# Effect of Audit Tenure on Financial Reporting Quality of Listed Industrial Goods Firms in Nigeria

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## Abstract

*The adverse effect of poor corporate financial reporting not only impact negatively on the absentee owners but also on all other existing and potential users. This study examined effect of audit tenure on financial reporting quality of listed industrial goods firm in Nigeria covering the period of ten (10) years ranging from 2011-2020. The study adopted ex-post facto research design and secondary data was used as the source of data for this study which was obtained from Nigerian Stock Exchange. Panel regression analysis technique was used to analyse research data. The result showed that audit tenure has a positive and significant effect on discretionary accrual which is taken as a measure of financial reporting quality. The study concludes that audit tenure has significantly positive effect on financial reporting quality and does substantially reduce the discretionary accruals of listed industrial goods firms in Nigeria. The study therefore recommend that stakeholders and decision makers who are interested in the services of external auditors in listed firms in Nigeria should judge and determine the auditors tenure on the basis of effectiveness, efficiency and output and not just on other considerations. This is because large 'earnings' is not necessarily associated with auditors competence and quality of financial reporting of listed industrial goods firms in Nigerian.*

Keywords: Financial Reporting Quality, Manufacturing Sector, Audit Tenure, Investor

## INTRODUCTION

Changes in the economic environment and growth of corporate structure have brought about the need to separate business ownership from management. In the past, the nature and size of businesses made it possible for owners to manage their firms hence self-accountability was prominent. Separation of owners (principals) from managers (agents) has necessitated owners and managers rapport such that managers have the responsibility of handling the business activities of the firm on behalf of their principals. This in turn brought the need for owners of business organizations to search for an intermediary whose responsibility was to check the stewardship of managers of the firm and assure the owners of fair performance. This intermediary role is what auditing plays so as to be able to establish whether managers' report truly reflect correct and complete position of transactions as presented (DeAngelo, 1981). Auditing involves scrutiny of financial records with a view to ascertaining the true state of financial position of the company as presented by directors. It enhances credibility, provides an independent confirmation of financial information presented by management thus serving to lessen investors' information risk (Watts

& Zimmeranson, 1983; Mansi, Maxwell & Miller 2004). In its role as the link between management and other stakeholders, the auditor assesses how corporate managers apply relevant accounting standards in financial statements preparation. In view of this, accounting information users anticipate auditors to apply technical ability, honesty, and independence, in the audit process to prevent issuance of false financial reports. Thus, for an audit to satisfy the reasonable expectations of various stakeholders, it becomes imperative for the audit assignment to be executed with due regard for financial reporting excellence.It is the duty of a company's directors to prepare financial statement. Nevertheless, Section 359(1) of the Companies and Allied Matters Act (CAMA), 1990 (as amended) provides for audit of financial statements. External auditors are appointed at Annual General Meetings (AGM) by shareholders for this purpose. The audit report being the end product of any audit task is then issued expressing a 'true and fair view' opinion on the financial statements (Blandon & Bosch, 2015; Otuya, Donwa & Egware, 2017).On the basis of going concern concept, a business would continue to exist (has perpetual succession) unless unforeseen incidents bring its existence to a halt.

