**European Business & Management**
2022; 8(4): 81-88
http://www.sciencepublishinggroup.com/j/ebm
doi: 10.11648/j.ebm.20220804.11
ISSN: 2575-579X (Print); ISSN: 2575-5811 (Online)

# Audit Tenure and Financial Reporting Quality of Listed Nigerian Deposit Money Banks (2008-2018)

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**To cite this article:**
Oladejo Abiodun Oyebamiji. Audit Tenure and Financial Reporting Quality of Listed Nigerian Deposit Money Banks (2008-2018). *European Business & Management*. Vol. 8, No. 4, 2022, pp. 81-88. doi: 10.11648/j.ebm.20220804.11

**Received**: December 3, 2021; **Accepted**: February 3, 2022; **Published**: June 28, 2022

**Abstract:** This study investigated the effect of audit tenure on financial reporting quality of Nigerian Deposit Money Banks (DMBs). 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 analysed 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.

**Keywords:** Audit Tenure, Financial Condition, Firm Size, ZScore, Financial Reporting Quality

## 1. Introduction

The first decade of the 21st century witnessed a lot of global financial scandals involving large firms such as Enron's financial Scandal in 2002, HealthSouth Scandal in 2003, Lehman Brothers scandal in 2008, Young Satyam Scandal in 2009, among others. Following these scandals, various stakeholders have no confidence in the financial report of firms. The regulatory bodies of the accounting and auditing professions and commissions enacted different Act such as the Sarbanes-Oxley Act (SOX) 2002, European Commission 2004, GAO 2003; 2008, European Commission 2011, to restore the faith in the firms' financial reporting. Mechanisms such as joint audit and mandatory audit rotation are encouraged while the performance of non- audit service to the same audit client restricted to improve financial reporting quality.

Similarly, the Nigerian environment has high profile cases of financial scandals like the Cadbury (Nig.) Plc, Lever Brothers, African Petroleum Company and Ile-Oluji cocoa products. The banking industry, which is engine room of the economy, also had cases of accounting scandals. For instance, five banks (Union Bank, Oceanic Bank, and Afri-Bank) failed the CBN distress test have been issued unqualified financial reports in the prior year [35].

The regulators of auditing explored the mechanism of audit rotation to improve financial reporting quality and mitigate against lengthy audit tenure resulting from the long-term relationship between the management and the independent accountant. In 2014, the European Parliament approved mandatory audit rotation for all its twenty-eight members to set audit tenure duration in their respective countries with a maximum tenure limit of ten years [49]. In January 2016, Mandatory Audit Rotation became operational in the European Union. The essence of setting the limit of audit tenure is to reduce the risk of auditors' dependence caused by the long-term relationship of the client and its auditor, resulting in empathetic and compromise of financial reporting quality.

The opponents of audit rotation, however, based their arguments on the learning effect principle. The learning effect principle holds that the client's nature of business activities and the controls put in place by management are well known to the auditors as the number of years spent with the client increases, the audit risk is decreasing, and invariably, an improved financial reporting quality. They also believed that industrial expertise and experience acquired by the auditors would be lost when audit tenure is short, or when there is frequent audit switch. The opponent of auditor switch concluded that short audit tenure would mostly result to financial reporting quality being compromised.

The proponent of audit switch, on the other hand, support the view that financial reporting quality will improve when auditors are changed at a regular interval. Audit switch reduces familiarity and economic bonding threat from a lengthy audit tenure. Also, fresh ideas, innovations will be brought in by the new incoming auditors. The opponent of audit rotation based their arguments on the loss of industrial expertise and that the new auditor will start learning the nature and operation of the activities of clients resulting to a lesser quality. The primary opponent is the Big Four.

In an effort to restore the confidence of the stakeholders in the financial report of the licenced banks in Nigeria, reforms such as a uniform accounting date of 31st December, filling of financial report with SEC on 31st March of the following year, mandatory audit rotation limiting the maximum audit tenure to 10 years. Hence the study therefore investigates the effect of the audit tenure on the financial reporting quality in the Nigerian listed banks.

