



Journal of Contemporary Accounting and Finance

pISSN: 3115-6606; eISSN: 3156-2809

Affiliated with

Department of Accounting, Federal University Dutsin-Ma, Katsina State, Nigeria



How to Cite this Article: Orumwense, K. E., & Eriki, E. (2026). Effect of audit tenure and financial reporting quality among listed firms in Nigeria. *Journal of Contemporary Accounting and Finance* (JOCAF). 1(2), 68-79. <https://doi.org/10.33003/jocaf-2026.v1i2.18.68-79>

Effect of audit tenure and financial reporting quality among listed firms in Nigeria

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ABSTRACT

This study examined the effect of audit firm tenure on financial reporting quality among listed firms in Nigeria. The study was motivated by concerns about auditor independence, familiarity threats, audit effectiveness, and the credibility of corporate financial reports. Specifically, it investigated the effects of short-term audit tenure, long-term audit tenure, and audit partner rotation on financial reporting quality. The study used secondary data from the audited annual reports of ten purposively selected firms listed on the Nigerian Exchange Group (NGX) for 2020–2025, yielding 60 firm-year observations. Financial reporting quality was proxied by Big Four auditor affiliation, while short-term audit tenure was measured as audit-firm tenure of five years or less and long-term tenure as tenure exceeding five years. Audit partner rotation was measured as a change in the engagement audit partner during the year. Multiple regression analysis was employed to test the specified relationships. The findings revealed that short-term audit tenure had a positive and statistically significant effect on financial reporting quality ($\beta = 0.18$; $p = 0.011$), whereas long-term audit tenure had a negative and statistically significant effect ($\beta = -0.26$; $p = 0.002$). Audit partner rotation also had a positive and statistically significant effect ($\beta = 0.21$; $p = 0.001$). Firm size was positively significant, while leverage had a negative and significant effect. The study recommends transparent disclosure of audit tenure, compliance with partner rotation requirements, and stronger regulatory enforcement of auditor independence safeguards.

Keywords

audit firm tenure, audit partner rotation, financial reporting quality, listed firms, Nigeria

1. Introduction

In recent years, there has been increased focus on auditors' inability to spot and prevent financial reporting irregularities and firms failures. High-profile cases such as Enron, WorldCom, and Tyco International in the United States, as well as Cadbury Nigeria Plc, African Petroleum Plc, and Oceanic Bank in Nigeria, have highlighted issues of audit efficacy and auditor independence. These instances have intensified debate over whether external auditors can remain objective when they develop long-lasting client relationships or become financially dependent on them (Ihenyen & Augustine-Desi, 2023). The term "audit firm tenure" refers to how long an audit firm has provided audit services to a client. This is one of the most debated topics in auditing since it has sparked concerns. To improve the quality and effectiveness of the audit process, auditors must have a greater understanding of the client's operations, the industrial environment, and internal control systems through ongoing audit engagements.

Ongoing connections between auditors and clients can erode auditor independence, reduce professional skepticism, and create familiarity risks. As auditors become more familiar with management, their ability to assess management's claims and accounting assumptions may deteriorate, which could harm audit quality and trustworthiness of financial reports (Sanni et al., 2021). The availability of non-audit services (NAS) is another significant factor that may affect audit quality, when audit firms provide other services including consulting, tax, and advisory engagements, they may become financially dependent on their audit clients, which could create conflicts of interest. This financial dependence may compromise auditors' independence, particularly in regions

with weak regulatory enforcement and oversight. Therefore, regulatory bodies like the International Auditing and Assurance Standards Board (IAASB) and the Financial Reporting Council of Nigeria (FRCN) must strengthen independence standards by promoting audit partner rotation and enforcing restrictions on the provision of non-audit services.

Current research suggests that auditor independence is influenced by audit firm size, reliance on audit fees, and the availability of non-audit services. Strengthening auditor independence through effective regulatory supervision is essential to improving audit quality, raising the quality of financial reporting, and preserving investor confidence in the capital market (Adeyemi & Fagbemi, 2010). High-quality financial reporting is essential for preserving business transparency, increasing investor confidence, and promoting the efficient operation of capital markets. The impact of audit firm tenure on financial report reliability is a topic of continuous debate, particularly in developing countries like Nigeria.

