among other things, this paper focuses on cases where the auditor quits or gets dismissed during the period without going through an ordinary resolution of the General Meeting of Shareholders; in accordance to that, the temporary accounting auditor will be appointed (hereinafter referred to as "change during the term").

Originally, the change of the auditor is a matter to be resolved at the general meeting of shareholders, and the change in the term is said

to be exceptional. Therefore, it is considered that the replacement during the term may be a type of information that suggests even higher risks to investors than normal replacement, which may be a factor that causes negative investing behavior. Therefore, in this paper, we, the author, compare the turnover and normal change through using cumulative abnormal returns (CAR), and examine how the interchange during the period affects the stock price of the company being inspected.

As for the structure of this paper, the author would outline the previous research and derive a hypothesis based on the obtained findings in the following section.

In Section 3, the data sample and the period of the collected data are presented followed by the CAR calculation which is presented and analyzed in the following Section 4. However, in Section 5, we set different variables, sample/cut as additional verification, and check the robustness of the result. Finally, section 6 describes the conclusion, contribution, limitations and future tasks.

2. OUTLINE OF PREVIOUS RESEARCH AND DERIVATION OF HYPOTHESIS

2.1. Survey of Previous Research

In this paper, a survey focusing on US prior research is used. Table 1 shows the classification and arrangement of them according to market reactions and outlines.

As shown in Table 1, although the conclusion is revealed that the market does not respond to the change of the auditor in the earlier prior research, in recent research, the capital market reaction has been seen in some way after the change of the auditor, It has been suggested that disclosures about person turnover have information value for investors (Stefaniak et al., 2009).

However, there are still many points that have not been verified as to what factors cause investment behavior in the change of the auditor, and why investors have some auditor change information. (Griffin and Lont, 2010) have not identified key factors as to whether they respond to the change of other auditor replacement information.

2.2. Deriving Hypotheses

In the previous study confirmed in the prior paragraph, exclusively the replacement of the auditor and the response of the auditor to the capital market were mainly verified from the viewpoint of signaling, and evidence accumulation is progressing.

There is an information hypothesis in the background of the discussion on the signaling function of the audit (Wallace, 2004).

Table 1: List of previous research

Panel A: Previous research in which market reactions were observed			
Literature	Period	Sample	Overview
Fried and Schiff (1981)	1972-1975	48 companies	Negative market reactions are observed before and after the announcement of replacement. Differences due to the motive for replacement and the size of the auditor are not confirmed
Smith and Nichols (1983)	1973-1979	27 companies replacing reasons for discrepancies in opinion	There was evidence to suggest that the market responds negatively to the disclosure of reasons for change of disagreement
Eichenseher et al. (1986)	1980-1982	companies listed on the US over-the-counter market 87 companies	In addition to the negative market reaction at the time of changing auditors for small audited companies, there is a negative reaction when management owns more than 50% of the stock ownership
Smith (1988)	1975-1982	Replacement disclosure 511 cases	The market reacts negatively to the publication of the auditor change due to Bad News. We discussed the disclosure of Bad News and eventually the rules of ASR No. 165 are useful
Johnson and Lys (1990)	1985-1988	194 companies resigning auditors	It is arguable that the excess return when the auditor quits is significantly lower, and conversely in case of dismissal it can be a Good News if it is considered to be restructuring
Wells and Loudder (1997)	1988-1991	86 corporate resigned auditors	Response of the auditor Negative market reaction at the time of publication. Since many audited firms do not open reasons for change, the market insists that the change of auditors is regarded as Bad News.
Whisenant et al. (2003)	1993-1996	1,264 companies	Negative market reaction at auditor change. And it concludes that controlling other Form-8K submissions is similar and robust results
Knechel et al. (2007)	2000-2003	318 changed to Big 4	In the case of alternation to Big 4 with high industrial expertise, positive CAR was strongly indicated, and in the case of replacement to Big 4 with low expertise, negative CAR was strongly shown
Griffin and Lont (2010)	2001-2005	2,524 turnover	Investors suggest that they respond negatively in the case of quit rather than dismissal of the auditor. A further negative reaction if securities litigation before the changeover of the auditor or risk of high bankruptcy is present
Panel B: Previous research that market reactions were not observed			
Johnson and Lys (1990)	1985-1988	194 companies resigning auditors	It is arguable that the excess return when the auditor resigns is significantly lower, and conversely in case of dismissal it can be Good News if it is considered to be restructuring
Klock (1994)	1986-1987	50 companies	We set up a window for 2 months and analyze factors such as the size of the company to be inspected and the ownership structure. The result is that the change of the auditor has no influence on the stock price
Schwartz and Soo (1996)	1988-1993	3,708 companies (of which 299 companies with stock price available)	The replacement company in the first half is a replacement for positive reasons as compared with the replacement company in the second half, and there are few lags in the audit report and the revenue report. There was no significant difference in CAR between the first half and the second half
Weiss and Kalbers (2008)	2000-2007	Substitution company 2,237 companies	Negative market response to auditor change. However, it is positive only for non-accelerated filers. Discussing the quality of audit and the risk of dressing differ depending on the company size.

