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Measuring the association between audit firm tenure and financial reporting quality of listed manufacturing firms in Nigeria

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Abstract

This study measures the relationship between audit firm tenure and the financial reporting quality of listed manufacturing companies in Nigeria using existing secondary data collected from the published financial statements of the selected nine (9) listed manufacturing firms for ten years period from 2011-2020 and analyzed using regression analysis. The empirical outcomes suggest that short audit tenure and audit firm rotation have positive but insignificant effects on discretionary accruals of listed manufacturing firms in Nigeria. However long audit tenure is found to have significant and positive effect on discretionary accrual. It was thus recommended that the regulatory agencies such as the Financial Reporting Council of Nigeria and others including manufacturing firms should seek to review the law to accommodate the elongation and duration of mandatory professional requirement for auditors so as to encourage longer auditor-client relationship. The various professional bodies and regulators should as a matter of urgency carry out their oversight function of a diligent supervision of audit firms to ensure that there is value relevance and quality assurance in their assignment.

Keywords: Audit Tenure, Audit Rotation, Audit Quality, Discretionary Accrual, Financial Reporting

1. Introduction

There is a recurring debate regarding mandatory audit-firm rotation and this unending debate is exacerbated as a result of corporate and accounting scandals associated with WorldCom, Tesco, , British Telecommunications, Patisserie Holdings , Xeros, Global Crossing, Enron, just to mention a few. This recurring argument across the accountancy profession center around whether the auditor's independence in the auditor-client relationship should be allowed to build a short, medium or long term relationship with the client or not. It is all a bid to have a fair presentation of entity's financial reports so as to minimize or prevent corporate collapse and build stakeholders' confidence. Generally, investors, regulators and other stakeholders are very much interested in the quality of financial reports by firms and such financial reports quality emanates from the entire quality of the financial statement and it refers to the degree to which the annual financial report made public shows the financial performance and position of the firm (Robert & Ann, 2017) [15].

Bowrin (2018) [5] asserted that the quality of financial reporting can be considered from two major qualitative features from the conceptual framework of IASB: reliability and relevance; and that relevance is concerned with the ability of information to influence the decision making of users of financial statement information, and timeliness is a fragment of relevance. Furthermore, he explained that reliability means the extent to which the financial statement released is free from errors and material misstatements. The relevance of quality financial report to users of financial information cannot be over simplified as there are increasing cases of misleading and untrue financial statements that has led to so many corporate failures across the globe. Investors and users of financial statement stand to benefit greatly from high quality financial report. The credibility of financial information is vital to the growth of any economy; also, auditors are expected to be independent and objective in the discharge of their responsibilities (Adelaja, 2019) [2]. Their independence and objectivity will ensure a true and fair presentation of financial statements that is useful those users.

Parties interested in financial reports vary widely according to need or interest and include but not limited to vendors, lenders, employees, financial analysts, researchers, policy makers and regulators.

The International Public Sector Accounting Standard Board (IPSASB) and the International Accounting Standard Board (IASB) have identified relevance and faithful representation (reliability previously) as the key qualitative characteristics of financial reports/statements**.** It asserts that information is relevant if it helps users of financial statements in forecasting the future trends of an entity and thus having a predictive value. Financial information is also relevant if it helps interested parties in confirming and correcting the evaluation and predictions that were previously made by them on the basis of the released information thus having a confirmatory value. Financial report is faithfully represented if represents what it purports to represent and it is accurate, complete, neutral.

The subject matter of financial reporting quality is of great interest not only for the final and interested parties but for the entire spectrum of the society as it affects business decisions which may have significant impact on the whole economy. According to the International Accounting Standards Board (IASB), financial reporting quality represents financial statements that "provide accurate and fair information about the underlying financial positions and economic performance of an entity". In order to ensure high financial statement quality there is a need for a competent external auditor who can express expert, independent and objective opinion on the financial statements. As asserted by Rulund and Lindblom (2022) [16], the primary function of external auditors is to attest to the fairness of the financial statements of a company. However the reported cases of corporate liquidations and failure across the globe, has cast some doubts and aspersions on the quality of the audit report and by extension on the practice of audit and assurance as many interested parties are questioning the independence and objectivity of the audit firms; thus the popular questions on the mind of most stakeholders is the auditor–client relation and its impact on the quality of financial reports. To find the missing link, this study is thus performed to empirically evaluate impact of audit firm tenure on financial reporting quality of listed manufacturing firms in a developing economy like that of Nigeria.