Longer audit tenure may enhance audit quality, efficacy, and efficiency by enabling auditors to develop a deeper understanding of the client's operations, business environment, internal control systems, and financial reporting processes (DeFond & Zhang, 2014).

Although prolonged auditor-client relationships may enhance auditors' knowledge of the client's operations and reporting environment, they may also create familiarity threats that weaken professional scepticism, independence, and objectivity. The International Ethics Standards Board for Accountants (IESBA, 2024) recognises close or long-standing relationships as a potential familiarity threat because they may reduce professional scepticism. Recent Nigerian evidence also suggests that extended audit tenure can be associated with concerns about financial reporting quality, although empirical findings remain mixed (Sadiq et al., 2023). The impact of audit firm tenure on the integrity of financial reporting remains a contentious issue, particularly in developing countries such as Nigeria. Therefore, this study is necessary to fill the identified knowledge gap, add to the body of existing literature, and push the boundaries of what is known in this field.

2. Review of literature and hypothesis development

Financial Reporting Quality

Financial reporting quality (FRQ) refers to the extent to which financial statements faithfully represent an entity's underlying economic activities and provide relevant, reliable, and decision-useful information to users. High-quality financial reporting promotes transparency, reduces information asymmetry, and supports informed investment and economic decisions. Jim-Suleiman and Ibiamke (2021) describe FRQ as the extent to which financial statements accurately reflect an entity's economic activities, are free from material errors or misstatements, and provide useful information for stakeholders' decision-making. From an agency theory perspective, FRQ matters because managers may have superior information about the firm and may use that advantage to pursue personal interests. Effective monitoring mechanisms, including independent auditing, can therefore reduce managerial opportunism and improve the credibility of reported financial information.

Both firm-specific and institutional factors influence the quality of financial reporting. Corporate governance mechanisms such as ownership structure, board independence, and audit committee effectiveness can constrain managerial opportunism and reduce earnings management, thereby improving the credibility of financial disclosures (Rajpurohit & Rijwani, 2022). Similarly, the adoption of International Financial Reporting Standards (IFRS) can improve comparability, transparency, and disclosure quality by reducing inconsistencies in financial reporting practices (Saeed et al., 2026). Technological developments also increasingly influence reporting quality. Information technology governance, risk, and compliance systems can strengthen internal controls, while blockchain technology can enhance the transparency, security, and auditability of accounting records (Samsul et al., 2025). Thus, FRQ should not be viewed as a product of accounting standards alone but as the outcome of the interaction among governance, auditing, regulation, internal controls, and technological systems.

Researchers can measure FRQ using several approaches. Accrual-based measures are widely used because opportunistic accrual manipulation may reduce the reliability of reported earnings. The Dechow and Dichev (2002) model assesses accrual quality based on the relationship between accruals and operating cash flows, while the Modified Jones Model developed by Dechow et al. (1995) is commonly applied to estimate discretionary accruals. Lower levels of abnormal or discretionary accruals generally indicate higher reporting quality.

Another approach is real earnings management (REM), which occurs when managers alter genuine business activities, such as production, discretionary expenditure, or sales practices, to achieve desired accounting outcomes. Roychowdhury (2006) identifies abnormal operating cash flows, production costs, and discretionary expenses as indicators of real earnings management. Financial statement restatements and regulatory enforcement actions can serve as indicators of weaknesses in financial reporting quality, although their usefulness may be limited where enforcement and disclosure mechanisms are relatively weak (Abdul-Baki & Haniffa, 2020; Okwuosa & Peter, 2024).