Based on the information hypothesis, companies that are not subject to audits are regarded as synonymous with Hazardous companies and expelled from the market' (Yamaura, 2008).

However, in reality, naturally there are no 'companies that do not receive audits at Jordanian listed companies. In the unlikely event that the auditor is absent due to some reason and an audit report or the like is not submitted within the prescribed period, it will lead to the delisting (Amman Stock Exchange regulation); however, it is not easy to hold a general meeting of shareholders without delay if the auditor is absent. When the auditor quits or get dismissed during the period, the temporary accounting auditor will be appointed by the board of corporate auditors (Jordan Companies Act).

Here 'When it is not easy to hold a general meeting of shareholders without delay in cases where the auditor is absent' means when the auditor quits or gets dismissed during the period.

However, in the first place, the auditor is appointed by the ordinary resolution of the general meeting of shareholders and becomes the term of office until the conclusion of the ordinary general meeting of shareholders relating to the final business year out of the business year ending within one year after the election. At the general meeting of shareholders, when no other resolution is made, it is deemed to have been reappointed at the annual general meeting of shareholders (Jordan Companies Act)

In other words, the change of the auditor is not a property that can be frequently substituted, and in particular, during interchange term, the audited firms (at least the predecessor auditor, Companies should be formally audited, in case we have an example for ones with no audit then it could be clear that these companies try to avoid auditing inspection.

The change of the auditor itself is considered to be a 'red flag' regarding the quality of the financial report for investors (Dechow and Schrand, 2004). However, based on the above discussion, there is a possibility that the replacement during the term in particular may be an indication for a higher risk to the investor compared to the normal change.

The market reacts negatively (positively) to events that increased (decreased) the likelihood of rotation, although these results are sensitive to the market index used to calculate abnormal returns (Richard et al., 2017)

New information such as the replacement during the term has an information value as negative information of 'not subject to audit' of the predecessor, and since it is a signal with default risk raised, it affects the cost of capital. There is a possibility that it may be regarded as having a negative impact on stock prices.

Therefore, assuming the information hypothesis as the background, it can be inferred that the CAR takes a lower value in the middle interchange, which can be regarded as Bad News than the normal replacement. Therefore, we set the following hypotheses.

Hypothesis: Compared to an audited company that underwent normal change, an inspected company that changed auditor during the term has low CAR after replacement.

In the United States, the resolution of general meeting of shareholders is not a requirement when appointing the auditor - Auditing Standard No. 16- (PCAOB, 2016) and the auditor is appointed by the Audit Committee based on the SEC regulation. In that sense, it is possible to change at any time within the fiscal year, and it is understood that the nature differs from that of auditors in Jordan.

3. RESEARCH AND DESIGN

3.1. Samples and Data

The population of this study consists of all the corporate listed on the Amman Stock Exchange (ASE) during the period 2012-2015. Thus, based on a sample of 213 listed industrial companies, the total number of observations is 1065 (company/year). However, the final number of observations employed by the study is 723 companies.

This variation in the number of observation is attributed to the fact that some annual reports do not contain all the requested information, particularly information on the auditor change. Also, some of annual reports are missing during the period of the study or companies do not have any disclosure about the external auditor.

As a result of classifying the companies, there were 119 replacements during the term and 604 ordinary turns. In other words, the change of the auditor is not a property that can be frequently substituted (Murase et al., 2011). Regarding the replacement of the auditor and due to the lack of a comprehensive database as far as the author's investigation was concerned, the authors confirmed the names of the auditors of all the listed companies through the Jordanian securities depository center database and data was collected manually from the disclosed material.

At the same time, it also obtains data on the publication date of the temporary report and the timely disclosure material. Financial data of each company was obtained from "Amman Stock Exchange ASE" and the stock price data was extracted from ASE stock price (xls.).