# 2. Literature Review

## *2.1. Conceptual Review*

### *2.1.1. Audit Tenure*

Auditor tenure has been categorized into two aspects: the first has to do with the period spent by an individual on an audit engagement, most especially a partner involved in an audit, and the other category has to do with the audit firms' tenure. Both positions concerning the relationship between audit tenure and financial reporting quality have empirical support. With findings stating that audit reporting quality both decreases and increases as tenure of audit firm increases [26, 32, 22]. There are research which find a positive relationship between audit tenure and the quality of financial reporting measured by the discretionary accruals [13]. Hence, imposing mandatory rotation of partner, which limits the auditor partner's tenure, can lead in decrease audit reporting quality. Conversely, other studies had found a negative relationship between the quality of audit and extended tenure of audit partners [9]. Hence, the effect of the rotation of audit partner on audit quality is still inconclusive.

In the US AICPA [2] specifies the practices of mandatory audit firm tenure requirement to be every seven years. In the case of public companies, the Sarbanes Oxley (SOX) Act 2002 mandated that audit tenure should be every five years. The US House of Representation canvassed integrity or job protection bill I the 113 US congresses 2013 as amended the Sarbanes Oxley (SOX) Act of 2002 expects PACOB from requiring the use of different auditor in an audit firm tenure basis. The UK listed companies use seven years, and Australian uses five years for their audit firm tenure. The European Parliament introduced in favour and support of new standards (proposal 2011) to enforce and comply European companies to hire a new auditor at 10-24 years intervals. This new standard extends six (6) year periods of mandatory audit firm tenure proposed in 2011 with a cooling period of four (4) years [12].

The primary arguments had been whether either the duration or length of the auditors engaging with a particular client affects the audit quality [42, 33, 30]. This dispute is inconsistent. Some of the scholars believed that the longest tenure of the auditor (within 5 to 10 years) reduces the financial reporting quality and this is as a result of the impairment of the independence of auditors, while others argued that longer audit tenure enhances the quality of the audit as a result of learning (i.e. expertise hypothesis). Monroe and Shailer [4] argued that the independence of auditor integrates three various points of view as regards what financial reporting quality tends to reduce as the tenure of auditor increase. These includes that the audit firm may: create economic dependence on its clients which tends to impair independence of the auditor [31, 16].

Secondly, developing a learned confidence in its client (this will enhances familiarity threat) and this tends to result in the auditor not testing the clients' financial statement assertions and figures [42, 24] and thirdly, increase in intimate relationship with the client or the psychological dependence. Tenure of auditor involves two scopes: the audit tenure of a firm and the individual partner's tenure most especially the engagement partner that is involved in the exercise. Empirical studies concerning the effects audit tenure of a firm on the audit quality are conflicting and mixed. While some results in some studies showed that the audit quality reduces as the tenure of audit firm increases, others like Casterella, Knechel and Walker, Davis and Trompeter, Myers, Myers and Omer reported a positive relationship. [11, 15, 34] St. Pierre and Andersen, Stice, Walkel, *et al.*, Geiger and Raghunathan, Carcello and Nag argued that audit failures have tendencies to happen with a short tenure of audit-firm tenure between two (2) to three (3) years. [43, 44, 48, 21, 9]

### *2.1.2. Financial Reporting Quality*

Financial reporting quality is crucial characteristics for firms as well as those whose interests are of concern to the firm and the capital market as a whole. The quality of financial reporting 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 [37]. Bowrin's [8] opined that the quality of financial reporting can be considered from two major qualitative features from the conceptual framework of IASB: reliability and relevance. The conceptual framework of the IASB stated that the relevance of financial report is that users' economic decisions are affected by it. [8] stated that the relevance has to do with the ability of information in affecting the decision making of users of financial statement information, and timeliness is a fragment of relevance. Furthermore, reliability means that extent to which the financial statement released is error free and material misstatements [8]. In addition to this framework on both the concepts of reliability and relevance, earnings quality can also be seen as a qualitative characteristic of the financial reporting. The earnings quality is considered as the ability of earnings in providing valuable information to evaluate cash flow prospects [19].

