

AUDITOR RATIFICATION, STOCK PRICES, AND AUDITOR CHANGE: A COMPARATIVE STUDY IN PUBLICLY TRADED COMPANIES

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ABSTRACT

This study investigates the complicated relationships among auditor ratification, stock prices, and auditor change within publicly traded companies. We analyzed 44,398 observations spanning 2010 to 2023. We find that factors influencing auditor ratification include total shares outstanding, net income, audit benefits fees, and Russell 2000 index membership. Factors that affect stock prices include the total number of votes cast by shareholders, book value, and audit fees. This study also reveals that ratification year and audit benefits fees are related to auditor change. This study adds to the shareholder impact on corporate governance and stock price discussion.

JEL: M42, M48, M49

KEYWORDS: Auditor change, Auditor Ratification, Audit-related outcomes, Investor Confidence, Ratification Year, Russell 2000 Index, Shareholder Perceptions, Shareholder Voting

INTRODUCTION

The role of shareholders in ratifying auditor appointments has been of interest and debate among researchers, practitioners, and regulators. An auditor ratification vote gives shareholders a chance to express their opinions regarding the auditors selected by the company, but historically, less than 2% of shareholders vote negatively (Cunningham, 2017). However, even small numbers voting negatively have been found to influence the dismissal of auditors (Barua et al., 2017). Auditor ratification impacts how publicly traded firms are governed (Tanyi et al., 2021), as well as stock prices (Tanyi & Roland, 2017) and bond ratings (Bao & Tanyi, 2020), indicating a complex relationship between corporate governance and the financial landscape. Auditors play a role in reducing agency costs by providing independent verification of financial statements, enhancing the credibility of accounting information, and facilitating external monitoring and contracting, thereby reducing information asymmetry and agency problems between shareholders and managers. The percentage of outside directors, the rate of institutional ownership, and the number of shareholders positively impact the significance of independent auditors in reducing agency issues between managers and shareholders (Watts & Zimmerman, 1983). Section 301 of the Sarbanes-Oxley Act (SOX) requires audit committees to select and oversee auditors. Auditor ratification significantly impacts how publicly traded firms are governed and the transparency of their financial reporting (Tanyi et al., 2021). High-quality auditors lower the risk of falling stock prices (Robin & Zhang, 2015), and investor opinion has been found to impact stock prices (Firth et al., 2015). Thus, audit committees are interested in investor perceptions of the auditors' quality. Shareholder disapproval of auditors may lead the audit committee to seek new auditors or to an adverse market reaction (Tanyi & Roland, 2017).

Despite its importance, there is little or no research directly associating auditor ratification, stock prices, and auditor change. This study uses financial and nonfinancial measures to examine the underlying factors that drive these relationships. The remainder of this paper is organized as follows. First, existing literature on auditor ratification, stock prices, and auditor change is reviewed, followed by a methodology section describing our research hypotheses and analysis. Results are then presented, followed by implications and associated limitations of the study, as well as thoughts for future research.

LITERATURE REVIEW

Auditors ensure financial reporting credibility and maintain investor confidence; however, dissatisfied shareholders may signal possible issues with a company's financial reporting quality, governance, or management through auditor ratification (Tanyi et al., 2020). During annual meetings, shareholders may express their satisfaction or dissatisfaction with the current external audit firm, which can impact how the company and the auditor work together moving forward. Auditor ratification may reflect shareholders' confidence and satisfaction with the auditor's independence, quality, and performance. Positive auditor ratification votes may signal higher trust and credibility in the auditor's work. In contrast, lower approval may indicate a lower level of trust and credibility or a higher level of dissatisfaction, signaling underlying issues within a company. If a company is performing well, advisors are less likely to recommend a negative vote (Cunningham, 2017). SOX 2002 requires publicly traded companies to have an independent audit committee to hire and oversee the firm's independent auditor. Agency theory suggests that shareholders may use their voting rights to express concerns about the auditor's quality and credibility (Watts & Zimmerman, 1983). However, auditor ratification by shareholders is not required by the SEC. Tanyi and Cathey (2020) found that foreign cross-listed companies in the U.S. are more likely to hold ratification votes when they have U.S.-based auditors. Auditor ratification may influence the auditor's behavior and incentives in an audit engagement; higher auditor ratification votes may increase the auditor's reputation capital and bargaining power with the client, while lower auditor approval votes may increase the auditor's litigation risk and pressure from the client. Therefore, auditor ratification may affect audit costs, quality, and independence (Purohit & Desai, 2023).