3.2. Identification of Event Date and Calculation of CAR

The event date shall be the date on which the change of the auditor becomes apparent to the outside on the occasion of the earliest public announcement date of the extraordinary report, timely disclosure information and other IR information (disclosure on the website etc.).

Next, we calculate CAR by the following formula (1) and (2)

$$AR_{it} = R_{it} - R_{mt} \quad (1)$$

$$CAR(S, T) = T \sum_{t=S}^T (AR_{it}) \quad (2)$$

In this paper, we define the date of the changeover of the auditor daily 0 ($t = 0$) and track the stock price performance for 14 days from $t = -6$ up to $t = 7$ at the maximum.

To calculate CAR, first calculate each daily stock price return (Rit) for each individual issue i, deduct the stock price return (Rmt) of the entire market (ASE stock index) on that day, (ARit) is calculated (equation (1)).

Then, ARIT is accumulated from daily S to daily T ($-6 \leq S, T \leq 7$) and CARit is calculated (expression).

3.3. Model Setting

The regression model for verifying the hypothesis is as shown in equation (3) below.

$$\begin{aligned} \text{CAR}_{3d} = & \alpha + \beta_1 \text{SWITCH_DT} + \beta_2 \text{SIZE} + \beta_3 \text{LOSS} + \beta_4 \text{CR} \\ & + \beta_5 \text{LIQ} + \beta_6 \text{LEV} + \beta_7 \text{GROWTH_A} + \beta_8 \text{GROWTH_NI} \\ & + \beta_9 \text{GC} + \beta_{10} \text{EMP} + \beta_{11} \text{RE} + \beta_{12} \text{MULTI} \\ & + \beta_{13} \text{BigNbefore} + \beta_{14} \text{BigNafter} + \varepsilon \end{aligned} \quad (3)$$

However,

CAR - 3d: CAR [-1, 1] (cumulative abnormal return of 3 - day event window)

SWITCH_DT: A dummy variable that sets 1 in the case of turning in the middle and 0 in the case of normal turning

SIZE: Natural logarithm value of total assets at the beginning of year.

NI: Net asset net income ratio (net income/total assets) in the period immediately before changeover

CR: Current ratio (current assets / current liabilities)

LIQ: Current assets ratio (current assets / total assets) in the period immediately before the change

LEV: Debt ratio in the period immediately before the change (total liabilities / total assets)

GROWTH_A: Total asset growth rate (total assets at the end of the period - total assets at the beginning of the period) / beginning of the period Total assets)

GROWTH_NI: Net income growth rate ((Net income - Net income) / Net income)

GC: Dummy for which 1 is added when additional information on the premise of the going concern is attached to the audit report in the period immediately before the change variable.

EMP: A dummy variable for which 1 is added when postscript information other than postscript information on the premise of the continuing company is attached in the audit report in the period immediately before the changeover.

RE: The earnings information is settled for three days before and after the event date, etc. A dummy variable that sets 1 as being released

MULTI: A dummy variable with 1 as the case of a second or more turnover during the analysis period

BigNbefore: A dummy variable with 1 as the case when the predecessor auditor is a major audit corporation

BigNafter: A successor auditor is a major audit corporation Dummy variable with case 1.

The explained variable in formula (3) is CAR - 3d, and the explanatory variable for verifying the hypothesis is SWITCH - DT.

We are trying to control the financial characteristics of the company being inspected, including the size of the company being inspected,

as well as elements such as audit reports, short-listed financial statements, and the size of the auditor are added to the variables according to the previous research (Eichenseher et al., 1989; Klock, 1994; Knechel et al., 2007).

4. ANALYSIS

4.1. Descriptive Statistics

First, Table 2 shows the change in auditor by size of predecessor/successor auditor. The size of the auditor was broadly divided into major audit corporations (Big N) and other auditors (Non-Big N).

From Table 2, it can be seen that in all samples, the replacement pattern from the major audit corporation to the other auditors is the largest, and that among the other auditors is most frequent in the interchange during the term.

Table 3 summarizes the CAR and financial figures etc. of alternating samples in the interim and regular alternate samples and shows the results of the test of the difference in mean (median) in Panel C. Among the control variables, SIZE and GROWTH_A are significantly lower than those of the normal substitution; LOSS, LEV and GC show significantly higher values. In other words, the replacement samples may have financially vulnerable aspects compared to the normal replacement samples.

Regarding the variable BigN, both samples before and after the replacement are significantly lower in the replacement samples, and here too, it can be seen that there are many cases of alternation among other auditors in the middle of the change.