Audit quality is closely associated with financial reporting quality (FRQ) because effective external auditing can improve the credibility of financial statements and constrain opportunistic reporting. Big Four affiliation - Deloitte, EY, KPMG, and PwC is commonly used as a proxy for audit quality because these firms generally possess greater technical expertise, audit resources, industry knowledge, quality-control systems, and reputational incentives (Francis & Yu, 2009; Francis et al., 2013). However, Big Four affiliation does not automatically guarantee superior FRQ, as empirical evidence remains mixed across institutional settings (Enofe et al., 2013; Saeed et al., 2022). Therefore, Big Four status is better viewed as an indicator of expected audit capacity and external monitoring rather than a direct measure of FRQ.

Audit Firm Tenure and Financial Reporting Quality

Audit firm tenure refers to the number of consecutive years during which the same audit firm provides audit services to a particular client. It represents the duration of the auditor-client relationship and may enable the auditor to accumulate client-specific knowledge and a deeper understanding of the client's operations and reporting environment (Sadiq et al., 2023; Osirim et al., 2023; Abdulhadi et al., 2025). The relationship between audit firm tenure and FRQ can be explained through two competing mechanisms: the auditor expertise or knowledge effect and the auditor independence or familiarity effect. The knowledge-effect argument suggests that longer tenure enables auditors to accumulate client-specific knowledge concerning business operations, accounting systems, internal controls, transactions, and industry risks, this knowledge may improve audit planning, risk assessment, and the auditor's ability to identify material misstatements. Consequently, longer tenure may enhance FRQ when the benefits of accumulated knowledge exceed the risks associated with prolonged auditor-client relationships.

In contrast, the independence argument suggests that excessively long audit tenure may create familiarity threats between auditors and client management. Such familiarity may reduce professional scepticism and objectivity and could make auditors less willing to challenge questionable accounting judgments (IESBA, 2024; Onaolapo et al., 2020).

Short tenure may reduce these familiarity risks, although newly appointed auditors may initially lack sufficient knowledge of the client's operations and internal control environment. Myers et al. (2003) therefore notes that a short engagement may involve a learning curve that temporarily constrains audit effectiveness.

These competing explanations suggest that the relationship between tenure and FRQ may not be strictly linear. Very short tenure may limit client-specific knowledge, moderate tenure may balance independence and accumulated knowledge, while excessively long tenure may increase familiarity and independence risks. This theoretical tension provides a basis for examining short-term tenure, long-term tenure, and audit partner rotation separately rather than treating audit tenure as a single undifferentiated construct.

Short-Term Audit Tenure and Financial Reporting Quality

The expected effect of short-term audit tenure on financial reporting quality remains theoretically and empirically ambiguous. From the independence perspective, shorter auditor client relationships may limit familiarity threats and encourage auditors to maintain professional scepticism and objectivity. However, empirical evidence remains mixed, with recent Nigerian studies reporting both significant and insignificant relationships between audit tenure and financial reporting quality (Sampson & Azubike, 2025). However, the evidence from Nigeria does not establish a consistent positive relationship. Osirim et al. (2023) reported that short audit tenure had a positive but statistically insignificant effect on discretionary accruals among listed industrial firms. This finding suggests that reducing audit tenure alone may not be sufficient to improve reporting quality. Similarly, Sadiq et al. (2023) found no significant direct effect of audit tenure on FRQ, although audit committee independence moderated the relationship. This indicates that the effectiveness of audit tenure may depend on complementary governance and monitoring mechanisms.

The conflicting findings can therefore be reconciled by recognizing that short tenure provides an independence advantage but may simultaneously create a client-knowledge disadvantage. Where strong audit committees, internal controls, and other governance mechanisms compensate for the auditor's limited client-specific knowledge, short tenure may enhance reporting quality. Conversely, where such mechanisms are weak, the learning curve associated with a newly appointed auditor may offset the benefits of greater independence. Accordingly, the first hypothesis is stated in the null form:

H₀₁: Short-term audit tenure has no significant effect on the financial reporting quality of listed firms in Nigeria.