### *2.2. Review of Empirical Literature*

Van, Inder and Kenneth [47] examined whether the audit firm tenure that is; the relationship between an entity and the audit firm is associated with the financial reporting quality. A sample of 6 big clients matched on size and industry, and two proxies were used. They discovered that four to eight years is relative to medium audit-firm tenure, two to three years are associated with the lower quality of the financial report of short audit-firm tenure. In contrast, no empirical evidence was discovered of reduced audit quality for the longer tenures audit-firms of nine or more years. Their findings provided evidence germane to the frequent debates concerning the mandatory audit firm rotation; this is a discussion that has, to date, leaned on isolated cases and anecdotal evidence.

Joseph and Albert [27] compared fraud observations from 1990 to 2001. They studied the relationship that exists between audit firm tenure and fraudulent financial reporting. The study discovered that there is more likelihood of occurrence of fraudulent financial reporting within the first three years of audit engagement. The researchers stated fraudulent financial reporting is likely to happen as a result of longer tenure of the auditor. There result tallied with the belief that the mandatory firm's rotation tends to have negative effects on the audit quality.

Robert and Ann [37] carried out a study in Belgium to investigate the effect of auditor tenure on audit quality of the private companies. They investigated the relationship between auditor tenure and quality of audit in spite of broad empirical evidence by examining earnings management, audit failures and the issuing of auditor's opinions. Current studies suggested that extensive tenures of the auditor do not have a negative effect on audit quality. When an auditor issues a going concern opinion on an audit, it indicates the quality of the audit. They used a sample of stressed bankrupt firms, and stressed non-bankrupt firms; the findings showed that auditors do not become less independent overtimes nor do they become better in predicting the bankruptcy of firms.

Li [29] stated that the tenure of the audit would enhance the quality of the audit as a result of the Learning Effect and Bonding effect will decrease quality with audit-firm tenure. The effect of these two conflicting variables over the tenure of audit firms states whether the relationship between the tenure of the audit firm and the quality of the audit is either a convex, concave or convex linear function of audit firm tenure. When Bonding Effects governs Learning Effects in the future (earlier) years of audit tenure, the audit quality is a concave (convex) function of audit-firm tenure. Embracing quadratic model to empirically estimating the year of audit firm tenure when the quality of the audit is likely to weakening, the researchers first discovered that the average point when audit quality heightens is twelve years for a large sample of U.S. firms. Since the Sarbanes-Oxley Act of 2002 was enacted, the turning point gets longer, which implies that Sarbanes-Oxley may have mitigated the Bonding Effect. Moreover, the researcher found that the declining of audit quality for the tenure of auditor being extended only exists not in firms where we have high-litigation but in low-litigation firms, suggesting that the incentives argument rather than the cognitive bias argument succeeds in elucidating Bonding Effect.

Segun and Ebipanipre [41] 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 [36] examined how and whether the length of an auditor-client relationship affects the audit quality. 1,071 sample firms in Germany were used for the period from 2005 to 2011. The empirical findings showed that neither the long-term nor the short-term audit firm tenure seemed to be a significant feature with regards to the quality of the audit. In respect of the ongoing debate in the European Union instead of the optimal length of audit tenure for the quality of the audits, their results did not agree with the idea of the audit firm rotation rule that is being made mandatory.

Belén, Roberto and Antonio [7] carried out a study on Spanish state-owned foundations to analyses the impact of audit tenure on the quality of the audit. 254 audits sample were carried out from 2003 to 2010; the researchers discovered that, although audit quality of foundation decreases as the length of tenure increases, this quality loss is not obvious until the relationship gets to the sixth year between the foundation and the auditors, after the initial five years of enhancement in audit quality.

Ikharo [25] examines the impact of auditor's tenure on quality of audit report. There have been conflicting views from previous scholars. The first school of thought is of the opinion that as auditor's tenure become longer, they gain more expertise in their client's business and the ability to detect fraud rises; conversely, the ability of the manager to commit a fraudulent act reduces. Secondly, On the other hand, increased bonding and familiarity will come as a result of long audit tenureship between managers and the auditors. Consequently, the auditor may become more compassionate with the management of the company. It may, in turn, lessen the willingness of the auditors to qualify his audit report, and therefore enhancing the client's fraudulent incentives. The impact of auditor's tenure on audit quality report depends on the level of his independence. The study suggested between one to three years as an audit tenure that is ideal, steady change of audit team (where necessary), review of professional and statutory provisions etc.