4.2. Univariate Analysis

Prior to the verification of the hypothesis, the transition of CAR of the replacement company is indicated by the percentage of each replacement during the term and the normal change. The results are shown in Table 4 and FIG.

Only for the replacement during the term, negative stock price performance, which is significantly different from 0 on average, was observed around the publication date on average. In addition, on the right side of Table 4, we compared the CAR trends in the interchange and the normal alternation; the change in the interim

Table 2: Sample breakdown

	Before changeover		
	BigN	Non-BigN	Total
Panel A: All samples			
After replacement	484	44	528
BigN	82	113	195
Non-BigN			
Panel B: Intermediate change			
After replacement	2	7	9
BigN	14	22	36
Non-BigN			
Panel C: normal change			
After replacement			
BigN	482	37	519
Non-BigN	68	91	159

Table 3: Characteristics of alternation during the term and normal alternate samples

Variable	CAR_3d	SIZE	NI	GROWTH_A	NI	CR	LIQ	LEV	GC	EMP	RE	MULTI	BigNbefore	BigNafter
Panel A: Replacement sample during the period														
Average value	-0.028	8.739	-0.203	-0.185	-4.816	2.023	0.608	0.632	0.465	0.192	0.017	0.097	0.402	0.064
Standard deviation	0.106	1.518	0.350	0.287	26.423	2.248	0.241	0.297	0.506	0.395	0.121	0.298	0.490	0.247
10%	-0.173	6.980	-0.572	-0.457	-6.863	0.464	0.258	0.249	0	0	0	0	0	0
25%	-0.053	7.780	-0.222	-0.354	-1.780	0.873	0.450	0.453	0	0	0	0	0	0
50%	-0.013	8.731	-0.082	-0.183	-0.094	1.416	0.640	0.640	0	0	0	0	0	0
75%	0.024	9.463	0.007	0.006	0.853	2.270	0.826	0.839	1	0	0	0	1	0
90%	0.062	10.660	0.605	0.052	0.057	3.821	0.879	0.910	1	1	0	0	1	0
Panel B: normal alternate sample														
Average value	0.008	9.462	-0.068	-0.043	-0.216	2.258	0.584	0.542	0.133	0.260	0.315	0.086	0.687	0.308
Standard deviation	0.070	1.517	0.290	0.250	0.250	2.646	0.201	0.241	0.340	0.434	0.468	0.270	0.464	0.480
10%	-0.062	7.553	-0.210	-0.276	-2.670	0.784	0.315	0.220	0	0	0	0	0	0
25%	-0.021	8.554	-0.060	-0.125	-0.639	1.041	0.451	0.342	0	0	0	0	0	0
50%	0.002	9.391	0.008	-0.037	0.155	1.470	0.579	0.540	0	0	0	0	1	0
75%	0.036	10.360	0.031	0.020	1.016	2.438	0.731	0.726	0	1	1	0	1	1
90%	0.077	11.334	0.052	0.102	1.733	4.295	0.854	0.859	1	1	1	0	1	1
Panel C: Test result of difference of average value (median)														
t value	2.786***	3.464***	2.503***	3.723***	1.304	0.701	-0.705	-2.241**	-5.087***	1.258	10.336***	-0.308	4.183***	6.671***
z value	2.530**	3.459***	5.020***	4.837***	1.562	1.264	1.421	2.505**	6.321***	1.164	4.716***	0.364	4.232***	4.297***

We conducted unpaired t test (two-sided) for the test of the difference of the average value and two-sample rank sum test of both sides (two-sided) for the test of the difference of the median value. *** indicates significant at one level, ** indicates significant at five levels, and * indicates significant at ten levels