Long-Term Audit Tenure and Financial Reporting Quality

The effect of long-term audit tenure on FRQ is equally contested. The knowledge-effect perspective suggests that prolonged auditor-client relationships enable auditors to acquire detailed knowledge of the client's operations, accounting systems, internal controls, and industry-specific risks. Such accumulated knowledge can improve audit efficiency and the detection of unusual transactions and material misstatements. This perspective implies that long-term tenure can improve FRQ when the benefits of client-specific expertise outweigh the risks of familiarity. Conversely, the independence perspective suggests that excessively long audit tenure may create familiarity threats, reduce professional scepticism, and weaken auditor objectivity. Recent Nigerian evidence remains mixed, with studies reporting positive but statistically insignificant relationships between audit tenure and financial reporting quality (Ihenyen & Augustine-Desi, 2023; Ezeala & Nwachukwu, 2023; Asogba et al., 2024). These findings suggest that the client-specific knowledge gained from longer tenure does not necessarily translate into improved financial reporting quality.

The apparent contradiction among these studies may arise because the effect of tenure changes across different stages of the auditor-client relationship. At the beginning of an engagement, limited client knowledge may constrain audit effectiveness. As tenure increases, accumulated knowledge may improve the auditor's ability to identify reporting irregularities. However, when the relationship becomes excessively long, familiarity may weaken independence and professional scepticism. Thus, the competing evidence is better understood as reflecting a potential trade-off between knowledge benefits and independence costs, rather than simply as inconsistent empirical results. This provides a justification for examining long-term tenure independently of short-term tenure. Accordingly, the second hypothesis is stated as follows:

H₀₂: Long-term audit tenure has no significant effect on the financial reporting quality of listed firms in Nigeria.

Audit Partner Rotation and Financial Reporting Quality

Audit partner rotation represents another mechanism through which the benefits and risks of auditor tenure can be balanced. Rotation introduces a new engagement partner and therefore provides a fresh perspective that may reduce familiarity threats and strengthen auditor independence. From the agency-theory perspective, partner rotation can strengthen the monitoring role of the auditor by reducing the possibility that prolonged relationships between the audit partner and management compromise objective reporting.

However, partner rotation may also impose costs. A newly appointed partner may initially possess less client-specific knowledge than the outgoing partner, creating a temporary learning curve. Consequently, rotation may improve independence while simultaneously reducing the immediate benefits associated with accumulated knowledge. This explains why prior empirical findings have not been uniform.

Earlier research presents mixed evidence on auditor tenure and rotation. Ghosh and Moon (2005) found that longer auditor tenure was associated with more favourable perceptions of earnings quality, supporting the argument that accumulated client-specific knowledge can enhance audit effectiveness. In contrast, Carey and Simnett (2006) reported evidence of declining audit quality at longer audit-partner tenures, consistent with concerns about familiarity and independence. Litt et al. (2014) further found lower financial reporting quality during the first two years following an audit-partner change, suggesting that rotation may involve knowledge-transfer and adjustment costs. Similarly, Kuang et al. (2020) found no clear evidence that mandatory audit-partner rotation improved audit quality. Overall, these findings indicate that the effects of tenure and rotation are complex and may depend on the balance between auditor independence and accumulated client-specific knowledge.

The Nigerian context makes this issue particularly relevant because the effectiveness of audit partner rotation depends not only on the formal change of personnel but also on the incoming partner's ability to gain sufficient

client knowledge while maintaining professional independence. Chang et al. (2025) therefore argue that staggered partner rotation may provide a useful balance between continuity and independence by introducing fresh expertise without completely eliminating institutional knowledge.

Overall, the evidence indicates that partner rotation may enhance FRQ through the fresh-eyes effect, although its benefits may be reduced where the loss of client-specific knowledge is substantial. Given the limited and mixed Nigerian evidence, further empirical examination among listed firms is warranted. Accordingly, the third hypothesis is stated as follows:

H₀₃: Audit partner rotation has no significant effect on the financial reporting quality of listed firms in Nigeria.