Shareholders' dissatisfaction raises concerns about auditor independence and objectivity, potentially impacting auditor ratification and audit costs. Dao et al. (2012) found firms that held a shareholder ratification vote had less likelihood of a subsequent restatement and resulting stock price decline. Additionally, firms holding shareholder votes generally paid higher audit fees and received higher quality audits (Dao et al., 2012). When shareholders strongly support the current auditors, it indicates a higher level of trust in the company's financial reporting and auditing outcomes (Martin et al., 2023). A high proportion of non-audit services, long auditor tenure, announcement of a restatement, and perceived lack of audit quality are potential causes of negative shareholder votes (Raghunandan, 2003; Tanyi & Cathey, 2020; Tanyi et al., 2021). In a study on the influence of proxy advisors on ratification votes, Cunningham (2017) found that significant non-audit fees, high discretionary accruals, and restatements were related to the likelihood of a recommendation to vote against the auditor. Additionally, longer auditor tenure was associated with increased "against" recommendations, implying concerns about auditor independence. Auditor tenure disclosure, which became mandatory in 2017, has been found to increase shareholder dissent rates, suggesting that shareholders view longer auditor tenure as compromising auditor independence (Dunn et al., 2021; Tanyi et al., 2021). Mandatory auditor tenure disclosures also increase the likelihood of auditor dismissal and decrease audit fees for companies with longer auditor tenure (Dunn et al., 2021), although there is no clear relationship between auditor tenure and audit quality (Defond & Zhao, 2014).

A decrease in non-audit services, increased audit fees, and improved audit quality, as evidenced by lower discretionary accruals and a higher likelihood of receiving a going-concern opinion, have been found to follow low ratification votes, indicating that shareholder disapproval may have a disciplinary effect motivating the auditor to improve (Tanyi et al., 2020). For example, disappointing ratification results have

been found to lead to lower non-audit fees as a proportion of total audit fees, especially in firms with a more significant proportion of institutional shareholders (Purohit & Desai, 2023; Tanyi et al., 2020). Higher audit fees may be associated with audit committees demanding increased quality from auditors, as well as auditors increased effort during the audit engagement (Martin et al., 2023), although they may also be merely a cost built-in for high-risk clients (DeFond & Zhang, 2014). However, the market may also react negatively to increased shareholder displeasure, and audit committees may change audit firms (Barua et al., 2017; Tanyi & Roland, 2017). Research on the direction of the impact of a change in auditor on stock prices has been inconclusive (Stunda, 2012). The impact of auditor ratification on stock prices, as measured by abnormal returns around the date of the shareholder meeting, indicates that auditor ratification can convey information to the market about the value and reputation of the auditor and the expected quality and reliability of the financial reporting process (Cunningham, 2017). High shareholder disapproval has been found to trigger greater market negativity if there have been no previous signals of auditor quality issues or problems. However, market negativity is less when there have been prior signals of audit quality or independence problems, such as high non-audit fee ratios, restatements, or longer auditor tenure (Tanyi & Roland, 2017). Prior research suggests that auditor ratification votes are relevant and consequential for auditors, audit committees, shareholders, regulators, and researchers in different settings and contexts. However, there are still gaps and limitations in the literature, such as the relationships between stock price, auditor ratification, and auditor change.

DATA AND METHODOLOGY

Investors may perceive auditor changes as a signal of lower audit quality and higher audit risk (Stunda, 2012). This study explores the relationship between auditor ratification, stock prices, and auditor change in publicly traded companies and addresses the following hypotheses. In publicly traded companies:

H1: Auditor ratification is correlated with stock prices

H2: Auditor ratification is correlated with auditor change

H3: Stock price is correlated with auditor change

H4: Auditor ratification, auditor change, and stock price will share common predictor variables.

Using a quantitative research approach, 54,725 annual observations with 356 variables from 2010 to 2023 were obtained from Wharton WRDS Audit Analytics. A VIF of 10 reduced the sample size to 44,398 observations. The relationship between auditor ratification, auditor change, and stock price was first tested using pairwise correlation. Predictor variables were separately regressed on each of the three dependent variables. Finally, Multivariate Multiple Regression (MVreg) was used to simultaneously compare the interdependencies among the three dependent variables: Auditor Ratification, Stock Prices, and Auditor Change, following Izzalqurny et al. (2019), Kurniawan et al. (2021), and Weiss and Kalbers (2008). The Faccini et al. (2023) methodology was used to analyze the relationship between auditor change, stock prices, and auditor ratification and included the statistically significant explanatory variables in determining their respective influences. The following models were used to analyze the data. Since three dependent variables were examined, three models were used. Results of the independent regressions are presented in Tables 1 and 2, and the multivariate multiple regression results are presented in Table 3. Variable definitions can be found in the Appendix.

