

AUDITOR TENURE, AUDITOR ROTATION AND FINANCIAL REPORTING QUALITY OF LISTED MANUFACTURING FIRMS IN NIGERIA

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Abstract

The spate of audit failure in the world especially in Nigeria has brought great disappointment to the users of financial reports. The problem has been linked to audit firm's tenure and lack of audit rotation. This study examined auditor tenure, auditor rotation and financial reporting quality in listed manufacturing firms in Nigeria. The study used ex-post facto research design, descriptive statistics, correlation analysis and binary logit regression model analysis was used. The study revealed that audit firm tenure ($\beta_1 = -17.897; p < 0.05$) has significant negative effect on financial reporting quality of listed manufacturing firms in Nigeria. Audit rotation ($\beta_2 = -21.346; p < 0.05$) has a negative and significant impact of audit firm on financial reporting quality of manufacturing firms in Nigeria. The study concluded that audit firms must be independent and should not be influenced to write an unqualified report. The study recommended that there should be regular audit firm rotation and audit engagement partners so as to increase the quality of financial reporting in Nigeria.

Keywords: Audit Tenure, Audit Rotation, Financial Reporting Quality, Nigeria

Introduction

The need for auditors' tenure and rotation is not only germane on quality of financial reporting but will also boost investors confidences and increase the hope of shareholders on their share of capital to the companies. The recent financial scandals across the world most especially Enron and WorldCom have raised public concerns about auditor independence (Abe, 2015). One factor the regulators are concerned that may impair auditor independence is the long-term auditor tenure (the length of the auditor client relationship). Their concern is that as the auditor tenure gets longer, auditors are more likely to compromise on their client's accounting and reporting choices in order to retain the client (Abe, 2015). The proponents of mandatory auditor rotation, thus argue that setting a limit on the period of years an audit firm may audit a particular company's financial statements will improve auditor independence and audit quality. The opponents, however, argue that as auditors gain more experience from auditing the same company over time, they have better knowledge to determine whether the company's accounting and reporting choices are proper (Abe, 2015). The relevance of quality financial report cannot be erased easily by both managers and stakeholders alike. Across the globe there has been increasing cases of misled users of the financial statements due to misleading financial reports that lack

quality, of which investors and stakeholders have used in making investment decisions (Ugo & Egbuhuzor, 2021). Example of such cases is the Enron and Xerox, and Global crossing, etc. to mention a few (Ugo & Egbuhuzor, 2021) Investors and users of financial statements stand to benefit greatly from high quality financial reports.

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, 2009). The potential users of financial reports vary widely and include creditors, suppliers, financial analysts, government authorities and in general all related parties to the company (Ugo & Egbuhuzor, 2021). The issue of quality in financial reports is of prime concern not only for the final users but for the whole society as it affects economic decisions which may have significant impact. According to the Financial Accounting Standards Board (FASB) and 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 external auditor who can express opinion on the financial statement prepaid. The effects of auditor's tenure and audit rotation on the audit quality of financial reporting have been widely debated. Audit involves performing procedures to obtain evidence about amounts and disclosures in the financial statements so as to evaluate the appropriateness of accounting estimates made by management (KPMG, 2008). The Audit quality therefore, is a basic ingredient in enhancing the credibility of financial statements to users of accounting information. Audit quality is a product of auditor's independence which is relevant to auditor familiarity with client. When auditor becomes too familiar with a client, it may affect his/her independence. When auditor independence is impaired, the quality of audit suffers. Therefore, auditor rotation is a means of maintaining auditor's independence. Mandatory audit firm rotation is defined in the Sarbanes - Oxley (SOX) Act section 207 as the imposition of a limit on the period of years during which an accounting firm may be the auditor of record.

Mandatory audit firm rotation is often discussed as a potential way to improve audit quality typically gaining attention when public confidence in the audit function has been eroded by events such as corporate scandals or audit failures (KPMG, 2008). De Angelo (2013) defined audit quality as the probability that an auditor will both discover and truthfully report material errors, misrepresentation and omissions detected in a client's accounting system. This probability depends upon the broad concept of an auditor's professional conduct, which includes factors as objectivity, due professionalism and conflict of interest.