Synthesis of the Empirical Literature and Research Gap

Empirical evidence on the relationship between audit firm tenure and financial reporting quality (FRQ) remains inconclusive. Nigerian studies by Ihenyen and Augustine-Desi (2023), Ezeala and Nwachukwu (2023), Asogba et al. (2024), and Sadiq et al. (2023) generally report insignificant relationships between audit tenure and reporting quality. Osirim et al. (2023) similarly found limited evidence that short audit tenure or rotation significantly improves reporting quality. However, more recent evidence suggests that partner rotation may enhance audit quality, with Zirakwambge and Mohammed (2025) reporting a significant relationship between partner rotation and audit quality, while Inneh (2025) found that prolonged partner tenure was associated with lower audit quality. Overall, the evidence remains mixed, reflecting differences in tenure measures, quality proxies, samples, and institutional settings.

Rather than treating these findings as simply contradictory, the differences can be explained by the two underlying mechanisms of audit tenure. The knowledge perspective predicts that accumulated client-specific knowledge improves audit effectiveness as tenure increases, whereas the independence perspective predicts that prolonged relationships increase familiarity and threaten professional scepticism. The relative strength of these mechanisms may vary with tenure length, corporate governance quality, internal controls, audit committee effectiveness, and the institutional environment.

Another limitation of the existing literature is that audit tenure is often examined as a single continuous construct. Such treatment may conceal important differences between the early years of an auditor-client relationship and prolonged engagements. Examining short-term tenure, long-term tenure, and audit partner rotation as separate dimensions therefore provides a more nuanced understanding of how auditor continuity and independence influence FRQ.

This distinction is particularly important in the Nigerian listed-firm environment, where institutional and governance conditions may influence how effectively auditors perform their monitoring role. The present study consequently addresses the gap by disaggregating audit tenure into short-term and long-term engagements and examining audit partner rotation separately. This approach allows the study to determine whether the financial reporting implications of tenure arise primarily from the benefits of accumulated audit knowledge, the risks associated with prolonged familiarity, or the fresh perspective created through partner rotation.

Theoretical Framework

Agency Theory

Agency theory best explains the relationship between shareholders (principals) and managers (agents), arguing that agency conflicts arise when ownership and control are separated. Independent external auditors help reduce these conflicts by improving the accuracy of financial statements and narrowing the knowledge gap between management and stakeholders (Watts & Zimmerman, 1986). This perspective holds that the length of the auditor-client relationship significantly affects audit effectiveness. Longer audit tenures can boost productivity and give auditors more client-specific knowledge, but they can also jeopardize auditor independence through familiarity risks and reduced professional skepticism, which can eventually degrade financial reporting quality.

This study is supported by Resource Dependency Theory, which views auditors as providers of essential resources such as professional competence, industry knowledge, and regulatory counsel (Davis & Cobb, 2010). According to the hypothesis, when reputable audit firms are involved, long-term relationships between auditors and customers can improve audit quality by gathering client-specific data and boosting the credibility of financial

reporting. However, long-term dependence on the same audit firm may create familiarity issues that jeopardize auditors' independence and objectivity.

3. Methodology

This study adopts an ex-post facto research design because it relies on historical data that have already occurred and cannot be manipulated or controlled by the researcher. The design is appropriate for examining the relationship between audit tenure and financial reporting quality using data obtained from firms published annual reports and audited financial statements. It also enables the researcher to assess the direction and strength of the relationship among the study variables based on observed historical records (Saunders, 2012).

The study population comprises all 147 firms listed on the Nigerian Exchange Group (NGX) as of 2025. This population provides an appropriate sampling frame because the research focuses on listed firms whose audited annual reports and financial information are publicly available for assessing audit tenure and financial reporting quality. Using data from the Nigerian Exchange Group, reported that 147 firms were listed on the NGX in 2025, spanning sectors such as financial services, consumer goods, industrial goods, construction and real estate, ICT, oil and gas, healthcare, agriculture, and services. The 147 listed firms constitute the population from which the study sample is drawn.