Ahmet, Nihat, Mustafa and Burcu [1] used these measures in proxying the audit quality such as the propensity to issuing the modified audit report and the discretionary accrual determined by two models. They carried out the study in Turkey to investigate the association between the tenure of audit firms and audit quality. They discovered some evidence that the quality of audit does not rise with limited tenure of the audit firm. It is believed that there are minimal benefits of adopting mandatory firm rotation, given the additional cost that is associated with the audit switch. The researcher stated that the result of this study is suitable for regulatory authorities who are in charge of enhancing audit quality.

Zohair, Noman, Burhan and Muhammad [51] carried out a study to consider whether the mandatory rotation of auditors will result in improvement of audit quality in Pakistan. 121 non-financial firms listed were selected in the Pakistan Stock Exchange. Data obtained for the period covered ten years; from 2005 to 2014 were collected from the audited financial statement. Discretionary accruals calculated by MJ Model 1991 were used as a proxy to calculate the quality of the audit. The study discovered that the level of discretionary accruals is on the high side during the period when the auditor newly assumes the audit engagement, reason being that the auditor is not yet familiar with the dynamics of the client's operations. As soon as the dynamics of the client's operations are well known to the auditor, the level of discretionary accruals falls while auditing quality increases. The study recommended that lengthy tenure of the auditor would not lead to a reduction in the audit quality as seen in the non-financial sector organizations in Pakistan. The researcher suggested that standards setters and regulators in Pakistan should re-examine their policy concerning mandatory-auditor-client relationship tenure.

Samuel, Mudzamir and Mohamad [40] conceptualise the effect of audit firm tenure and the quality of financial reporting. From previous studies, there has been the inconsistent result. The first school of thought is of the opinion that the longer the audit tenure it may cause intimacy and familiarity between the client and the auditor and this will reduce the willingness of auditor to qualify the audit report. The other school of thought stated that the longer the audit firm tenures it will bring familiarity with the accounting system and operations thereby improving it are the audit quality. This paper suggested that the audit firm tenure should be moderated between the range of one and three years.

# 3. Methodology

### *3.1. Source of Data*

The data for this study was obtained from secondary source. This study used panel data to investigate the effect audit tenure and financial reporting quality of listed deposit money banks over a period of eleven (11) years from 2008 to 2018; therefore, the population of this study consisted of 17 deposit money banks listed on the floor of the Nigeria Stock Exchange as at 31st December, 2019. The purposive sampling technique premised on the size, financial performance and perceived data availability and accessibility was adopted in selecting the 13 companies. The data were obtained from the Annual Reports and accounts and the Nigerian Stock Exchange Fact Books.

### *3.2. Measurement of Variables*

This involves dependent variable, the independent variables and controlled variables that were used in this study. These variables are measured thus;