Model 1:

$$\begin{aligned} \text{Auditor}_{\text{Ratification}} &= \alpha_1 + \beta_1(\text{TOTAL_SHAREHOLDER_VOTES}) + \beta_2(\text{TOTAL_SHARES_OUTSTANDING}) \\ &+ \beta_3(\text{MARKET_CAP}) + \beta_4(\text{BOOK_VALUE}) + \beta_5(\text{TOTAL_ASSETS}) \\ &+ \beta_6(\text{CASH_AND_CASH_EQUIVALENTS}) + \beta_7(\text{REVUE_TTM}) + \beta_8(\text{NET_INCOME_TTM}) \\ &+ \beta_9(\text{EBITDA_TTM}) + \beta_{10}(\text{CASH_FROM_INVESTING_ACTIVITIES_TTM}) \\ &+ \beta_{11}(\text{CASH_FROM_FINANCING_ACTIVITIES_TTM}) \\ &+ \beta_{12}(\text{CHANGE_IN_CASH_AND_CASH_EQUIV_TTM}) + \beta_{13}(\text{TOTAL_AUDIT_FEES}) \\ &+ \beta_{14}(\text{TOTAL_NON_AUDIT_FEES}) + \beta_{15}(\text{TOTAL_AUDIT_BENEFITS_FEES}) \\ &+ \beta_{16}(\text{TOTAL_AUDIT_TAX_FEES}) + \beta_{17}(\text{TOTAL_AUDIT_OTHER_FEES}) \\ &+ \beta_{19}(\text{RUSSELL_2000}) + \varepsilon_1 \end{aligned}$$

Model 2:

$$\begin{aligned} \text{Auditor}_{\text{Change}} &= \alpha_2 + \beta_{20}(\text{TOTAL_SHAREHOLDER_VOTES}) + \beta_{21}(\text{TOTAL_SHARES_OUTSTANDING}) \\ &+ \beta_{22}(\text{MARKET_CAP}) + \beta_{23}(\text{BOOK_VALUE}) + \beta_{24}(\text{TOTAL_ASSETS}) \\ &+ \beta_{25}(\text{CASH_AND_CASH_EQUIVALENTS}) + \beta_{26}(\text{REVENUE_TTM}) \\ &+ \beta_{27}(\text{NET_INCOME_TTM}) + \beta_{28}(\text{EBITDA_TTM}) \\ &+ \beta_{29}(\text{CASH_FROM_INVESTING_ACTIVITIES_TTM}) \\ &+ \beta_{30}(\text{CASH_FROM_FINANCING_ACTIVITIES_TTM}) \\ &+ \beta_{31}(\text{CHANGE_IN_CASH_AND_CASH_EQUIV_TTM}) + \beta_{32}(\text{TOTAL_AUDIT_FEES}) \\ &+ \beta_{33}(\text{TOTAL_NON_AUDIT_FEES}) + \beta_{34}(\text{TOTAL_AUDIT_BENEFITS_FEES}) \\ &+ \beta_{35}(\text{TOTAL_AUDIT_TAX_FEES}) + \beta_{36}(\text{TOTAL_AUDIT_OTHER_FEES}) \\ &+ \beta_{37}(\text{RATIFICATION_YEAR}) + \beta_{38}(\text{RUSSELL_2000}) + \varepsilon_2 \end{aligned}$$

Model 3:

$$\begin{aligned} \text{Stock_Price} &= \alpha_3 + \beta_{39}(\text{TOTAL_SHAREHOLDER_VOTES}) + \beta_{40}(\text{TOTAL_SHARES_OUTSTANDING}) \\ &+ \beta_{41}(\text{MARKET_CAP}) + \beta_{42}(\text{BOOK_VALUE}) + \beta_{43}(\text{TOTAL_ASSETS}) \\ &+ \beta_{44}(\text{CASH_AND_CASH_EQUIVALENTS}) + \beta_{45}(\text{REVENUE_TTM}) \\ &+ \beta_{46}(\text{NET_INCOME_TTM}) + \beta_{47}(\text{EBITDA_TTM}) \\ &+ \beta_{48}(\text{CASH_FROM_INVESTING_ACTIVITIES_TTM}) \\ &+ \beta_{49}(\text{CASH_FROM_FINANCING_ACTIVITIES_TTM}) \\ &+ \beta_{50}(\text{CHANGE_IN_CASH_AND_CASH_EQUIV_TTM}) + \beta_{51}(\text{TOTAL_AUDIT_FEES}) \\ &+ \beta_{52}(\text{TOTAL_NON_AUDIT_FEES}) + \beta_{53}(\text{TOTAL_AUDIT_BENEFITS_FEES}) \\ &+ \beta_{54}(\text{TOTAL_AUDIT_TAX_FEES}) + \beta_{55}(\text{TOTAL_AUDIT_OTHER_FEES}) \\ &+ \beta_{56}(\text{RATIFICATION_YEAR}) + \beta_{57}(\text{RUSSELL_2000}) + \varepsilon_3 \end{aligned}$$