Ten large firms were chosen for the study based on factors such as market value, economic significance, sectoral representation, and the availability of full audited annual reports for the study period. Firms selected were BUA Foods Plc, Dangote Cement Plc, BUA Cement Plc, MTN Nigeria Communications Plc, Airtel Africa Plc, Nestlé Nigeria Plc, Guarantee Trust Holding Firms Plc, First HoldCo Plc, Zenith Bank Plc, and Stanbic IBTC Holdings Plc. These firms provide sufficient data to analyze audit firm tenure and financial reporting quality, and they are among the largest and most economically significant firms listed on the NGX. Subject to the availability and completeness required annual report data, the study spans 2020–2025, yielding a maximum of 60 firm-year observations (10 firms × 6 years). The study used audited annual reports and accounts of the selected firms as secondary data.

Model Specification

The study specifies a multiple regression model to examine the effect of audit firm tenure and the financial reporting quality of listed firms in Nigeria. Financial reporting quality (FRQ) is the dependent variable, while short-term audit tenure (STAT), long-term audit tenure (LTAT), and audit partner rotation (APR) are the main explanatory variables. In addition, firm size (FSIZE) and financial leverage (LEV) are included as control variables to account for firm-specific characteristics that may influence financial reporting quality but are not the study's primary focus.

The model is expressed as follows:

$$FRQ_{it} = \beta_0 + \beta_1 STAT_{it} + \beta_2 LTAT_{it} + \beta_3 APR_{it} + \beta_4 FSIZE_{it} + \beta_5 LEV_{it} + \mu_{it}$$

Where:

FRQ_{it} = Financial reporting quality of firm i in year t

$STAT_{it}$ = Short-term audit tenure of firm i in year t

$LTAT_{it}$ = Long-term audit tenure of firm i in year t

APR_{it} = Audit partner rotation of firm i in year t

$FSIZE_{it}$ = Firm size of firm i in year t

LEV_{it} = Financial leverage of firm i in year t

β_0 = Regression intercept/constant

β_1 – β_5 = Regression coefficients of the explanatory and control variables

μ_{it} = Error term

i = Individual firm

t = Year of observation

Short-term audit tenure is measured as five years or less, while long-term tenure exceeds five years, both are coded 1 for the applicable category and 0 otherwise. Audit partner rotation is coded 1 when the engagement partner changes and 0 otherwise. Financial reporting quality is proxied by Big Four auditor affiliation, coded 1 for Deloitte, EY, KPMG, or PwC and 0 otherwise. Firm size is measured as the natural logarithm of total assets, while financial leverage is measured as total liabilities divided by total assets. These control variables account for firm-specific characteristics that may influence financial reporting quality. The model assesses the direction, magnitude, and significance of audit tenure while controlling for firm size and leverage. Table 1 summarises the measurement of the study variables.

Table 1: Measurement of Variables

Variable	Symbol	Measurement	Expected relationship	Source
Financial Reporting Quality	FRQ	1 if the firm is audited by a Big Four audit firm (Deloitte, EY, KPMG or PwC); 0 otherwise	Dependent variable	Hasan & Hussainey (2022)
Short-Term Audit Tenure	STAT	1 if audit-firm tenure is ≤ 5 years; 0 otherwise	+	Ihenyen & Augustine-Desi (2023)
Long-Term Audit Tenure	LTAT	1 if audit-firm tenure is > 5 years; 0 otherwise	-	Ihenyen & Augustine-Desi (2023)
Audit Partner Rotation	APR	1 if the engagement audit partner changes during the year; 0 otherwise	+	Cameran et al. (2015)
Firm Size	FSIZE	Natural logarithm of total assets	+	Alfraih (2016)
Financial Leverage	LEV	Total liabilities $\div$ total assets	$\pm$	Alfraih (2016)

4. Results

Descriptive Statistics

The descriptive statistics summarize the central tendency and dispersion of the variables used in the study. The results are presented in Table 2.

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
FRQ	0.62	0.49	0	1
STAT	0.38	0.48	0	1
LTAT	0.55	0.50	0	1
APR	0.41	0.49	0	1
FSIZE	20.84	1.42	18.21	23.67
LEV	0.54	0.19	0.17	0.89

Source: Author's Computation using EViews (2026).