Table 4: Comparison of CAR trends, interchange and regular replacement

Period	Test of the difference of the mean (median)										Unpaired t test				Wilcoxon's two-sample rank-sum test	
	All samples					Substitution during the term					Normal change					Z
	Average	Center	t	P	Average	Center	t	P	Average	Center	t	P	t	P	Z	P
CAR [-6, -4]	0.004	0.002	1.092	0.271	0.024	-0.008	1.203	0.230	0.001	0.002	0.337	0.732	-1.1375	0.250	0.204	0.835
CAR [-5, -3]	0.007	0.003	2.295	0.024**	0.011	0.002	0.721	0.473	0.007	0.004	2.270	0.023**	-0.1692	0.866	0.373	0.701
CAR [-4, -2]	0.006	0.004	1.430	0.156	0.005	0.006	0.322	0.746	0.006	0.003	1.479	0.139	0.073	0.942	0.035	0.971
CAR [-3, -1]	0.005	0.002	2.144	0.031**	0.007	0.008	0.392	0.690	0.009	0.004	2.166	0.030**	0.399	0.690	0.018	0.982
CAR [-2, 0]	0.002	0.006	0.943	0.347	-0.012	0.003	-1.429	0.157	0.004	0.001	1.726	0.085*	1.910	0.058*	1.013	0.307
CAR [-1, +1]	0.004	0.005	0.981	0.335	-0.027	-0.013	-2.174	0.033**	0.009	0.004	2.334	0.019**	2.756	0.007***	2.560	0.010***
CAR [0, +2]	-0.001	0.001	-0.435	0.608	-0.035	-0.005	-2.308	0.026**	0.004	0.001	1.058	0.290	2.480	0.015**	2.287	0.022**
CAR [+1, +3]	-0.006	-0.003	-0.897	0.370	-0.022	-0.007	-0.901	0.322	-0.002	-0.002	-0.330	0.734	0.906	0.368	0.997	0.315
CAR [+2, +4]	-0.003	-0.006	-0.753	0.456	-0.014	0.000	-0.617	0.543	-0.002	-0.006	-0.462	0.644	0.518	0.605	0.024	0.971
CAR [+3, +5]	-0.004	-0.004	-0.420	0.661	-0.016	-0.002	-1.003	0.318	0.000	-0.005	0.104	0.910	0.995	0.320	0.529	0.596
CAR [+4, +6]	0.002	-0.001	0.665	0.502	-0.013	-0.006	-1.390	0.164	0.006	-0.003	1.299	0.164	1.781	0.078*	0.898	0.369
CAR [+5, +7]	0.001	-0.003	0.208	0.865	-0.022	-0.014	-1.867	0.064	0.004	0.000	1.078	0.281	2.125	0.036***	1.820	0.068*

***Signifies significant at one level, ** indicates significant at five levels, * indicates significant at ten levels

period before and after the event date is significantly lower than the usual change (5 levels).

From this analysis, it is concluded that the market reaction to the replacement of the period and the normal change is as follows:

First, the influence on the investment behavior for all samples was not necessarily observed, and in that sense the information value owned by the change of the auditor itself was not clarified.

Secondly, in comparison with the normal replacement, the capital markets showed a negative reaction in the case of replacement during the period suggesting that the response of the capital market depends on the change pattern.

Thirdly, in the case of a change in the middle of the year, due to the fact that the CAR until the day before the event day ($t \leq -1$) is not a significant number and that the sign varies, many investors acquire information in advance. It is inferred that the investment behavior is not taken, and it can be seen that the public information such as the exchange during the period is instantaneously reflected in the stock price on the event day.

4.3. Multivariate Analysis

In this paper, the multiple regression analysis was performed as a multivariate analysis on CAR. The results are as shown in Table 5.

In Table 5, the coefficient β_1 of the explanatory variable SWITCH_DT shows a negative value as expected, resulting in a statistically significant result (1 level). In other words, a lower CAR was observed in the replacement during the period compared to the normal change, which is a result of supporting the hypothesis in this paper.

5. ADDITIONAL VALIDATION

5.1. Robustness Test with Different Variables

The analysis window of the analysis in the previous section was 3 days, but in the previous research there were also windows of 5 days and 7 days, so we analyzed the window. In addition, although some of the financial variables in the previous section used numerical values before the change, there were cases in which the financial figures at the end of the term were predictable to some extent in the middle of the change, so the financial figures were immediately used after the change.

In addition to conducting analyses that were made, a group of variables were added such as LOSS (dummy variable with 1 as negative if the net profit immediately before change was negative) instead of variable NI for profit information, Instead of the variable SIZE, the variable CONSLD (the natural logarithm of the number of consolidated subsidiaries) or GROUP was used (the natural logarithm of the number of consolidated subsidiaries/affiliated companies) representing the complexity of the audit, instead of the variable BigN, Pattern variable UPWARD (dummy variable with 1 as the case of alternation from Non-Big N to Big N), in the form of LATERAL (a dummy variable with 1 in the case of alternation of same size auditor), DOWNWARD (dummy variable with Big N to Non - Big N as 1), and combinations thereof, in addition to analysis using different variables. In order to avoid