RESULTS AND DISCUSSION

Hypotheses 1, 2, and 3 were first tested by pairwise correlation of the three variables of interest – auditor change, ratification, and stock price. As can be seen in Table 1, none of the correlations were statistically significant, although all but the correlation of stock price with auditor change were positive. Table 1 also presents the statistically significant explanatory variables in the independent regressions.

Table 1: Dependent Variable Correlations and Regression Results

Pairwise Correlations	Stock Price	Auditor Ratification	Auditor Change
Stock Price	1.000		
Auditor Ratification	0.008	1.000	
Auditor Change	(0.003)	0.002	1.000
Explanatory Variable Regression Coefficients			
TOTAL SHAREHOLDER VOTES			
TOTAL SHARES OUTSTANDING	0.022**	(0.026)	(0.002)
MARKET CAP	0.195**	(0.021)	(0.006)
BOOK VALUE	0.083**	(0.010)	(0.006)
TOTAL ASSETS	0.044**	(0.025)	(0.004)
CASH AND CASH EQUIVALENTS	0.022**	(0.014)	0.001
REVENUE TTM	0.168**	(0.019)	(0.011)
NET INCOME TTM	0.135**	(0.017)	(0.010)
EBITDA TTM	0.142	(0.023)**	(0.008)
CASH FROM INVESTING ACTIVITIES TTM	(0.066)**	0.010	0.003
CASH FROM FINANCING ACTIVITIES TTM	(0.014)	0.004**	0.004
CHANGE IN CASH AND CASH EQUIV TTM	0.013	(0.002)**	0.006
TOTAL AUDIT FEES	0.114**	(0.019)**	(0.004)
TOTAL NON-AUDIT FEES	0.076**	(0.041)**	0.001
TOTAL AUDIT BENEFITS FEES	0.022	(0.005)**	(0.008)**
TOTAL AUDIT TAX FEES	0.070**	(0.046)**	0.000
TOTAL AUDIT OTHER FEES	0.028	(0.006)**	0.007

Table 1 shows the correlation between Auditor Ratification Rates, Stock Prices, and Auditor Change and the regression coefficients of the statistically significant explanatory variables (** $p < 0.05$). All financial and fee variables, stock prices, total votes, and shares outstanding were measured at the end of the most recent fiscal year (F.Y.). AUDITOR RATIFICATION is the % of "yes" ratification votes for current auditors. Auditor change was coded "1" if the auditor changed during the F.Y. and "0" if there was no change. "TTM" is trailing 12 months.

The correlation coefficient for the stock price and auditor ratification is 0.008; this supports previous research (Dao et al., 2012; Firth et al., 2015, suggesting that investor trust and corporate governance, as indicated by auditor ratification, may exert a marginal influence on stock prices. The weak positive correlation signifies a minimal tendency for companies with higher auditor ratification to have slightly higher stock prices. The stock price and auditor change have a negative correlation coefficient of -0.003, a weak relationship, but showing a change in auditors may be associated with a slight reduction in stock prices. Auditor ratification and auditor change had a 0.002 correlation coefficient, showing little, if any, relationship between auditor ratification and auditor change, as discussed by Kurniawan et al. (2021). The only statistically significant explanatory variable for auditor change is TOTAL AUDIT BENEFITS FEES (total audit benefit fees paid as of the fiscal year-end). Stock Price was positively related to all its statistically significant explanatory variables, except cash flow from investing activities for the trailing 12 months (CASH FROM INVESTING ACTIVITIES TTM). In contrast, auditor ratification was negatively related to all its statistically significant variables except CASH FROM FINANCING ACTIVITIES TTM (cash flow from financing activities for the trailing 12 months).