Auditor tenure and rotation has become the focus of much debate. Should a firm replace its auditors on a regular basis; or should the auditor be to build a long-term relationship with the client? Studies on the effect of auditors' tenure on audit quality are at divergence. The spate of audit failure in the world especially in Nigeria, has brought great disappointment to the users of financial reports. The problem has been linked to long term of audit firm tenure which has also been linked with creative accounting. In Nigeria the challenge of audit tenure and audit quality reporting has not attracted much empirical studies beyond mere anecdotal opinions (Mgbame, Ezagbhe & Osazuva, 2012).

As opined by Rulund and Lindblom (1992), the primary function of external auditors is to attest to the fairness of the financial statements of a company. But corporate scandals across the globe, even in Nigeria (several Nigerian banks), have undermined audit practice, and many stakeholders are questioning the independence of the audit firms and hereby calling for reduction of the audit firm tenure in a company as a means of improving auditors independence and financial reporting

quality. As stipulated by the Financial Reporting Council of Nigeria (FRCN) Code of Governance 2016, "external audit firms shall be retained for no longer than ten years continuously. External audit firms disengaged after continuous service to a company for ten years may be considered for reappointment seven years after their disengagement. Where an auditor's aggregate or cumulative tenure has already exceeded ten years at the date of commencement of this Code, such auditor shall cease to hold office as an auditor of the company at the end of the financial year that this Code comes into force." It is widely assumed that the longer the audit firm's tenure, the lower the quality of the financial report, but there has been diverse opinions on audit firm tenure, most scholars (Seidman, 2003; O'Malley, 2002) are in support of longer audit firm tenure as short audit tenure will result in poorer quality of the financial report because at the earlier years of audit tenure, the auditor is not conversant with the ethical norms and internal control of the client operations. Conversely, Daniels and Booker (2011) and Firth, Rui, and Wu (2012) opined for shorter audit firm tenure period as it will enhance the independence of auditor and the quality of the financial report as issue of earnings management will be addressed. Audit firm in carrying their audit function are meant to be objective and free from bias in order to express an opinion on the financial report. This supports the idea of mandatory audit tenure rotation. If the auditor's independence has been compromised, it will reflect negatively on the financial report. This has resulted in corporate scandals in many countries as most financial report prepared are misleading.

The main objective of this study is to examine the impact of audit tenure and rotation on financial reporting quality of quoted companies in Nigeria, while the specific objectives are to; investigate the impact of audit tenure on financial reporting of quoted manufacturing firms; assess the impact of audit rotation on quality of financial reporting of quoted manufacturing firms and find the relationship between audit tenure and auditor's rotation on quality of financial reporting.

Literature Review

This section presents the conceptual and theoretical issues and a review of scholarly works from the developed nations to Nigeria

Conceptual Review

Auditor Independence

Auditor independence may define as auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach (DeAngelo, 2011). The major threats to auditor Independence are the fees perceived by the auditor for audit and non-audit services and the length of the auditor- client relationship. The impaired independence of an auditor result in poor audit quality and allows for greater earnings management and lower earnings quality (Okolie. 2014). Auditor independence may be impaired by auditor tenure. As the auditor client relationship lengthens, the auditor may develop close relationship with the client and become more likely to act in favour of management resulting in reduced objectivity and audit quality. Izedonmi (2021) opined that "Auditor's independence implies the ability of an auditor to perform his audit work in accordance with his judgment, free from any undue influence and without being biased". Independence is an attitude of mind characterized by integrity and objectivity. An auditor should not only be independent but he should also be seen as being independent. An auditor is expected to avoid undue influence. He should be independent in planning his work, in carrying out his work and in reporting his opinion in respect of the financial statements. In other words, the auditor should be free from any

influence or interference in the planning and conduct of his work and he should be objective in reporting his opinion without fear of the management, staff, stakeholders or any other stakeholder for that matter. Independence is an important attribute of an auditor. The auditor needs to be independent of everyone who has contact with the business of his client. An auditor cannot be objective unless he is independent of all persons. The auditor's Independence must be beyond question.