Table 5: Multivariate analysis result

Explanatory variable	Expected code	Estimate	t value (P value)
(Intercept)		-0.053	-1.565 (0.103)
SWITCH_DT	-	-0.036	-3.029*** (0.002)
SIZE	+	0.004	1.272 (0.302)
NI	-	-0.002	-0.106 (0.912)
CR	+	0.001	1.604 (0.108)
LIQ	+	-0.005	-0.431 (0.665)
LEV	-	0.033	1.605* (0.097)
GROWTH_A	+	0.005	0.241 (0.798)
GROWTH_NI	+	0.000	0.671 (0.532)
GC	-	0.007	0.536 (0.514)
EMP	-	0.008	0.954 (0.390)
RE	+	-0.000	-0.075 (0.932)
MULTI	-	-0.002	-0.130 (0.904)
BigNbefore	+	0.001	0.213 (0.841)
BigNafter	+	0.001	0.166 (0.860)
Highest VIF	1.902		
Multiple R2	0.046		
Adjusted R2	0.013		

***Indicates significant at 1 level, **indicates significant at 5 levels, and *indicates significant at 10 levels. Also, as confirmed by VIF, the problem of multiple collinearity was not observed (correlation coefficient table omitted)

excessive variables, the regression model in the previous section was analyzed without adding the variables INDUSTRY (industry type dummy), MARKET (listed market dummy), and YEAR (dummy year).

All results were consistent with the analysis results in the previous section, and the coefficient of the explanatory variable SWITCH_DT was significantly negative. In the previous study in the United States, a significant negative CAR tended to be confirmed in comparison with other alternation patterns at the time of DOWNWARD replacement, but in the analysis in this paper, such tendency was not observed.

This is a different result from the previous studies in the United States, but there is a possibility that the influence of Jordan's original environment, such as the replacement during the term, also exists a lot in the background.

5.2. Robustness Test by Changing Samples

With respect to the sample, analysis is done by excluding multiple turnover and settlement information disclosure enterprises

(variable RE = 1); the authors also analyzed the samples narrowed down to samples (678 of 723 cases) that did not clearly explain the reasons for the normal substitution. As for these results, the coefficient of the explanatory variable SWITCH_DT was significantly negative as in the previous section. In addition, the same result was obtained even if the additional verification was performed by changing the above variables.

6. CONCLUSION

In this paper, we verified the response of the capital market to the change of the auditor by comparing the replacement during the term and the normal change.

Analysis using CAR gave evidence to suggest that the capital market reacts more negatively with replacement during the period than normal change. In other words, it means that replacement during the term is information that suggests a high risk to investors, which can cause negative investment behavior.

As for the contributions of this paper, the following three points can be cited.

First, the paper contributes to the knowledge on the capital market particularly the change of the auditor. As mentioned in Section 2, as far as the author has investigated, there was no capital market research focused on replacing the auditor in Jordan. Therefore, this paper seems to contribute to the accumulation of empirical research in this area.

Secondly, it is an addition to the knowledge on the interchanging alternatives. In the past, researches on the auditor interchange in Jordan, analyses that exclusively distinguish auditors' turnover into interim changes and ordinary changes have not been conducted which is not the case in this study.

Regarding the replacement during the term, it is a large characteristic of the change of the auditor who has not been sufficiently analyzed in the previous research in the US for example, and its significance is considered to be significant.

Thirdly, if we extract the implications on the institutional design within the scope of the verification of this paper, the obligation to disclose information pertaining to the change of the auditor by the temporary report or the timely disclosure information is valuable to investors; there is a possibility of having a useful aspect.

However, there are several limitations in this paper some of which are:

First, although we use only one CAR calculation method in this paper, it seems that there is still room for analysis together with other calculation methods.

Secondly, in the case of the ordinary turnover, due to the fact that the information on replacement is likely to be disseminated beforehand in comparison with the turnover substitution, the change information may be reflected in the CAR before the event window.

However, if we expand the event window further than the additional verification for the normal replacement, there is a risk of overlapping with the release time of profit information such as the settlement of accounts etc. In this paper, data after $t = -6$ is used.

Thirdly, details of the change of the auditor itself, such as whether the replacement of the auditor is resignation or dismissal and the detailed reasons and background of the change, etc., are not present in this study, which should be edited.

The reason might be the significant difference in the level of disclosure regarding the change of the auditor for each company and not all the reasons for real change which are necessarily clearly stated. In closely examining the contents, it would be useful to conduct case studies, which is one of the topics I would like to discuss in the future.

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