Table 2 presents regression results incorporating RATIFICATION YEAR (the year of the ratification vote) and RUSSELL 2000 (membership in the Russell 2000 index) as control variables. TOTAL AUDIT BENEFITS FEES and RATIFICATION YEAR were the only variables statistically significant for Auditor Change. TOTAL AUDIT BENEFITS FEES had a negative coefficient, and RATIFICATION YEAR had a positive coefficient. The TOTAL AUDIT BENEFITS FEES is statistically significant, supporting the relevance of audit benefits fees in auditor-related decisions (Dao et al., 2012) Auditor Ratification had seven statistically significant explanatory variables emphasizing the findings by Tanyi and Roland (2017) and Dao et al. (2012). TOTAL NON-AUDIT FEES (total non-audit fees paid as of the fiscal year-end), EBITDA TTM (income statement earnings before interest, taxes, depreciation, and amortization trailing 12 months), CASH FROM FINANCING ACTIVITIES TTM, and TOTAL AUDIT TAX FEES (total audit tax fees paid as of the fiscal year-end) all had negative coefficients. NET INCOME TTM (Net Income trailing 12 months), TOTAL AUDIT FEES (total audit fees paid as of the fiscal year-end), and RUSSELL 2000 all had positive coefficients.

Stock Price had 13 statistically significant variables. Three explanatory variables, TOTAL SHARES OUTSTANDING (number of fiscal year-end outstanding shares), TOTAL ASSETS (total fiscal year-end assets), and TOTAL NON-AUDIT FEES, had negative coefficients. The other ten variables had a direct impact, with nine of them, MARKET CAP (market capitalization at the end of the fiscal year), CASH AND CASH EQUIVALENTS TTM (trailing 12 months cash and cash equivalents), REVENUE TTM (trailing 12 months revenue), NET INCOME TTM, CHANGE IN CASH AND CASH EQUIV TTM (trailing 12 months change in cash and cash equivalents), TOTAL AUDIT FEES (total audit fees paid as of the fiscal year-end), TOTAL AUDIT BENEFITS FEES, TOTAL AUDIT TAX FEES, and TOTAL AUDIT OTHER FEES (total other audit fees paid as of the fiscal year-end) having less than one percent coefficient. RUSSELL 2000 had a positive coefficient of 8.481; being part of the Russell 2000 index is associated with increased stock prices during the ratification year (Firth et al., 2015). Table 2 shows the results of each dependent variable analyzed with the control variables without the correlation of the other dependent variables.

Table 2: Regression Results with Control Variables

	Stock Price	Auditor Ratification	Auditor Change
Adj R-squared	0.1189	0.0050	-0.000
R-squared	0.1185	0.0045	0.0005
TOTAL SHAREHOLDER VOTES	(0.000)	0.000	0.000
TOTAL SHARES OUTSTANDING	(0.000)**	(0.000)	0.000
MARKET CAP	0.000**	(0.000)	(0.000)
BOOK VALUE	0.000	0.000	(0.000)
TOTAL ASSETS	(0.000)**	(0.000)	0.000
CASH AND CASH EQUIVALENTS	0.000**	0.000	0.000
REVENUE TTM	0.000**	(0.000)	(0.000)
NET INCOME TTM	0.000**	0.000**	(0.000)
EBITDA TTM	(0.000)	(0.000)**	0.000
CASH FROM INVESTING ACTIVITIES TTM	0.000	0.000	0.000
CASH FROM FINANCING ACTIVITIES TTM	0.000	(0.000)**	0.000
CHANGE IN CASH AND CASH EQUIV TTM	0.000**	0.000	(0.000)
TOTAL AUDIT FEES	0.000**	0.000**	(0.000)
TOTAL NON-AUDIT FEES	(0.000)**	(0.000)**	0.000
TOTAL AUDIT BENEFITS FEES	0.000**	(0.000)	(0.000)**
TOTAL AUDIT TAX FEES	0.000**	(0.000)**	(0.000)
TOTAL AUDIT OTHER FEES	0.000**	0.000	0.000
RUSSELL 2000	8.481**	0.004**	(0.000)
RATIFICATION YEAR	(0.000)	0.000	0.000**
cons	28.360**	0.976**	1.061**

Table 2 shows the tabulation of the regression models with the control variables. Overall, the statistically significant variables were the same; however, introducing the control variables (RUSSELL 2000 and the RATIFICATION YEAR) reduced the coefficients of the significant variables (** $p < 0.05$). All financial and fee variables, stock prices, total votes, and shares outstanding were measured at the end of the most recent fiscal year (F.Y.). AUDITOR RATIFICATION is the % of ratification vote "for" current auditors. Auditor change was coded "1" if the auditor changed during the F.Y. and "0" if there was no change. RUSSELL 2000 membership was coded as "1"; lack of membership as "0". RATIFICATION YEAR is the F.Y. of the ratification vote.