Audit Tenure

Okolie (2014) defined auditor tenure as the length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company. Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources. The absence of independence may greatly impair the value of the audit service and the audit report. On the other hand, an excessively long association between the auditor and his client may constitute a threat to independence (Augustine, 2014). In view of recent corporate scandals, auditor's tenure, and independence have taken the centre stage of discussions. Opinions are centered on whether the auditee should replace its auditor on a regular basis or whether the auditor should be allowed to build a long-term relationship with the client.

Audit Rotation

DeAngelo (2013) defined audit quality as "the assessed joint probability that a given auditor will both (a) uncover a fraud in the client's accounting system and (b) report the fraud." When stated differently, the quality of an audit is a function of (1) the ability of the auditor to discover material omissions or misstatement in the client's financial statements, (2) the uncertainty that the auditor will disclose material errors. The diversity in the level of the discovery aspect represents the diversity in the level of competency' of the auditor, while the diversity in the incentives to report represents the level of the auditor's independence.

An improvement in either competence or independence would lead to an improvement in audit quality, while the reverse will lead to low audit quality. Audit quality is the uncertainty that an auditor will discover any material errors, misrepresentation and omissions detected in a client's accounting system and truthfully report same (De Angelo, 2013). Auditor rotation can either take the form of audit firm rotation, where the complete audit firm is rotated off the client after a predetermined period has expired, or audit partner rotation, where only the responsible partner is internally rotated off the client. Since mandatory auditor rotation was posed as a possible solution to the auditor independence problem, most countries have adopted mandatory partner rotation in some way or another.

Mandatory Auditor Rotation

Olowookere and Adebisi (2013) opined that, mandatory auditor rotation prevents the audit firm from developing a close relationship with the client and also provides an incentive for the audit firm to carry out its work to a high standard because they are aware that the quality of their work will be observable to some extent when a new firm of auditors take over the audit. Dopuch, King, and Schwartz (2001) said that mandatory auditor rotation leads to less biased audit reports. Lu and Sivaramakrishnan (2009) said that mandatory auditor rotation reduces overstatements and increases understatements insinuating increased reporting conservatism. Catanach and Walker (1999) mentioned that the said rotation would increase the quality of services provided by the

auditor because the audit firm would attempt to differentiate themselves from other firms through the quality of their work. When the same client (management) is audited too frequently by a particular auditor, the auditor tends to be too familiar with the client. This over familiarity between the auditor and client is likely to restrict the value-added service of the auditor. For example, the audit programme may become stale as the auditor begins to anticipate the condition of the client's system. As such, the quality of the audit work becomes compromised. The beauty of mandatory auditor rotation is that it will limit the formulation of audit-client relationships that can most times lead to compromising independence.

Quality of Financial Reporting

Audit quality has to do with a display of professionalism, diligence and care by auditor in audit process which should lead to a true and fair view of financial statement. Arenset (2011) defines the quality of the audit to mean how well an audit detects and report material misstatements in financial statements. The detection aspects are a reflection of auditor competence, while reporting is a reflection of ethics or auditor's integrity, particularly independence". Davidson and Neu (1993) define audit quality as the ability of auditors to discover and reveal light material misstatements and manipulations in net income reported. This is corroborated by findings from Salehi and Azary (2016) who stressed that the capability of an auditor in the protection of the interest of users of financial statement through the detection and reporting of material misstatements and diminution of information asymmetry between the users of financial statement and management explains audit quality. They further opined that the existence of audit quality is validated when a financial statement is free from information asymmetry. This according to Yuniarti (2011) include Reliability (which has to do with how dependable are the auditor's findings and to what extent do the findings reflect a true and fair view of audited entity's financial statement), Significance (what value is tied to the audit?), Scope (which has to do with whether the entire aspects of the audit is properly addressed), Objectivity (what level of independence was exhibited in the audit).