The descriptive statistics show that the mean value of FRQ is 0.62, indicating that Big Four audit firms audited about 62% of the sample's firm-year observations. This suggests that the chosen major listed corporations have a comparatively high representation of Big Four auditors. About 38% of the firm-year observations involved short-term audit-firm tenure of five years or less, according to the mean STAT value of 0.38. LTAT, on the other hand, has a mean of 0.55, meaning that almost 55% of the observations included audit-firm ties longer than five years. This implies that the studied firms had comparatively long auditor-client ties. About 41% of the firm-year observations had audit partner rotation, according to the mean APR value of 0.41. A significant percentage of observations did not document a change in the engagement partner during the year, despite the fact that this indicates a moderate incidence of audit partner rotation. The binary nature of the variables is reflected in the

standard deviations, which range from 0.48 to 0.50 and show respectable fluctuation during the firm-year observations.

The control variables also exhibit meaningful variation across the sampled firms. Firm Size (FSIZE), measured as the natural logarithm of total assets, has a mean of 20.84, with a standard deviation of 1.42. The minimum and maximum values of 18.21 and 23.67, respectively, indicate differences in the scale of operations and asset holdings among the sampled firms. This variation provides sufficient cross-sectional differences in firm size for its inclusion as a control variable in the regression model. Leverage (LEV), measured as total liabilities divided by total assets, has a mean of 0.54, indicating that liabilities represented approximately 54% of total assets, on average. The standard deviation of 0.19 indicates moderate variation in the capital structures of the sampled firms. The minimum leverage ratio of 0.17 and maximum of 0.89 show that the firms differed considerably in their reliance on debt financing.

Regression Analysis

The regression analysis examined the effects of short-term audit tenure, long-term audit tenure, and audit partner rotation on financial reporting quality. The estimated model is:

$$FRQ_{it} = \beta_0 + \beta_1 STAT_{it} + \beta_2 LTAT_{it} + \beta_3 APR_{it} + \beta_4 FSIZE_{it} + \beta_5 LEV_{it} + \mu_{it}$$

Where:

FRQ = Financial reporting quality

STAT = Short-term audit tenure

LTAT = Long-term audit tenure

APR = Audit partner rotation

FSIZE = Firm size

LEV = Financial leverage

β_0 = Constant term

β_1 – β_5 = Regression coefficients

μ = Error term

i = Firm

t = Year

Table 3: Regression Results for the Effect of Audit Tenure and Financial Reporting Quality

Variable	Coefficient (β)	Std. Error	t-Statistic	Prob.
Constant	0.41	0.06	6.83	0.000
STAT	0.18	0.07	2.57	0.011
LTAT	-0.26	0.08	-3.25	0.002
APR	0.21	0.06	3.50	0.001
FSIZE	0.12	0.05	2.40	0.018
LEV	-0.09	0.04	-2.25	0.028
R-squared	0.47			
Adjusted R-squared	0.44			
F-statistic	15.62			
Prob. (F-statistic)	0.000			

Source: Author's computation using EViews (2026).

The inclusion of FSIZE and LEV as control variables enables the model to estimate the relationship between audit tenure, partner rotation, and financial reporting quality while accounting for firm-level differences in size and financial leverage. The regression estimates are presented in [Table 3](#).

Where FRQ represents financial reporting quality, STAT represents short-term audit tenure, LTAT represents long-term audit tenure, APR represents audit partner rotation, FSIZE represents firm size, and LEV represents financial leverage.

Short-Term Audit Tenure (STAT)

The regression result indicates that short-term audit tenure (STAT) has a positive and statistically significant effect on financial reporting quality ($\beta = 0.18$; $p = 0.011$). This suggests that shorter auditor-client relationships are associated with improved financial reporting quality, potentially because they reduce familiarity threats and strengthen auditor independence and professional scepticism.

The finding is consistent with [Asogba et al. \(2024\)](#), who reported that shorter audit tenure can enhance reporting quality through greater auditor independence and objectivity. However, it differs from [Osirim et al. \(2023\)](#), who found a positive but insignificant relationship, and [Sadiq et al. \(2023\)](#), who found no significant direct effect of audit tenure on financial reporting quality. These differences may reflect variations in sample characteristics, measurement of reporting quality, study periods, and governance environments.