1.1. Objectives of the Study

The main objective of this research study is to examine impact of auditor's tenure on the financial reporting quality of listed manufacturing firms in Nigeria. Other specific objectives include:

1. To determine the extent to which short-term audit tenure influences discretionary accrual of listed manufacturing firms in Nigeria.
2. To determine the extent to which long-term audit tenure influences discretionary accrual of listed manufacturing firms in Nigeria.
3. To determine the extent to which audit-firm rotation influences discretionary accrual of listed manufacturing firms in Nigeria.

1.2. Research Questions

The following research questions have been formulated to guide this research study:

1. What is the extent to which short audit tenure influences discretionary accrual of listed manufacturing firms in Nigeria?
2. What is the extent to which long audit tenure influences discretionary accrual of listed manufacturing firms in Nigeria?
3. What is the extent to which audit-firm rotation influences discretionary accrual of listed manufacturing firms in Nigeria?

1.3. Research Hypotheses

The following hypotheses were stipulated to guide this research study;

$H0_1$: Short audit tenure has no significant influence on discretionary accrual of listed manufacturing firms in Nigeria.

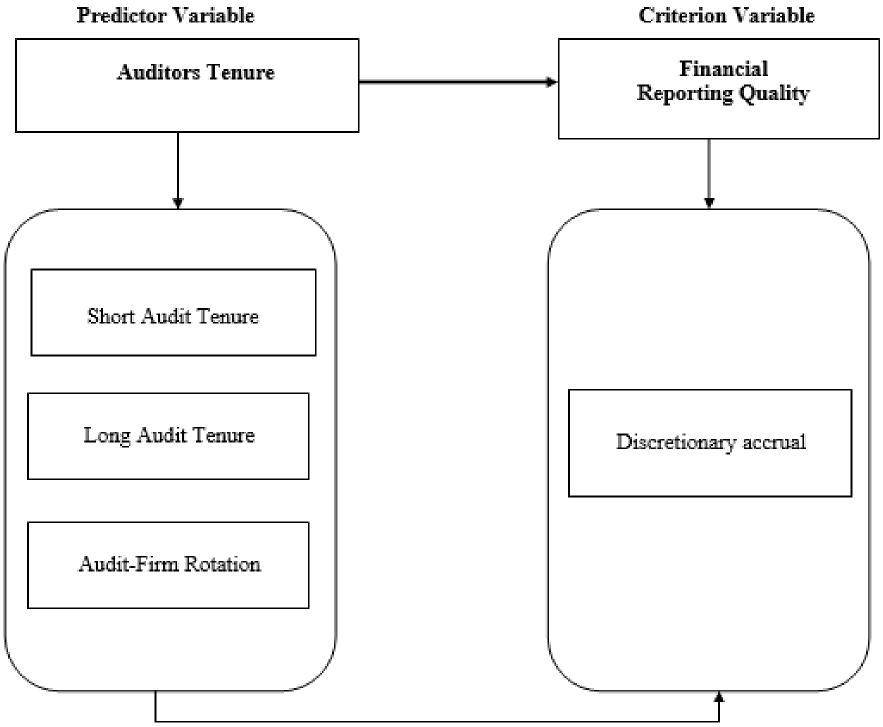
$H0_2$: Long audit tenure has no significant influence on discretionary accrual of listed manufacturing firms in Nigeria.

$H0_3$: Audit-firm rotation has no significant influence on discretionary accrual of listed manufacturing firms in Nigeria.

2. Review of Related Literature

2.1 Conceptual Framework/Review

The conceptual framework of this study shows the measures of the criterion variable which is financial reporting quality and the dimensions of the predictor variable, which is auditor's tenure. It is diagrammatically represented as follow.



Source: Researcher's Model, 2023

Fig 1

2.1.1 Auditors Tenure

Auditor tenure refers to the length of time an external auditor has been engaged with a company to independently assess its financial statements and provide an opinion on their accuracy. The tenure of auditors is a crucial aspect of corporate governance as it can influence the perception of independence and objectivity in financial reporting (Oladijo, 2022) [12]. Camillus and Celestine (2021) [6] defined auditor tenure as the length of time that an auditing firm has been engaged to perform audit services for a particular client. It is a measure of the duration of the professional relationship between the client and the auditor. Oladijo (2022) [12] asserted that regulators and standard-setting bodies have recognized the importance of addressing potential independence concerns associated with long auditor tenures. Some jurisdictions have implemented mandatory audit firm rotation, limiting the number of consecutive years an auditor can serve a particular client. This requirement aims to enhance independence and maintain public confidence in financial reporting. Auditor tenure plays a crucial role in ensuring effective financial reporting and corporate governance. While longer tenures can bring benefits such as enhanced knowledge and efficiency, the potential risks to auditor independence necessitate careful consideration and regulatory oversight. Striking a balance between familiarity and independence is essential to maintain the integrity of financial reporting processes. It is worth noting that auditor tenure is subject to scrutiny from stakeholders, including shareholders, regulators, and professional bodies, who seek to ensure the integrity and transparency of financial reporting. As a result, companies often engage in periodic rotation of audit firms to promote fresh perspectives, enhance objectivity, and maintain public confidence in the financial statements (Abudullahi *et al.*, 2020) [1].