Audit Tenure and Financial Reporting Quality

In relation of audit tenure and financial reporting quality from previous empirical studies, the effect of audit tenure has mixed and conflicting findings (Carey & Simnett, 2000; Chi & Hang 2005). Some of these studies reported a positive relationship between audit tenure and financial reporting quality measured by discretionary accruals (Chen 2001), while others recorded a negative relationship (Carey & Simnett 2006). The argument of mandatory audit firm tenure is that financial reporting quality is lower and poorer in the early years of audit tenure relationship (Seidman, 2003). The financial reporting quality is judged to be poorer and lower in the early years relationship because the auditor is unfamiliar with the ethical norms of client companies operations, accounting policies, internal control system (Seidman, 2003).

Prior studies reported that auditor will engage in fraudulent financial reporting thereby financial reporting quality may more likely be poorer (Maletta & Wright, 1996). Firth (2012) opines a significant positive significant relationship of mandatory of audit firm tenure with short tenure relationship while Daniels and Booker (2011) asserted that audit tenure with a short period would enhances the independence of auditor having a significant positive association with financial reporting quality. Isenmila and Elijah (2012) asserted how Nigerian corporate companies engaged in earnings management (fraudulent financial reporting) through the negligence of confidence is posing threats and adverse effects on investors and credibility of audit tenure

Theoretical Review

The theories underpinning this study include Audit quality theory, Agency theory, stakeholder theory and lending credibility theory. This study is anchored on audit quality theory. They are all relevant to the study and have been discussed extensively by scholars in this field

Audit Quality Theory

Audit quality and perceptions of audit quality have been considered as two different concepts by Watkins, Hillison and Morecroft (2004). In order to keep the distinction between these two concepts, Watkins *et al.* (2004) used factors like "monitoring strength and reputation" to refer to the actual and perceived audit quality. The monitoring strength helps in that perceived auditors can influence the credibility of stakeholders regarding reputation of components of audit quality, auditors monitoring strength can be measured via the auditors.

DeAngelo (1981) defines audit quality as the market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements. Therefore, according to DeAngelo's (1981) definition, audit quality is a function of the auditor's ability to detect material misstatements (technical capabilities) and reporting the errors (auditor independence). Palmrose (1988) defines audit quality in terms of level of assurance. Since the purpose of an audit is to provide assurance on financial statements, audit quality is the probability that financial statements contain no material misstatements. In fact, this definition uses the results of the audit, that is, reliability of audited financial statements to reflect audit quality.

Empirical Review

An empirical literature review, also known as a systematic literature review, analyzes previous empirical studies in order to provide an answer to a specific research topic.

John and Elijah (2018) assessed Mandatory auditor rotation and audit quality in the Nigeria Financial sector ordinary least square (OLS) econometric technique was used to analyze the relationship between mandatory auditor rotation and audit quality. Findings reveal that there is a significant relationship between mandatory auditor rotation and audit quality. Mohammed and Ibrahim (2018) carried out a study on impact of audit fees on audit quality of conglomerates companies in Nigeria. Data for the study were collected from the annual reports and accounts of the companies. A panel data was employed specifically using, OLS and Random Effect regression. The conflicting findings provide those investigations into the relationship between audit fees and audit quality are not conclusive. Among the findings of the study is that audit fee has positive and significant influence on audit quality.

Samuel. Mudzamir and Mohamad (2017) examined the effect of audit tenure and financial reporting quality in Nigeria listed companies. The methodology of the paper was premised on the agency theory where an agency relationship occurred when one or more principals engaged another person as their agent to do a service at their behest. Findings showed that there were conflicting evidences on the relationship between audit firm tenure and financial reporting quality. It also showed that short audit tenure provides high financial reporting quality while longer audit tenure produce a low financial reporting quality.

Kabiru and Abdullahi (2015) examined the quality of audited financial statements of money deposit banks in Nigeria. The study employed the use of both Primary and secondary sources of data where questionnaire was the primary source and the annual reports of selected Banks are the secondary data. A judgmental sampling technique was used in selecting the sample size.