***Table 1.*** *Audit Tenure and Financial Reporting Quality.*

| S/N | VARIABLES | DESCRIPTION /MEASUREMENT | SOURCE(S) |
|---|---|---|---|
| 1 | Financial Reporting Quality (FRQ) | Measured by performance-adjusted discretionary accrual | Kraub (2015) |
| 2 | short-term audit tenure | $sht = 0 < audit\ tenure\ \leq 2,$ | Carcello and Nagy, 2004 |
| 3 | Medium-term audit tenure ($md$) | $md, when\ 2yrs < audit\ tenure \leq 6yrs$ | Carcello and Nagy, 2004 |
| 4 | long-term audit tenure, ($lg_{it}$) | $lg = at > 6yrs,$ | Carcello and Nagy, 2004 |
| 5 | $Length\ of\ Audit\ Tenure, n(at)$ | number of years the current auditors in engaged in the audit assignment | Fargher et al. (2008), Bedardand Johnstone (2010) |
| 6 | Audit Committee Independence ($aci_{it}$) | The proportion of non-executive member in the audit committee | Sultana et al. (2015) |
| 7 | Audit Committee Meeting ($acm$) | this indicate numbers of audit committee meeting in years | Wan-Hussin and Bamahros (2013), Tanyi and Smith (2014) |
| 8 | Audit Committee Financial Expert ($acfx$) | indicates proportion of audit committee financial expert | Sultana et al. (2015) |
| 9 | Board Size ($bdsiz$) | This is the total number of members that constitute the board | Beasley (1996) |
| 10 | Board independent ($bdne$) | Indicate the proportion of non-executive on the board | Beasley (1996) |
| 11 | fusion of office of the CEO and COD ($bdoss$) | A dichotomous variable of one, when the office is occupied by the same person and Zero otherwise | Dechow et al. (1995) |
| 12 | the financial condition of the firm (Z score) | is measured with a Z score | Zmijewski (1984) financial condition |
| 13 | Firm Age | proxied with the listed age of the firm in the successive period | |

Source: Author's Compilation (2020).

This study is based on the learning effect theory and the model adopted for the study was based on González-Díaz, García-Fernández and López-Díaz [23] and Carcello and Nagy [9]. It was expressed as follows:

$$frq_{it} = \beta_0 + \beta_1 sht_{it} + \beta_2 md_{it} + \beta_3 lg_{it} + \beta_4 n(at) + \beta_5 aci_{it} + \beta_6 acm_{it} + \beta_7 acfx_{it} + \beta_8 bdsiz + \beta_9 bdne + \beta_{10} bdoss + \beta_{11} fin\ cod_{it} + \beta_{12} firm'sag_t + e_{it}$$

Where $frq$ represents Financial reporting quality, $sht_{it}$ represents short term audit tenure, $md$ represents medium audit tenure, $lg_{it}$ represents long term audit tenure, $lg_{it}$ indicated length of audit tenure, $n(at)$ represent the number of years the current auditors in engaged in the audit assignment, $aci_{it}$ indicate audit committee independence, $acm$ this indicate numbers of audit committee meeting in years, $acfx$ indicates proportion of audit committee financial expert, $bdsiz$ represent the board size, $bdne$ indicate proportion of non-executive director, $bdoss$ indicate fusion of office of the CEO and COD, $fin\ cod$ financial condition represented by Zmijewski [52] financial condition, Age indicates the number of years the company has been listed.

# 4. Results and Discussion

## 4.1. Descriptive Statistic

The Table 2 indicated that the selected banks have a financial reporting quality mean score of 0.100 and median of 0.093. Both average values were greater than zero, indicating an earning quality of the financial report. The increase in the quality could be attributable to several financial mandatory reforms directed at improving the financial report such as mandatory auditors' rotation, unified closing fiscal year end of 31st Dec, compliance with international financial reporting standard among others. Although there is still earning management practice in the industry, this evidenced with a minimum value of -1.73. The financial reporting quality is positively skewed with a value of 1.464 this is expected as the mean value is greater than the median. Also, the financial reporting quality is fairly volatile with a standard deviation of 0.364.

The Table also showed that the audit committee independent members averaging 3 members in the banking industry with a mean value of 2.77 members and median of 3 members. Audit committee independent members for the period is negatively skewed with a value of -2.40 and also fairly stable with a standard deviation of 0.606. The result of the audit committee independence members over the period conform with the corporate governance code of 2016. The result also indicated that the audit committee members meet an average of four times in a year. The result also depicted that the board of director is composed of an average of eight members in a year with a mean and median of 8.259 and 8.000 respectively.

The financial condition measured by z score had a mean of 0.770 and a median of 0.477. The maximum and minimum value is widely apart with a maximum of 4.391 and minimum value of 0.002. The Fincod indicated that the wide disparity in the financial health of the banks over the period, this is evidenced with a high volatility of 1.03.