2.1.2 Short Audit Tenure

Sunday (2019) asserted that short audit tenure refers to a relatively brief duration of the professional relationship between a company and its external auditing firm. It signifies that the auditing firm has been engaged to perform audit services for a limited period of time. Itoro and Emmanuel (2019) [9] asserted that the length of short audit tenure can vary depending on various factors, including industry norms, regulatory requirements, and company-specific circumstances. In some cases, a company may engage a new auditing firm to perform the audit after a relatively short duration, typically within a few years or even less. Short audit tenure is often associated with the desire to introduce fresh perspectives, enhance objectivity, and mitigate potential conflicts of interest that may arise from a long-standing relationship between the auditor and the client. It is believed that rotating audit firms periodically can bring new insights and improve the overall effectiveness of the audit process. While short audit tenure can promote audit quality and independence, it also presents certain challenges. Auditors with limited tenure may have a learning curve to understand the company's operations, financial reporting systems, and industry dynamics. Additionally, the transition between auditors may require additional time and resources for the client to provide necessary information and ensure a smooth transfer of responsibilities (Itoro & Emmanuel, 2019) [9]. Aliu and Mohammed (2018) [3] postulated that it is worth noting that the determination of the appropriate audit tenure is a complex decision that requires careful consideration of the specific circumstances and objectives of the company, as well as compliance with applicable regulations and best practices in corporate governance. Ultimately, the goal is to strike a balance between stability and fresh perspectives to ensure robust financial reporting and maintain stakeholder confidence.

2.1.3 Long Audit Tenure

Long audit tenure refers to the length of time that an auditing firm has been engaged by a client to provide audit services. It is an important aspect of corporate governance and can have significant implications for financial reporting quality and auditor independence (Godwin *et al.*, 2018) [8]. From a positive perspective, long audit tenure can foster a deep understanding of the client's business operations, industry dynamics, and internal control systems. Over time, auditors may develop specialized knowledge and insights that can enhance the effectiveness and efficiency of the audit process. This accumulated experience can contribute to the identification of potential risks, the detection of anomalies, and the provision of valuable recommendations for improvement (Zayol *et al.*, 2017) [20].

2.1.4 Audit-Firm Rotation

Audit-firm rotation refers to the practice of periodically changing the external audit firm engaged by a company to provide independent assurance on its financial statements and internal control systems. This concept aims to enhance audit quality and independence by mitigating the potential risks associated with prolonged auditor-client relationships (Sylvester & Famous, 2016). Segun and Ebipanipre (2013) opined that the rationale behind audit-firm rotation lies in the belief that long-term audit relationships may compromise the objectivity and skepticism of auditors, leading to potential conflicts of interest. By periodically rotating audit firms, companies aim to introduce fresh perspectives and promote a rigorous evaluation of financial reporting practices. Patrick and Henning (2013) asserted that audit-firm rotation brings several potential benefits. Firstly, it can foster the development of a competitive audit market, ensuring a wider pool of firms to choose from and promoting innovation and quality improvements within the profession. Secondly, it reduces the risk of familiarity and complacency, as new auditors approach the audit process with a fresh set of eyes and a different perspective. Finally, it enhances the perception of auditor independence, reinforcing stakeholders' confidence in the financial reporting and strengthening governance.

2.1.5 Financial Reporting Quality

Financial reporting quality refers to the accuracy, transparency, and reliability of a company's financial statements. It plays a crucial role in providing stakeholders, such as investors, creditors, and regulators, with relevant and trustworthy information for decision-making purposes (Robert & Ann, 2017) [15]. As emphasized by FASB, a high-quality financial reporting framework is characterized by adherence to established accounting standards, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). Companies that prioritize financial reporting quality demonstrate a commitment to providing accurate and reliable financial information to their stakeholders. There are several indicators of financial reporting quality that investors and analysts assess. These include the consistency and comparability of financial statements over time, as well as the thoroughness and completeness of disclosures accompanying the financial statements. Companies with strong financial reporting quality often provide detailed explanations, footnotes, and supplementary information that enhance transparency and facilitate a deeper understanding of their financial performance. Moreover, the presence of effective internal controls and corporate governance mechanisms contributes to financial reporting quality. Companies that implement robust internal controls, including segregation of duties, regular audits, and risk management frameworks, are better positioned to ensure the accuracy and integrity of their financial reports. Financial reporting quality is essential for maintaining the trust and confidence of stakeholders. Companies that uphold high standards of financial reporting contribute to a more transparent and reliable financial ecosystem, fostering informed decision-making and sustainable growth (Bowrin, 2018) [5].