Simple percentage was used for data analysis. Analysis showed significantly improvement in the quality of audited financial statements. Compliance to auditing guidelines has deposit banks deposit audited financial statement of money Nigeria banks in Material on the quality of (ANOVA) was employed to test the hypotheses. The study independence found out misstatement does significantly affect the quality of audited financial statements of money deposit Banks in Nigeria. The findings in Behn, Choi & Kang (2008) suggested that analysts' earnings forecasts tend to be more accurate for firms with high audit quality. Loveday & Nwanyanwu (2015) studied Audit quality practices and Financial Reporting in Nigeria. Survey research design was adopted. Data were collected through questionnaire. Univariate, bivariate and multivariate analyses were performed using descriptive statistics, correlation and stepwise multiple Pearson Product Moment Coefficient Regression. Findings indicate a statistically significantly strong positive relationship between measures of audit quality (auditor independence, technical training and proficiency and engagement performance) and financial reporting (measured in terms of reliability of financial of variations Auditor independence has the highest explanatory power of in reliability report), financial report of 47.9%.

Myers and Omer (2003), using proxy variables such as discretionary accruals and current accruals., investigated the relationship between audit tenure and audit quality. The univariate results showed that when an auditor's tenure is longer, the negative value of accrual measures would be minimal. Furthermore, the study also employed multivariate analysis in order to examine if the discovered relationship between tenure and accrual is also influenced by other actors. The relationship between auditor tenure and accrual measures was also observed to be consistent in multivariate analysis as in the univariate analysis. These results suggest that audit quality does not appear to deteriorate with tenure. Carcello and Nagy. Quality audit mandatory and rotation of (2004) considered the relationship between also fraudulent financial reporting. Which is investigated from the point of view of auditor's tenure significant positive relationship model was used and the results reveal. Geiger and Raghunandan (2002) investigated the relationship between the length of the result auditor-client indicates the existence of a relationship and audit reporting failures. The sensitive and significant relationship between tenure variable and audit reporting failures.

Methodology

This section discusses the method used in carrying out the research and the specific technique used in running the analysis.

Research Design

This study adopted *ex post facto* research design. It is limited to five (5) listed manufacturing firms for a period of 10 years spanning between (2013-2022). The method of data analysis for this study were descriptive statistics, correlation analysis and logit regression analysis. The choice of Maximum Likelihood (ML) binary logit regression model is based on the inability of the OLS multiple regression model to yield reliable coefficients and inference in situations where the dependent variable is binary (0 and 1).

Population, Sampling and Sampling Technique

The study is limited to manufacturing sector. This is because the sector is one of the major forces driving the Nigerian economy. The core manufacturing sectors in the Nigeria Exchange Group are the consumer goods and industrial goods. Hence, these sectors Comprise 2 and 16 companies respectively as at July, 2017. This study purposively selected the top 10 companies in the two sectors based on their market capitalization as at July, 2017. These include Nigerian Breweries,

Nestle Nigeria, Flour mills Nigeria, Unilever Nigeria, PZ, Lafarge Cement Nigeria, Dangote Cement, Berger Paint, Honeywell and Cussons and their financial statements were obtained from the annual reports. Selected firms represent the top period of 5 years from 2018 to 2022. The selected firms represent the top players in consumer sector holding more than 50% of the market capitalization.

Method of Data Analysis

The method of data analysis for this study are; descriptive statistics and correlation matrix. The effect of audit firm tenure on audit quality was analysed using the binary logit model estimation technique. The choice of maximum likelihood (ML) binary legit regression model is based on the inability of the OLS multiples regression model to yield reliable coefficient and inference in a situation where the dependent variable is binary (0 and 1). Thus, the binary logit regression model unlike others, is based on the use of a dichotomous dependent variable.