The dichotomous variables are specifically audit tenure of short (SHT), medium (MD) and Long tenure of (LG). The Table indicated that approximately 41 percent of audit tenure over the period of 2008- 2018 falls within the one- two years, while 58 percent of the engaged auditors during the said period had a medium tenure of three to six year while 10 percent of the audit firm holds office for a duration of seven to ten years.

***Table 2.*** *Descriptive Statistics.*

| | Mean | Median | Maximum | Minimum | Std. Dev. | Skewness | Observations |
|---|---|---|---|---|---|---|---|
| FRQ | 0.100115 | 0.092694 | 1.773478 | -1.37 | 0.364129 | 1.464573 | 125 |
| SHT | 0.410072 | 0.000000 | 1.000000 | 0.000000 | 0.493625 | 0.365675 | 139 |
| MD | 0.589928 | 1.000000 | 1.000000 | 0.000000 | 0.493625 | -0.37 | 139 |
| LG | 0.100719 | 0.000000 | 1.000000 | 0.000000 | 0.302045 | 2.653408 | 139 |
| ACI | 2.769784 | 3.000000 | 3.000000 | 1.000000 | 0.605728 | -2.40 | 139 |
| BSIZE | 8.258990 | 8.000000 | 9.000000 | 6.000000 | 4.06833 | 1.234883 | 139 |
| FINCOD | 0.769159 | 0.476981 | 4.391334 | 0.001953 | 1.032951 | 2.725584 | 139 |
| FIRMAGE | 33.40288 | 25.00000 | 122.0000 | 1.000000 | 25.41160 | 2.262825 | 139 |
| NACM | 4.115108 | 4.000000 | 7.000000 | 1.000000 | 1.192240 | -0.43 | 139 |

Source: Author's Computation 2020.

## 4.2. Pairwise Correlation Analysis

The Table 3 showed the Pearson correlation ($P_C$) of each regression with other variables in the equation, together with the corresponding probability value.

The Table showed that the medium audit tenure (MD) and financial condition were positively correlated with financial reporting quality with Pearson correlation value ($P_c$), and probability value ($P_c$, $P_V$) of (0.208, 0.020), (0.42, 0.000) respectively but short audit tenure was negatively related to financial reporting quality ($P_c$= -0.208, $P_v$= 0.02). This signified that the financial report issued by the auditor at the early stage of audit engagement might likely not be of high quality and as the tenure increases, the financial reporting quality increases; this is consistent with the learning effect theory. Also, the company with good financial health would likely have a higher financial reporting quality.

Table 3 also signified that older banks retains its auditor for a longer period ($P_c$=0.189, $P_v$ =0.35). The result showed that there is a problem of multicollinearity, as the SHT and MD are perfectly negatively related with a value of ($P_c$= -1.000, $P_v$=0.000) which is greater than the threshold of $P_{c=}$ 0.8. Hence, in order to reduce the multicollinearity problem, audit tenure was re-classified into only two categories of short tenure and long tenure.

The study also investigated the effect of audit tenure on financial reporting quality. The model was estimated using Fixed Effect Method (FEM) and Random Effect Method (REM) The Hausman Test with ($x^2$=12.148, P>0.05) conducted in Table 4 indicated that the most appropriate method of estimation is the (REM). The Table showed that 3 out of 8 regressors were statistically significant related with the response variable FRQ using REM. The significant variables were long audit tenure (LG) financial distress (fincod) and audit tenure (AUDTEN).

The result of the Adj-R-Square indicated that 20.0 0% indicating that the regressors jointly explained 20.0% of the total variation in financial reporting quality and also, the F-statistics was also significant at 5% level of significance, indicating that all the variables in the model jointly explained the financial reporting quality.

The result also indicated that long auditor's tenure is directly related to the financial reporting quality. This is evidenced with the following statistics (coeff= 0.151, ts=2.053). It implies that as auditor's tenure is elongated, there is higher likelihood that the financial reporting quality would increase. This is also supported by successive audit tenure relationship with financial reporting quality, which is positively related at (coeff= 0.085, ts=2.183). The relationship of the audit tenure and financial reporting quality is consistent with the learning effect theory, which is of the view that auditors become skilled in the audit client assignment after acquiring on-job experience through familiarization with the clients' nature, process and operation. The result is however in contrast with the study of Carcello and Nagy that are of the view that elongated audit tenure will lead to impairment of auditor's independence through increase in familiarity threat lead to lower audit quality [9, 21, 43, 44, 48].