Next, multivariate multiple regression was used to compare the three dependent variables with and without the control variables (RATIFICATION YEAR, and RUSSELL 2000). Table 3 presents a comparison of the results for the three dependent variables.

Auditor Ratification

TOTAL SHARES OUTSTANDING, TOTAL ASSETS, CASH AND CASH EQUIVALENTS, and MARKET CAP were statistically significant for Auditor Ratification with negative coefficients without the control variables; however, when the control variables were included, these variables were not statistically significant. NET INCOME TTM, EBITDA TTM, CASH FROM INVESTING ACTIVITIES TTM, TOTAL AUDIT FEES, TOTAL NON AUDIT FEES, and TOTAL AUDIT TAX FEES all had statistically

significant but weak (less than 0.001) negative coefficients both with and without the control variables. The RUSSELL 2000 control variable is positive and statistically significant.

Auditor Change

TOTAL AUDIT BENEFITS FEES and RATIFICATION YEAR are the only variables statistically significant for auditor change; however, the coefficients are weak. TOTAL AUDIT BENEFITS FEES has a negative coefficient under both models, indicating an increase in audit benefits fees is associated with no Auditor Change. RATIFICATION YEAR was positive and statistically significant for Auditor Change. These findings on auditor change offer valuable insights into auditor changes driven by shareholders, building upon the research conducted by Dao et al. (2012).

Table 3: Ratification Multivariate Multiple Regression Coefficients

	Auditor Ratification		Auditor Change		Stock Price	
	No Control	With Control	No Control	With Control	No Control	With Control
R-squared	0.005	0.014	0.001	0.018	0.119	0.122
TOTAL SHAREHOLDER VOTES	0.000	0.000	0.000	0.000	(0.000)**	(0.000)**
TOTAL SHARES OUTSTANDING	(0.000)**	(0.000)	0.000	0.000	0.000**	0.000**
MARKET CAP	(0.000)**	(0.000)	0.000	(0.000)	0.000**	0.000**
BOOK VALUE	0.000	0.000	(0.000)	(0.000)	(0.000)**	(0.000)**
TOTAL ASSETS	(0.000)**	(0.000)	0.000	0.000	0.000**	0.000**
CASH AND CASH EQUIVALENTS	(0.000)**	0.000	0.000	0.000	0.000**	0.000**
REVENUE TTM	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)**	(0.000)**
NET INCOME TTM	0.000**	0.000**	(0.000)	(0.000)	(0.000)	(0.000)
EBITDA TTM	(0.000)**	(0.000)**	0.000	0.000	0.000	0.000
CASH FROM INVESTING ACTIVITIES TTM	0.000	0.000	0.000	0.000	0.000	0.000
CASH FROM FINANCING ACTIVITIES TTM	(0.000)**	(0.000)**	0.000	0.000	0.000**	0.000**
CHANGE IN CASH AND CASH EQUIV TTM	0.000	0.000	(0.000)	(0.000)	0.000**	0.000**
TOTAL AUDIT FEES	0.000**	0.000**	(0.000)	(0.000)	(0.000)**	(0.000)**
TOTAL NON-AUDIT FEES	(0.000)**	(0.000)**	0.000	0.000	0.000**	0.000**
TOTAL AUDIT BENEFITS FEES	(0.000)	(0.000)	(0.000)**	(0.000)**	0.000**	0.000**
TOTAL AUDIT TAX FEES	(0.000)**	(0.000)**	(0.000)	(0.000)	0.000**	0.000**
TOTAL AUDIT OTHER FEES	0.000	0.000	0.000	0.000	0.000*	(0.001)
RATIFICATION YEAR		0.000		0.000**		(0.000)
RUSSELL2000		0.004**		(0.000)		8.481**
cons	0.982**	0.976**	1.825**	1.061**	35,726.000	28,306**

Table 3 presents the results of the multivariate multiple regressions for each dependent variable, run both with and without control variables. The simultaneous run of the three dependent variables yielded different results than when each was run separately. The significant variables were not the same for the two models; introducing the two control variables, RUSSELL 2000 and RATIFICATION YEAR, also reduced the number of significant variables. (** p<0.05). All financial and fee variables, stock prices, total votes, and shares outstanding were measured at the end of the most recent fiscal year (F.Y.). AUDITOR RATIFICATION is the % of ratification vote "for" current auditors. Auditor change was coded "1" if the auditor changed during the F.Y. and "0" if there was no change. RUSSELL 2000 membership was coded as "1"; lack of membership as "0". RATIFICATION YEAR is the F.Y. of the ratification vote.