Model Specification

The Model was adopted from Charles (2017); $AUDQUA = \beta_0 + \beta_1 BOARD1 + \beta_2 130S + \beta_3 TENURE + \beta_4 DOWN + \beta_5 ROA + e$. The model for this study is restated below;

Model I for Objective I

$$FRQ_{it} = \alpha + \beta_1 AT_{it} + \beta_2 FS_{it} + \beta_3 AF_{it} + \beta_4 FG_{it} + \beta_5 BS_{it} \mu_{it}$$

Where α = Intercept/constant

$AUDFEE_{it}$ = Audit fees of firm i in year t,

ROA_{it} = Return on assets of firm i in year t.

$ATENURE_{it}$ = Auditor of firm i in year t assets.

FS_{it} = Size of firm i in year t.

GR_{it} = Firm Growth of firm i in year t.

BOS = Board Size of firm i in year t.

Model I for Objective II

$$FRQ_{it} = \alpha + \beta_1 AR_{it} + \beta_2 FS_{it} + \beta_3 AF_{it} + \beta_4 FG_{it} + \beta_5 BS_{it} \mu_{it}$$

Where α = Intercept/constant

$AUDFEE_{it}$ = Audit fees of firm i in year t,

ROA_{it} = Return on assets of firm i in year t.

ARE_{it} = Auditor of firm i in year t assets.

FS_{it} = Size of firm i in year t.

GR_{it} = Firm Growth of firm i in year t.

BOS = Board Size of firm i in year t.

μ_{it} = Error term

Variable Measurement and Justification

Variables	Acronym	Measurement	Expectation
Dependent Variable			
Financial Reporting Quality	FRQ	Measured by likelihood that a sampled firm employs the services of one of the big 4 audit firms. A dummy value of 1 is used if a firm uses any of the big 4 auditors and 0 if otherwise.	Not Applicable
Independent Variable			
Audit Rotation	AR	Measured using a dichotomous variable; 1 for firm that rotate Audit and 0 for the firm that does not rotate is audit firm.	+/-
Audit Tenure	AT	Measured in term of number of years spent as auditor for a sampled bank, if greater than 5, we assign 1, if equal to or less than 5 we assign 0.	+/-
Control Variable			
Audit Fee	AF	Log of the amount of audit fee paid to the auditor.	+/-
Firm Size	FS	Measured as the natural logarithm of total assets.	+
Firm Growth	FG	It is measured as a noncurrent asset to total	+
Board Size	BS	It is measured as the natural logarithm of the number of directors on the Board of a Sampled Bank.	+/-

Source: Field Survey (2023)

Results and Discussion

Pre-Estimation

Table 1 Descriptive Statistics

	FRQ	AT	AR	FS	BS	AF	GR
Mean	0.360000	0.500000	0.460000	1.08600	3.2256000	1.028400	0.155800
Median	0.000000	0.500000	0.000000	1.150000	2.770000	1.145000	0.140000
Maximum	1.000000	1.000000	1.000000	1.290000	20.770000	1.390000	0.300000
Minimum	0.000000	0.000000	0.000000	0.140000	1.240000	0.460000	0.090000
Std. Dev.	0.484873	0.505076	0.503457	0.242794	2.693639	0.270603	0.051985
Skewness	0.583333	0.000000	0.160514	- 2.643754	5.691818	- 1.054535	1.169439
Kurtosis	1.340278	1.000000	1.025765	9.128975	37.52991	2.539674	3.735548
Jarque-Bera	8.574560	8.333333	8.334716	136.5043	2753.962	9.708500	12.52371
Probs	0.040100	0.08900	0.07100	0.090000	0.000000	0.089661	0.101010
Sum	18.00000	25.0000	23.00000	54.43000	161.2800	51.42000	7.790000
Observations	50	50	50	50	50	50	50

Source: Field Survey (2023)

Table 1 presents the descriptive statistics of the variables. For financial reporting quality the Minimum (0.0000), Maximum (1.00000), mean and standard deviation values are (0.36000) and (0.48487). For the independent variables, Audit Tenure Minimum (0.0000), Maximum (1.0000),

mean and standard derivation values are (0.5000) (0.5051). Audit Rotation Minimum (0.0000), Maximum (1.00000), mean and standard derivation value are (0.460000) and (0.5035). From the result, all variables are positively skewed except for Firm Size and Audit Fee that are negatively skewed. The Kurtosis which is the degree of departure of the variables from the peakedness of all the variables is lepokurtic in nature except Growth rate of the firm that is plykurtic in nature (>3). Hence, the number observation is 50. Jarque-bera test revealed that, most of the variables are normally of the variables as shown above is above or greater than 5% (0.05) level of significance employed in the study.