The result further also showed that financial condition was negative but significantly related to financial reporting quality with statistics of (Coeff= -0.137, ts = -2.892). These statistics signified that financial distress firm is likely to be involved in earning management which increases the risk of low audit quality of the auditors. The result is consistent with the study of Dechow and Dichev, Choi et al., Asthana and Boone, and Krauß, et al. [3, 18, 14, 28]

***Table 3.*** *Correlation Matrix.*

| DEP. VAR. | FRQ | | | |
|---|---|---|---|---|
| | **Fixed Effect** | | **Random Effect** | |
| **Var** | **COF** | **T-STAT** | **COF** | **T-STAT** |
| SHT | -0.120 | -1.181 | -0.136 | -1.082 |
| LG | 0.144 | 1.508 | 0.151 | 2.053** |
| ACI | 0.034 | 0.398 | 0.014 | 0.329 |
| BSIZE | -0.003 | -0.917 | 0.000 | -0.187 |
| FINCOD | -0.148 | -4.123*** | -0.137 | -2.892*** |
| FIRMAGE | -0.027 | -2.875*** | 0.000 | -0.039 |
| NACM | 0.013 | 0.334 | 0.007 | 0.460 |
| ADUEN | 0.058 | 1.812 | -0.085 | 2.183** |
| C | 1.084 | 2.674 | 0.266 | 1.159 |
| R-Sq | 0.417 | | 0.252 | |
| adj_R | 0.298 | | 0.200 | |
| F_stat | 3.503 | | 4.872 | |
| Hausman | | 12.148 | | |
| Prob. | | 0.145 | | |

Source: Author's Computation 2020.

***Table 4.*** *Dependent variable; FRQ.*

| DEP. VAR. | FRQ | | | |
|---|---|---|---|---|
| | **Fixed Effect** | | **Random Effect** | |
| **Var** | **COF** | **T-STAT** | **COF** | **T-STAT** |
| SHT | -0.120 | -1.181 | -0.136 | -1.082 |
| LG | 0.144 | 1.508 | 0.151 | 2.053** |
| ACI | 0.034 | 0.398 | 0.014 | 0.329 |
| BSIZE | -0.003 | -0.917 | 0.000 | -0.187 |
| FINCOD | -0.148 | -4.123*** | -0.137 | -2.892*** |
| FIRMAGE | -0.027 | -2.875*** | 0.000 | -0.039 |
| NACM | 0.013 | 0.334 | 0.007 | 0.460 |
| ADUEN | 0.058 | 1.812 | 0.085 | 2.183** |
| C | 1.084 | 2.674 | 0.266 | 1.159 |
| R-Sq | 0.417 | | 0.252 | |
| adj_R | 0.298 | | 0.200 | |
| F_stat | 3.503 | | 4.872 | |
| Hausman | | 12.148 | | |
| Prob. | | 0.145 | | |

Source: Author's Computation, 2020.

## 5. Summary and Conclusion

The results of the trend of the timeliness reporting of the sample from 2008-2018 revealed that majority of the banks conformed to the deadline of 90 days filling of report.

The investigation of the audit tenure on the financial reporting quality was achieved after conducting a pre-estimation test of descriptive statistics and correlation analysis. The result of the pairwise association of the variables employed in achieving the objective showed that the existence of multicollinearity problem between the medium tenure and short tenure and this led to re-classification of the audit tenure into short and longer term. The static linear regression model of the Fixed Effect Method and the Random Effect Method were used. The result of the post-estimation Test of the Hausman Tests, supported the Random Effect Method. The result revealed long audit tenure do not impair quality but rather resulted to greater expertise through learning effect.

The study concluded that audit tenure in Nigerian environment is consistent with learning effect theory as financial reporting quality is positively related to audit tenure, although the audit and financial regulatory body set out a maximum limit of ten years for auditor's tenure in order to bring credence to financial reporting quality.

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