Stock Price

The total number of shareholder votes (TOTAL SHAREHOLDER VOTES), BOOK VALUE (total fiscal year-end Book Value), REVENUE TTM, and TOTAL AUDIT FEES were significant and inversely related to Stock Price. TOTAL SHARES OUTSTANDING, TOTAL ASSETS, CASH AND CASH EQUIVALENTS, CASH FROM INVESTING ACTIVITIES TTM, CASH FROM FINANCING ACTIVITIES TTM, TOTAL AUDIT FEES, TOTAL AUDIT BENEFITS FEES, and TOTAL AUDIT TAX FEES had weak statistically significant positive coefficients with and without the control variables. RATIFICATION YEAR and RUSSELL 2000 were also statistically significant and positively related to the stock price, respectively, with 8.48 and 28.26 coefficients. The positive coefficients of RUSSELL 2000 membership and RATIFICATION YEAR emphasize their impact on stock prices, aligning with prior research that has explored the influence of market categorization (Russell, 2000) and the temporal aspects (Ratification Year) on stock prices (Faccini et al., 2023). Auditor Ratification and Stock Price have a weak

(0.008) positive correlation, suggesting auditor ratification can be associated with slightly higher stock prices. Organizations with consistent auditor ratification are thought to have more investor trust because they demonstrate good corporate governance. These results are consistent with other research emphasizing the value of shareholder voting to voice concerns about audit quality and auditor independence. Auditor Ratification and Auditor Change have a weaker positive correlation (0.002), suggesting higher auditor ratification levels may lead to an auditor change, which is unexpected and warrants further investigation. When control variables are included, TOTAL AUDIT BENEFITS FEES and RATIFICATION YEAR are both significant for Auditor Change, elucidating the intricacies of shareholder sentiment and expectations. Lower audit benefits fees are associated with an increased likelihood of change in auditors, and the positive Ratification Year coefficient suggests a temporal impact on Auditor Change, which can be explored further in future research. Stock Price has a positive correlation of 0.008 with Auditor Ratification and a negative correlation of 0.003 with Auditor Change. The correlations were all less than one percent, signaling weak correlations; however, under all the models, including the simultaneous comparison of the three dependent variables, stock prices had 14 statistically significant explanatory variables, including both control variables (RATIFICATION YEAR and the RUSSELL 2000).

Thus, Stock Price emerges as a potential mediator between auditor ratification and auditor change: this implies that changes in stock prices, which reflect investor confidence, may affect how shareholders view auditor ratification and how audit committees may react to market signals. The positive coefficients of variables (TOTAL SHARES OUTSTANDING, TOTAL ASSETS, CASH AND CASH EQUIVALENTS, CASH FROM INVESTING ACTIVITIES TTM, CHANGE IN CASH AND CASH EQUIV TTM, TOTAL NON AUDIT FEES, TOTAL AUDIT BENEFITS FEES, TOTAL AUDIT TAX FEES, TOTAL AUDIT FEES, RATIFICATION YEAR, and RUSSELL 2000) indicate that these factors may contribute to increasing stock prices. Improved stock prices may contribute to the overall sentiment around auditor ratification and influence Auditor Change. Stock price movements may potentially convey information to the market about the implications of auditor changes and ratifications, thus affecting investor perceptions and market reactions. Future studies are needed to explore this potential mediating relationship further. However, as Martin et al. (2023) explained, the potential mediator further explains our understanding of the dynamics among auditor-related decisions, investor sentiments, and market reactions.

TOTAL SHAREHOLDER VOTES, BOOK VALUE, REVENUE TTM, and TOTAL AUDIT FEES had weak negative statistically significant coefficients; an inverse relationship suggests that a significant increase in these variables may lead to lower stock prices. Most of our discussion is based on agency theory, which suggests shareholders may use their voting rights to voice concerns over audit quality and auditor independence. Lower auditor ratification may represent shareholder disapproval and act as retribution for auditors and audit committees. The negative coefficients linked to particular variables support the idea that shareholders see specific actions undermining auditor independence, signaling the need for proactive action from auditors and firms. These research findings impact multiple stakeholders, including regulators, businesses, investors, and researchers. The observed associations highlight the importance of shareholder perceptions and market responses. Auditor Ratification may affect market sentiment and financial performance; thus, companies and auditors should be aware of this possibility. Investors and regulators can learn more about how shareholders carry out their oversight responsibilities to affect audit quality and costs.