Table 2 Correlation Matrix

	FR	AR	AT	FS	AF	GR	BS
FR	0.230400						
AR	-0.165600	0.248400					
AT	0.180000	-230000	0.25000				
FS	0.0321152	-0.031328	0.02900				
AF	0.056176	-0.073664	0.06840	0.0207649	0.0717614		
GR	-0.000688	0.008332	-0.00770	0.0008926	-.0024467	0.0026484	
BS	0.439984	-0.331976	0.36360	0.0516819	0.050721	-0.032525	0.1105766

Source: Field Survey (2023)

Table 2 presents the correlation matrix of the variables. The essence of this test is to examine the correlation or relationship among the variables. According to Barry and Feldman's (1985) criteria multi-collinearity is not a problem if no correlation exceeds 0.8. For this purpose, this test was used to examine the level of multi-collinearity among the variables. The highest correlation (0.43998) shows that no correlation exceeds 0.8, therefore, there is no multi-collinearity among the variables.

Objective: To investigate the impact of audit on financial reporting of quoted manufacturing firms.

Table 3 Binary Logistic Regression Coefficients

Variables	B	S.E	Wald	Sig	Exp (β)
Step 1 Tenure	0.230400				
Firm Size	-0.165600	0.248400			
Audit Fee	0.180000	-230000	0.25000		
Firm Growth	0.0321152	-0.031328	0.02900		
Board Size	0.056176	-0.073664	0.06840	0.0717614	
Constant	-0.000688	0.008332	-0.00770	-.0024467	0.0026484
Hosmer and Lemeshow	0.439984	-0.331976	0.36360	0.050721	-0.032525

Source: Field Survey (2023)

The result (Table 3) above shows negative and significant effect between the main explanatory variable in the model (Audit Firm Tenure) and the dependent variable (financial reporting quality). The overall fitness of the model is tested using Hosmer and Lemeshow test for model goodness-of-fit. The value of 0.940 which is 94% (Appendix) for Hosmer and Lemeshow test implies that the estimated model is statistical significant. Hence, For Audit firm Tenure ($\beta_1 = -17.897; p < 0.05$), it means that, there is a significant negative and significant impact of audit tenure and financial reporting quality of manufacturing, a firm Size ($\beta_2 = 1.027; p < 0.05$), it also have positive and significant impact of financial reporting quality. Audit Fee ($\beta_3 = 2.358; p < 0.05$), this indicates that, audit fee exhibits positive and insignificant impact on financial reporting quality of manufacturing firms. Firm Growth ($\beta_4 = 6.881; p < 0.05$), this shows that, firm growth have a positive but

insignificant impact on financial reporting quality of manufacturing firms. Board Size ($\beta_5 = 61.389$; $p < 0.05$), the implication of this result is that, Board size shows a negative but significant impact on financial reporting quality of manufacturing firms in Nigeria.

Based on the above results, we accept the null hypothesis (H_0) formulated for the study which states that there is a negative and significant effect of audit firm tenure and quality of financial reporting of listed manufacturing firms in Nigeria. This implies that, longer audit in tenure impaired the quality of financial reporting in Nigeria. This result favours Sarbanes-Oxley Act of 2002 consolidating this view as it requires rotation of the lead audit partners every five years is required, rather than the audit firm. The result of this study is in line with the leading credibility theory which states that a manager would want to improve the audit quality of the firm by maintaining a particular audit firm over a long period so as to gain the confidence of the investors.