2.1.6 Discretionary Accrual

Discretionary accrual refers to the estimated adjustment made in financial reporting by a company's management, which is not directly related to cash flows or contractual obligations. It represents the portion of net income that is subject to management's discretion and can be influenced by accounting choices and judgments. Discretionary accruals typically arise from decisions regarding revenue recognition, expense recognition, asset valuation, and other accounting estimates. These adjustments aim to reflect the economic reality of the company's operations and financial position, but they also introduce a level of subjectivity and potential for bias. The discretionary nature of these accruals makes them a focus of analysis for financial statement users, as they can impact the reported earnings and thereby affect the evaluation of a company's performance and prospects (Entwistle & Phillips, 2013). Entwistle & Phillips (2013) buttressed that analysts and investors carefully scrutinize discretionary accruals to assess the quality of earnings and management's accounting choices. Unusual or excessive discretionary accruals may raise concerns about potential earnings manipulation or aggressive accounting practices. Therefore, understanding and monitoring discretionary accruals is important for stakeholders seeking to make informed decisions based on a company's financial statements. Abudullahi *et al.* (2020) [1] opined that discretionary accruals play a significant role in financial reporting and analysis. They refer to the estimated adjustments made by a company's management that are not directly linked to cash transactions or contractual obligations. Instead, discretionary accruals involve management's discretion in determining certain accounting estimates and judgments.

2.2 Theoretical Review

This study hinges on the theory of inspired confidence and the big bath theory. **Inspired Confidence Theory:** The proponent of this theory is a Dutch professor named Theodore Limperg in the late 1920s. The theory addresses both the demand for and the supply of audit services. The demand for audit service is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from management, in return for their contribution to the company. Since information provided by management might be biased, a possible different between the interest of management and stakeholders, an auditor is required to cross-check such information.

The Big Bath Theory

The big bath theory conceptualized by Jordan and Clark in 2004 suggests that firms experiencing low earnings in a given year may take discretionary write downs to reduce even further the current period's earnings. By so doing, earnings could be managed downward if the manager believes that the firm is not in a position to meet the contractual earnings' target or upward to improve an impending bonus. The company and its management will not be punished proportionately more for the big hit it takes to its already depressed earnings. This "clearing of the decks" makes it easier to generate higher profits in later years. They however conclude that the big bath theory is more than just a theory but is instead a practical method of managing earnings.

2.3 Empirical Review

Oladijo (2022) [12] investigated the effect of audit tenure on financial reporting quality of Nigerian Deposit Money Banks. This was with a view to providing information on the relationship between audit rotation and financial reporting quality of Nigerian Deposit Money Banks. The study employed secondary data. The study population comprised all the 20 listed Deposit Money Banks (DMBs) on the Nigerian Stock Exchange. Purposive sampling technique was adopted to select 13 banks whose data were readily available and accessible, and stocks were actively and consistently traded on the stock market. Data for audit tenure, audit committee independence, board size, financial condition and financial reporting quality were sourced from the audited financial statements of the selected DMBs and the Nigerian Stock Exchange Factbook over a period of 11 years (2008-2018). Data collected were analyzed using Random Effect method. The results showed that audit tenure had a positive and significant relationship with financial reporting quality ($t = 2.183$ $p < 0.05$). Moreover, financial condition had a negative and significant relationship with financial reporting quality ($t = -2.892$ $p < 0.05$). The study concluded that audit tenure had strong influence on financial reporting quality of Nigerian Deposit Money Banks. The results indicated that audit tenure in Nigerian environment is consistent with learning effect theory as financial reporting quality is positively related to audit tenure.

Camillus and Celestine (2021) [6] ascertained the impact of audit firm tenure on financial reporting quality of quoted manufacturing companies in Nigeria. Ex post facto research design with panel data was adopted for the study. The population consists of forty-five (45) quoted manufacturing firms in Nigeria as listed on the Nigerian Stock Exchange (NSE) as at 2020. Judgmental sampling technique was used in determining the sample size of sixteen (16) quoted manufacturing firms in Nigeria for a period of 5 years (2011-2015). Secondary data was collected for this study and the Spearman's correlation coefficient and multiple regression analysis were used to analyze the data collected and this was computed with the aid of Stata12. Discretionary accrual was computed based on Modified Jones Model, 1995. The study revealed that there is an insignificant relationship between long-term audit firm tenure on financial reporting quality of quoted companies in Nigeria, i.e. long-term audit tenure has insignificant impact on discretionary accruals. Therefore, it was recommended that legislators should make more efforts to regulate "audit firms" rather than "auditors" if the final goal is to improve the quality of earnings.