CONCLUDING COMMENTS

This study explores the intricate relationships among auditor ratification rates, stock prices, and auditor change for publicly traded companies. Agency theory was used to motivate the discussion and study the nexus of firm stock price, auditor ratification, and auditor change. A quantitative analysis of 44,398 observations (2010 to 2023) was used to identify the statistically significant variables affecting the relationships between auditor ratification, stock prices, and auditor change. The study did not find a strong correlation between the three dependent variables; however, the study's results suggest that factors like total

shares outstanding, net income, audit benefits fees, and membership in the Russell 2000 index influence auditor ratification rates. Additionally, total shareholder votes, book value, and audit fees influence stock prices. The study uncovers that audit benefits fees and the ratification year impact auditor change. The findings also highlight stock prices as potential mediators between auditor ratification rates and auditor change. Managers should recognize that auditor ratification potentially influences market sentiment and financial performance. This study suggests that consistent auditor ratification may instill investor trust and positively affect stock prices, emphasizing the value of fostering robust corporate governance practices to maintain investor confidence. Investors can use their voting rights effectively to express concerns about audit quality and auditor independence. Investors can hold companies accountable for their financial transparency and integrity by engaging actively in auditor ratification decisions.

The study offers valuable insights into auditor ratification with certain limitations. For example, Auditor Ratification was based on shareholders' votes, which generally are proxy votes. Thus, future research is needed to understand shareholders' voting rationale. Additionally, longitudinal studies could provide insights into how auditor ratification rates, stock prices, and auditor change evolve over time, capturing changing market dynamics and regulatory environments. The study is based on quantitative analysis, limiting a deeper exploration of qualitative aspects surrounding auditor ratification; further research is needed to understand shareholders' voting rationale comprehensively and to capture evolving market dynamics and regulatory environments over time. This study has advanced and contributed to the literature on the complex relationships between auditor ratification rates, stock prices, and audit costs. The findings underscore the relevance of shareholder perceptions, market reactions, and financial decisions within corporate governance.

APPENDIX – VARIABLE DEFINITIONS

AUDITOR CHANGE: Coded "1" if auditors changed during the FY following the ratification vote and "0" if there was no change.

BOOK_VALUE: The book value of the company at the fiscal year-end.

CASH_AND_CASH_EQUIVALENTS: The amount of cash and cash equivalents at the fiscal year-end.

CASH_FROM_FINANCING_ACTIVITIES_TTM: The cash flow from financing activities for the trailing 12 months.

CASH_FROM_INVESTING_ACTIVITIES_TTM: The cash flow from investing activities for the trailing 12 months.

CHANGE IN CASH AND CASH EQUIVALENTS TTM: The change in cash and cash equivalents for the trailing 12 months.

EBITDA_TTM: The trailing 12 months earnings before interest, taxes, depreciation, and amortization.

MARKET_CAP: The market capitalization at the fiscal year-end.

NET_INCOME_TTM: The trailing 12 months' net income.

RATIFICATION: The percentage of shareholders voting "for" ratification of the current auditors.

RATIFICATION_YEAR: The fiscal year of the auditor ratification vote.

REVENUE_TTM: The trailing 12 months' revenue.

RUSSELL2000: Coded "1" if the company belonged to the Russell 2000 and "0" if it did not.

STOCK PRICE: Closing stock price at the end of the fiscal year in which the ratification vote was held.

TOTAL_ASSETS: The total assets at the fiscal year-end.

TOTAL_AUDIT_BENEFITS_FEES: The total audit benefits fees paid as of the fiscal year-end.

TOTAL_AUDIT_FEES: The total audit fees paid as of the fiscal year-end.

TOTAL_AUDIT_OTHER_FEES: The total other audit fees paid as of the fiscal year-end.

TOTAL_AUDIT_TAX_FEES: The total audit tax fees paid as of the fiscal year-end.

TOTAL_NON-AUDIT_FEES: The total non-audit fees paid as of the fiscal year-end.

TOTAL_SHAREHOLDER_VOTES: The total number of shareholder votes in the annual vote.

Total_Shares_Outstanding: The number of outstanding shares at the fiscal year-end.

ε (Epsilon): This represents the error term or the unexplained variation in the dependent variable due to factors not included in the model.

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