The result (Table 3) shows a positive and significant effect between the main explanatory Variable in the model (Audit firm rotation) and the dependent variable (financial reporting quality). The overall fitness of the model is tested using the Hosmer and Leme show rest for model goodness-of-fit. The value of 0.995 which is 99.5% (Appendix II) for Hosmer and Leme show test implies that the estimated model is statistically significant. The overall explanatory power of the model is revealed in the Nagelkerke R-square which shows a value of 0.835 (Appendix II), this means that the model fits the data.

For Audit Firm Rotation ($B_1 = 21.346$; $p < 0.05$), it means that, there is a significant positive impact of audit firm rotation and financial reporting quality of manufacturing firms in Nigeria. Firm Size ($B_2 = 1.777$; $p > 0.05$), also has positive but insignificant impact on financial reporting quality. Audit Fee ($B_3 = 60.862$; $p > 0.05$), exhibits positive but insignificant impact on financial reporting quality of manufacturing firms. Firm Growth ($B_4 = 15.78$; $p > 0.05$) has a positive but insignificant impact on financial reporting quality of manufacturing firms. Board Size ($B_5 = -1.206$; $p > 0.05$), shows a negative but significant impact on financial reporting quality of manufacturing firms in Nigeria. Based on the above result, we reject the null hypothesis (H_0) formulated for the study and the accept the alternative hypothesis (H) which states that. Audit rotation have a positive and significant impact on Audit quality of listed manufacturing firms in Nigeria and accept the alternative hypothesis that states that, there is a significant impact of audit tenure on financial reporting of quoted manufacturing firms in Nigeria. This implies that, audit firm rotation has tendency to promote quality of financial reporting of manufacturing firms.

Summary

The study examined impact of audit tenure and rotation on financial reporting quality of companies in Nigeria. The study was divided into five chapters. Panel data was collected from the top ten (10) Annual reports and financial statements of the selected companies for the period of five (5) Years from 2018-2022. The study adopted descriptive statistics, correlation and Binary Logistic regression analysis. The results of the study revealed that Audit firm Tenure ($B = 17.897$; $p < 0.05$) has a significant negative impact of financial reporting quality. The study also revealed that, audit rotation ($B_i = 21.346$; $p < 0.05$), has a significant positive impact on financial reporting quality among manufacturing firms in Nigeria. The study revealed further that, firm size, firm growth has a significant positive impact on quality of financial reporting while Board size and Audit have a significant negative impact on the quality of financial reporting in Nigeria. The overall fitness of the model was tested using the Hosmer and Leme show test for model goodness-of-fit. The value of 0.940 which is 94% for Hosmer and Leme show test implies that the estimated model is statistically significant. The Overall explanatory power of the model is revealed in the Nagelkerke R-square which shows value of 0.890 (89.0%) this means that the model fits the data.

The need for auditor's tenure and rotation is not only germane on quality of financial reporting but will also boost investments. One factor that the regulators are concerned with is that it may impair auditor independence (the length of the auditor client relationship). Their concern is that as the auditor's tenure gets longer, auditors are more likely to compromise on their clients accounting and reporting choices in order to retain the client. The proponents of mandatory auditor rotation thus argue that setting a limit on the period of years an audit firm may audit a particular company's financial statements will improve auditor independence and audit quality. The opponents, however, argue that as auditors gain more experience from auditing the same company over time, they have better knowledge to whether the company's accounting and reporting choices are proper.

Conclusion

The study examined impact of audit tenure and audit rotation on financial reporting quality of quoted companies in Nigeria. Thus, the debate about audit firm tenure may be seen as still ongoing as reflected in the plethora of divergent research findings in this regard. The study attempts to provide empirical evidence in the Nigerian context in the manufacturing firms. The findings from the study revealed that audit firm tenure impaired the quality of financial reporting of manufacturing firms in Nigeria. The explanatory variables in the model; Firm Size, Board Size, Audit Fee, Growth of Firm have significant positive impact on quality of financial reporting in Nigeria. The study concludes that audit firms must be independent and should not be influenced by the firm to write unqualified report on the material misstatement of the financial statements.

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