Overall, the present finding supports the auditor independence perspective of agency theory, suggesting that shorter tenure can strengthen external monitoring and constrain managerial opportunism. Therefore, the study rejects H_{01} , which states that short-term audit tenure has no significant effect on the financial reporting quality of listed firms in Nigeria.

Long-Term Audit Tenure (LTAT)

Long-term audit tenure has a negative and statistically significant relationship with financial reporting quality ($\beta = -0.26$; $p = 0.002$). This finding is consistent with the familiarity-threat perspective, which suggests that prolonged auditor-client relationships may increase familiarity and potentially weaken auditor independence and professional scepticism. The result is consistent with the evidence reported by [Ezeala and Nwachukwu \(2023\)](#), whereas [Ihenyen and Augustine-Desi \(2023\)](#) and [Asogba et al. \(2024\)](#) reported weak or statistically insignificant relationships. However, the finding contrasts with [Odiboh \(2026\)](#), who found that longer audit tenure was associated with reduced earnings management. The present evidence therefore indicates that, within the sampled Nigerian listed firms, longer audit-firm tenure is associated with lower financial reporting quality. This result provides empirical support for the independence-risk argument associated with prolonged auditor-client relationships. Accordingly, H_{02} is rejected.

Audit Partner Rotation (APR)

Audit partner rotation has a positive and statistically significant relationship with financial reporting quality ($\beta = 0.21$; $p = 0.001$). This result suggests that audit partner rotation is associated with improved financial reporting quality, potentially because a change in the engagement partner can reduce familiarity concerns and introduce fresh professional judgement into the audit process. The finding is consistent with [Zirakwambge and Mohammed \(2025\)](#) and [Inneh \(2025\)](#), who reported positive associations between partner rotation and audit quality, and is also broadly consistent with [Chang et al. \(2025\)](#). Although previous empirical studies have produced mixed evidence regarding the consequences of partner rotation, the present finding indicates that partner rotation is positively associated with financial reporting quality among the sampled Nigerian listed firms. Accordingly, H_{03} is rejected.

Firm Size (FSIZE)

Firm size has a positive and statistically significant effect on financial reporting quality ($\beta = 0.12$; $p = 0.018$). This suggests that larger firms may achieve better reporting quality because of stronger internal controls, greater resources, regulatory scrutiny, and stakeholder monitoring. The significant relationship confirms the importance of controlling for firm-specific characteristics when examining audit tenure and FRQ.

Financial Leverage (LEV)

Financial leverage has a negative and statistically significant effect on financial reporting quality ($\beta = -0.09$; $p = 0.028$). Highly leveraged firms may face financial and debt-covenant pressures that increase incentives for

aggressive reporting. The finding therefore confirms that leverage is an important control factor in explaining variations in financial reporting quality.

5. Conclusion

This study examined the effect of audit firm tenure on financial reporting quality among Nigerian listed firms from 2020 to 2025. The findings show that short-term audit tenure and audit partner rotation positively and significantly improve financial reporting quality, while long-term audit tenure negatively affects it. Firm size is positively related to reporting quality, whereas financial leverage is negatively related. Overall, the findings suggest that appropriate audit tenure and regular partner rotation can strengthen auditor independence, professional scepticism, and the credibility of financial reporting.

Based on these findings, the study recommends that listed firms and audit committees place greater emphasis on managing the risks of prolonged audit tenure through stronger independence assessments and closer monitoring of long-standing engagements. The positive effect of audit partner rotation suggests that rotation should provide genuine fresh oversight rather than merely formal compliance. Given the negative effect of financial leverage on financial reporting quality, highly leveraged firms should receive greater audit attention, particularly regarding debt covenants, management estimates, and earnings management risks. Finally, future research should test the findings using alternative measures of financial reporting quality, including discretionary accruals, real earnings management, restatements, and accrual quality.

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