Abudullahi *et al.* (2020) [1] examined impact of audit quality on the financial performance of listed companies in Nigeria. The study offered proof on the direct influence of audit quality on the financial performance of listed companies Nigeria. The study employed 84 companies listed on the NSE with 756 samples for the period of nine years which is from 2010 to 2018 based on panel data approach. Furthermore, the research used secondary approach to retrieve data from Thompson Reuters DataStream as well as the financial statement of the listed companies. This present study employs multiple regression to examine the model. The results reveal that audit fee shows a positively and insignificant relationship with ROA. This implies that if there is decrease in the amount paid to auditors for audit services, then financial performance of listed companies in Nigeria will increase. Consistent with the agency theory, auditor size displays a significant positive relationship with ROA. This positive figure implies that a percentage increase in firms audited by Big 4, then financial performance (ROA) will also increase. Auditor independence is also seen to be positive and statistically significantly related to the ROA. Finally, auditor independence is found to be more powerful than auditor size on the financial performance. The study recommended that the executives should engage the services provided by audit firms whose integrity and character is unquestionable. It will also assist policy makers and relevant authorities in decision making.

Sunday (2019) examined the relationship between auditors' independence and quality of corporate financial reporting in Nigeria. The study was anchored on the Agency Theory and adopted the content analysis research design. Data were collected from annual reports of listed manufacturing companies for the period 2013 to 2017. Some descriptive and correlation statistics were deployed as tools of analysis while regressions were used to examine the relationship between the variables highlighted in the study. Findings of the study indicate that audit incentives, audit tenure and audit client size have a significant positive relationship with quality of financial reporting. The study also finds that audit reporting lag has a positive but insignificant correlation with financial reporting quality whereas auditor's status such as being one of the big 4 audit firms has a significant negative relationship with quality of financial reporting. The study concludes that longer auditor tenure and higher incentives promote independence of the auditor which by extension improves quality of financial reporting. The study recommends that audit firms should charge reasonable fees to ensure adequate compensation for engagement staff as this will promote independence. The study further recommends that Financial Reporting Council of Nigeria (FRC) and other regulatory bodies should increase the three years mandatory professional requirement for auditors so as to encourage longer auditor tenure.

Itoro and Emmanuel (2019) [9] examined impact of audit quality on financial reports of Deposit Money Banks (DMBs) in Nigeria. The motivation was the corporate collapses and failures experienced in the banking sector amidst the clean audit reports. The methodology adopted was ex-post-facto. Using descriptive and inferential statistics, a sample of 10 deposit money banks was purposively selected for a period of 14 years, resulting in 140 data points. The data were obtained basically from content analysis of published annual reports and accounts, and notes to the financial statements. Using Pearson Product-Moment Correlation and Linear multiple regression; the study revealed that Audit fees and Auditor tenure exert insignificant influence (3.4%, 3.3%) and exhibited significant relationship with the amount of discretionary accruals of deposit money banks in Nigeria. There existed 85.8% positive joint relationship between audit quality and financial reports. However, auditor tenure has more influence on discretionary accruals than audit fees. It was recommended that the regulatory bodies should strengthen the quality of financial reports by taking measures such as fixing optimal non-discretional accrual levels. Supervisory and regulatory authorities should check the excesses of management of these DMBs, this will reduce the risk of bank failures even with clean reports. The auditors of DMBs in Nigeria given their fees should conduct Earnings Quality Assessment (EQA) and issue "Integrated Audit reports" which will include EQA reports and Internal Control Reports in addition to normal annual audit reports. These measures will reduce and address the issues in financial reports policy which could create threat for auditors.

Aliu and Mohammed (2018) [3] examined the effect of auditor's independence on audit quality of listed oil and gas companies in Nigeria over a period of ten (10) years (from 2007 to 2016). The sample size comprises of nine (9) out of the fourteen (14) companies listed in the downstream sector of the Nigeria Stock Exchange selected using purposive sampling technique. The study uses secondary data which were sourced from the audited annual financial statements of the sampled companies. The panel data were analyzed using descriptive statistics, correlation matrix and binary regression technique. The findings show that there is a significant positive relationship between auditor's independence and audit quality, while the control variable of company size and leverage showed positive and negative relationship with audit quality respectively. The study recommends that the entire components of audit fees pricing and calculation should be regulated and disclosed in order to provide public insight into the financial dependence of an auditor on a client and whether the fee corresponds with the complexity of the audit assignment.

Godwin, Ganiat and Kabiru (2018) [8] ascertained the relationship between audit quality attributes and financial reporting quality of listed consumer goods companies in Nigeria. The study adopted a correlation research design and adopted 12 out of the entire population of 17 quoted companies in the industrial goods sector using purposive sampling technique to determine sample size. The result of the panel regression with the aid of STATA indicated that audit firm size has a negative significant relationship, auditor tenure has a positive insignificant relationship while audit fees has a negative insignificant relationship with financial reporting quality of quoted industrial goods companies in Nigeria. The study recommended that consumer goods companies should not rely on audit fees paid to auditors as a guarantee of qualitative financial reporting since audit fees contributes negatively and insignificantly to financial reporting quality. Consumer goods companies should not emphasis on elongated tenure of auditors and should reasonably consider the size of audit firms before engaging them.

Johnson, *et al* .(2002) carried out a study to examine whether audit firm tenure correlates with financial reporting quality using two proxies for financial reporting quality and a sample of Big clients matched on industry and size. Their findings indicate that relative to medium audit firm tenures of two to three years are associated with lower quality financial reports while they found no evidence of reduced financial reporting quality for longer audit firm tenures of nine or more years.

Kalabeke, *et al;* (2019) investigates the relationship between audit firm tenure and financial reporting quality. The study selected a sample data from 280 non-financial listed firms in Pakistan Stock Exchange for 2008 – 2017, which comprise of 2,800 firm year observations. The results exemplify that firms with longer audit firm tenures are more negatively associated with accrual-based earnings management activities, and showing better financial reporting quality. Moreover, the study shows that non-mandatory audit firm rotation is associated with accrual based earnings management activities, and showing poor financial reporting quality. The study implies that there is an adverse relationship between auditor tenure and financial reporting quality. Prior studies use accrual based earnings management as a measure of financial reporting quality and empirically investigated the relationship between auditor tenure and accrual based earnings management activities. Johnson, *et al;* (2002) show that short audit firm tenure is linked to a higher level of accrual based earnings management activities as compared to medium audit firm tenures. However, they find no relationship between longer audit firm tenures and accrual based earnings management activities.

Zayol, Kukeng and Iortule (2017) [20] examined effect of auditor independence on audit quality Auditor independence and audit quality are two concepts that work inseparably. Many have argued that auditor independence begets audit quality and as such audit quality cannot be different from the system that produces it. This paper reviews literature related to auditor independence and audit quality in order to determine the effect of the former on the latter. The ex post facto research design is employed. Information for this study was obtained from secondary sources to include journals, text books and other internet materials. Based on the review, findings show that there is a strong relationship between auditor independence and audit quality. The review also revealed four threats to auditor independence, which are client importance, non-audit services (NAS), audit tenure, and client's affiliation with CPA firms. However, some studies indicated a positive relationship while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used. Most of the studies on auditor independence and audit quality were centered on one or two of the threats and majorly done outside Nigeria. Even the ones done in Nigeria were focused on the banking sector. This study therefore, recommended that more investigations should be conducted in Nigeria taking into consideration the four major threats revealed and extend to other sectors like manufacturing, transport, media and education.

Sylvester and Famous (2016) carried out a study on impact of audit committee attributes on financial reporting quality in Nigeria quoted companies. Their study made use of one hundred and thirty-one (131) companies as quoted in the Nigeria sock exchange for 7 years (2006-2012). Descriptive statistics as well as correlation and Ordinary Least Square (OLS) regression was used to analyze data. Their study revealed that audit committee attributes like frequency of meetings, financial literacy, independence, size and attendance at meetings had a positive significant effect on financial reporting quality.

A study carried out by Belén *et al.* (2015) on auditor tenure and audit quality in Spanish state-owned foundations used a sample size of 254 audits from 2003 and 2010. The study revealed that, although foundation audit quality decreases as tenure length increases, this quality loss does not become apparent until the sixth year of the foundation-auditor relationship, after an initial five years of improvement in quality. The study further noted that this empirical evidence is of importance to regulators and financial statement users alike, given that it suggests the need for the introduction of tenure-reducing measures which, at the same time, also ensure a minimum tenure period.

Segun and Ebipanipre (2013) used the Binary Logit Model estimation technique to analyze the relationship between audit tenure and the audit quality carried out in Nigeria on audit tenure: an assessment of the effect of the audit tenure on the audit quality. The research showed that there is a negative relationship between audit tenure and the audit quality although the variable was not significant. They both recommended that the Financial Reporting Council (FRC) and other regulatory bodies in line with best practices need to consider the issue of audit tenure and its effect on the audit quality especially in a developing country like Nigeria. Further studies should consider other vital variables affecting audit quality such as the non-audit related services.

Patrick and Henning (2013) in their study examined the relationship of auditor tenure to audit quality: empirical evidence from the German audit market used 1,071 firm observations of large listed companies as the sample size for a period of 7 years (2005 to 2011). The study revealed that neither the short term nor long term audit firm tenure seems to be a significant factor with regard to audit quality in Germany. Therefore, their findings do not support the idea of a mandatory audit firm rotation rule.

Quick and Wiemann (2011) investigated the effects of audit tenure on audit quality of listed companies in Germany over a period of 3 years (2005 to 2007). In their study, signed and unsigned discretionary accrual was used as a measure for audit quality. Their study revealed a positive association between the length of auditor engagement tenure and audit quality. This implies that the regulative limitation of auditor tenure as suggested by the European Commission would potentially have a negative impact on the quality of the conducted statutory audits in Germany.

3. Methodology

Research design: Ex-post facto research approach was used to examine the impact of auditors' tenure on financial reporting quality of listed manufacturing firms in Nigeria using existing secondary data collected from the published financial statements of the selected listed manufacturing firms for ten years from 2011 – 2020 and analyzed using regression analysis. Population of the study: The population is made up of firms that are listed on the Nigerian Stock Exchange in the manufacturing sector. The sector was made up of 45 manufacturing firms in total listed on the Nigeria Stock Exchange (NSE) as at 31st December 2020. Sampling Technique and Sample Size: The study made use of judgmental sampling technique to choose nine (9) manufacturing firms namely; Flour Mills Nigeria Plc, Nestle Nigeria Plc, John Holt Plc, PZ Cussons Nigeria Plc, Cap Plc, Cutix Plc, Meyer Plc, Cadbury Nigeria Plc and Chellarams Plc.

3.1. Model Specification

To meet the objective of this study, the following functional model is thus specified:

$$DA = f\,(SAT, LAT, AFR) \qquad (1)$$

Where: DA = Discretionary Accrual; SAT = Short Audit Tenure; LAT = Long Audit Tenure; AFR = Audit-Firm Rotation

This functional representation is further expressed into an economic model and presented as follows;

$$DA = \beta_0 + \beta_1 SAT_{it} + \beta_2 LAT_{it} + \beta_3 AFR_{it} + \mu \qquad (2)$$

Where: DA = Discretionary Accrual (Discretionary accrual was computed based on Modified Jones Model, 1995)***;*** SAT = Short Audit Tenure; LAT = Long Audit Tenure; AFR = Audit-Firm Rotation***;*** β_0 = Constant***;*** $\beta_1 \ldots \beta_3$ = Coefficient of the regression equation; μ = Error term; i = is the cross section of firms used; t = Time period.

4.1 Results and Analysis

Table 1: Descriptive statistics based on sample firms

Variable	OBS	Mean	Std. Dev.	Min	Max
DA	90	1.383556	3.018038	-19.28	9.72
SAT	90	7.144444	2.492961	0	13
LAT	90	.6565556	.2067847	0	1
AFR	90	4.312442	1.581573	0	9

Source: Author's Computation using STATA 14, 2023

Table 1 above shows that the mean of discretionary accrual is 1.38 (average of 1.38%) whiles the range of discretionary accruals is between –19.28% and 9.72% with a standard deviation of 3.02. Short audit tenure has an average of 7.14% while it ranges between 0% and 13% with a standard deviation of 7.14. For long audit tenure, it has an average of 0.66. However, long audit tenure ranges between 0 to 1 with a standard deviation of 0.21. Additionally, audit-firm rotation indicated a mean of 4.3 while it ranges between 0 to 9 with a standard deviation of 1.58.

Table 2: Hausman Test Output

	---- Coefficients ---- (b) fe	(B) re	(b-B) Difference	SQRT (Diag (V_b-V_B)) S.E.
SAT	.1143741	.0012656	.1131085	.1122533
LAT	.1753103	-.1612976	.3366078	.6761165
AFR	.3737273	.2944125	.0793149	.1134831

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2 (3) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 9.16

Prob>chi2 = 0.0273

Source: Author's Computation using STATA 14, 2023

Based on the result of the Hausman output above as tabulated in table 2 above, the Hausman test for fixed effect regression and random effect regression states that if the probability of the chi-square is insignificant, the random effect regression is efficient and more accurate otherwise, the fixed effect regression is efficient or accurate. Hence, the fixed effect regression was adopted based on the above criterion as the probability is 0.0273 which is less than expectation of 0.05.

4.3 Test of Hypotheses

Table 3

Fixed-effects (within) regression			Number of obs = 90			
Group variable: croid			Number of groups = 9			
R-sq:			Obs per group:			
within = 0.0387			min = 10			
between = 0.0695			avg = 10.0			
overall = 0.0055			max = 10			
			F(3,78) = 1.05			
corr(u_i, Xb) = -0.2857			Prob > F = 0.3764			
DA	**Coef.**	**Std. Err.**	**t**	**P>|t|**	**[95% Conf.**	**Interval]**
SAT	.1043741	.187307	0.61	0.581	-.2585255	.4872738
LAT	.1823103	1.960815	0.09	0.008	3.728372	4.078993
AFR	.3837273	.2679484	1.39	0.268	-.1597169	.9071716
_cons	-1.11495	1.818605	-0.61	0.542	-4.735515	2.505615
sigma_u	1.5805658					
sigma_e	2.8253428					
rho	.23835968	(fraction of variance due to u_i)				
F test that all u_i = 0: F (8, 78) = 2.75			Prob > F = 0.0100			

***Source*:** Author's Computation using STATA 14, 2023

Hypothesis one - $H0_1$: Short audit tenure has no significant effect on discretionary accrual of listed manufacturing firms in Nigeria.

Table 4.3 showed that short audit tenure has a positive coefficient of 0.1043741 and a p-value of 0.581. Based on the decision rule, the null hypothesis (**$H0_1$**) is accepted. The result suggests that short audit tenure has a positive but insignificant effect on discretionary accruals of listed manufacturing firms in Nigeria.

Hypothesis two - $H0_2$: Long audit tenure has no significant influence on discretionary accrual of listed manufacturing firms in Nigeria**.** Table 4.3 also showed that long audit tenure has a positive coefficient of 0.1823103 and a p-value of 0.008. Based on the decision rule, the null hypothesis (**$H0_2$**) is rejected. The result implies that long audit tenure has significant and positive effect on discretionary accrual of listed manufacturing firms in Nigeria.

Hypothesis three - $H0_3$: Audit-firm rotation has no significant effect on discretionary accrual of listed manufacturing firms in Nigeria.

Table 4.4 revealed that audit-firm rotation has a positive coefficient, .3837273 and a p-value of 0.268. Based on the decision rule, the null hypothesis (**$H0_3$**) is accepted. The result suggests that audit-firm rotation has a positive but insignificant effect on discretionary accrual on manufacturing firms in Nigeria.

4.4 Discussion of findings

The outcomes of the analysis on Table 4.3 indicated that short audit tenure has a positive impact on discretionary accrual of listed manufacturing firms in Nigeria but such impact is not significant.. Similarly, the study showed that long audit tenure has significant and positive effect on discretionary accrual of listed manufacturing firms in Nigeria. In another vein, audit-firm rotation has a positive but insignificant effect on discretionary accrual of listed manufacturing firms in Nigeria. The findings agreed in part with Patrick and Henning (2013) whose empirical outcomes show that neither short nor long term audit firm tenure seems to a significant factor with regard to audit quality in Germany. The result also agrees with the position of Godwin, Ganiat and Kabiru (2018) [8] whose results of panel regression with indicated that auditor tenure has a positive insignificant relationship while audit fees has a negative insignificant relationship with financial reporting quality of quoted industrial goods companies in Nigeria. The result also indicated that long audit tenure has significant and positive effect on discretionary accrual of listed manufacturing firms in Nigeria. The result implies that there is a higher probability of having an improved financial reporting quality where auditors' tenure is extended for a long period. This is consistent with the learning effect theory which suggests that auditors become skilled and more experienced in the audit client assignment after acquiring on-job experience through familiarization with the clients' nature, history, process and operation**.** However the result disagreed with the findings of Camillus and Celestine (2021) [6] who concluded that long-term audit tenure has insignificant impact on discretionary accruals.

5.1 Conclusion and Recommendations

It could be concluded that short audit and audit-firm rotation tenure have positive and insignificant effect on discretionary accrual of listed manufacturing firms in Nigeria. Also, long audit tenure has positive and significant effect on discretionary accrual of listed manufacturing firms in Nigeria. It thus recommended that the regulatory agencies such as the Financial Reporting Council of Nigeria and others including manufacturing firms should seek to review the law to accommodate the elongation and duration of mandatory professional requirement for auditors so as to encourage longer auditor-client relationship. The various professional bodies and regulators should as a matter of urgency carry out their oversight function of a diligent supervision of audit firms to ensure that there is value relevance and quality assurance in their assignment.

Conflict of Interest: The authors hereby declare that there is no conflict or competing interest in this manuscript.

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