However, what we are witnessing today is a direct opposite of the view earlier expressed. Businesses are suffering and experiencing serious premature liquidation nowadays, due to global economic meltdown and more importantly, sharp practices by the top executives in the organization- a development that has thrown the whole economic or business world into a state of confusion. The integrity and honesty of management team of corporate bodies have come under close scrutiny as the resources entrusted to their care are vanishing and continuously plummet. Investors lost their confidence and were thrown into quandary of what to invest and the magnitude of such investment.The list is in exhaustive as there are also cases of Satyam Computer (India), Cadbury (Nigeria), and African Petroleum (Nigeria). Following these, as Schummer (2003) observed it, the public has come to believe that corporate executives are more interested in "lining their own golden parachutes" than in looking out for the interests of their stakeholders. The root causes of failure and misleading financial statements of all the entities mentioned above are the paucity of information revealed by their financial reports (described as information asymmetry), various schemes of bottom-line (Earnings) management and other forms of aggressive accounting practices. In addition, lack of reliable, dynamic, ethically upright and professionally qualified auditors to signal (either through whistle blowing or qualified audit report) all inefficiencies, fraudulent tendencies and unwholesome practices of these companies contributed in no small measure, indeed, auditors have hardly issued qualified report in Nigeria.In almost all reported cases of corporate scandals, the accounting profession has always been indicted as contributing significantly to the success of such unwelcome situations. For instance, Arthur Andersen was indicted in the case of Enron, Price Water House Coopers, in the case of Satyam Computer, and Akintola Williams in the case of Cadbury (Nig.) Limited. Transparency of corporate reporting depends principally on financial accounting disclosures, governance disclosures, timeliness and credibility of disclosures, and accounting disclosures (Bushman et al. 2004). Thus, the role of auditors as information assurance providers in supplying key decision makers (management, investors and creditors) with useful, understandable and timely information is vital (Louwers, 2007). The adverse effect of poor corporate financial reporting not only impact negatively on the absentee owners but also on all other existing and potential users. The objective of this study therefore is to examine effect of audit tenure on financial reporting quality of listed industrial goods firm in Nigeria

## LITERATURE REVIEW

### Conceptual Framework

### Auditor Tenure and Financial Reporting Quality

Audit tenure is the length of time an audit firm has been auditing financial statement of an organization. A lot of debates have evolved in the academic literatures and accounting profession on the relationship among audit tenure and audit quality (Jenkins & Vermeer, 2013; Blandon & Bosch, 2015). The center of the argument is the issue of auditor's independence in the auditor-client relationship; which is the ability of auditors to maintain an unbiased position in performing their audit assignments, issuing audit opinion

and ensuring high quality audit report (Odia, 2015). There have been two opposing views on the effects of audit tenure on audit quality. Some are of the view that as the auditor–client relationship lengthens, the auditor may develop a close relationship with the client and impair independence which will eventually result in poor audit quality and allows for greater earnings management resulting in lower earnings quality (Becker, DeFond, Jiambalvo &Subramanyam1998; Lys & Watts, 1994).The other view is that as audit tenure lengthens, auditors increase their understanding of their clients' business and develop their expertise during the audit exercise and gain better insights into the clients operations and business strategies as well as internal control over financial reporting which will result in higher audit quality (Arens, Elder & Beasley, 2005; ling & Nopmanee, 2015).

Prior studies have recorded mixed result on the relationship of audit tenure and financial reporting quality. Lin and Hwang (2010) in their study, audit quality, corporate governance and financial reporting quality. Found a negative significant relationship between audit tenure and financial reporting, hence the study posit that when audit tenure lengthens, earnings management reduces. It is, however, observed that though the study was conducted in a developed country, its time coverage stopped at 2007. The time coverage on the study may have excluded recent event within the context of earnings quality. However Augustine, Famous and Augustine (2014) in their study, audit quality and accrual based earnings management of quoted companies in Nigeria, found no significant relationship between audit tenure and accrual based earnings management which indicates that the length of time of audit client relationship does not have any effect on earnings management. This study, though conducted in the non-financial firms in Nigeria stopped in 2011; it could have not captured resent event in earnings quality. The study conducted by Mohammed (2016) on the impact of external audit quality on quality of financial reporting by banking firms in Jordan, found a negative significant relationship between audit tenure and financial reporting quality, indicating that manager ability to manipulate earnings is reduced when audit tenure is elongated. It is observe that the study use discretionary accruals from Jones model instead of loan loss provision as it has been established in the literature to be the most applicable in financial firms. Thus, study conducted using loan loss provision in that same sample may yield a different result.

**Independence and Financial Reporting Quality**

One of the ways to counter financial scandals is to improve the quality of auditing services. This requires that auditors are independent of the reporting entity upon whose financial statements they are exerting professional judgment to express unbiased opinion so that such financial reporting may be reliable for decision making by the entire stakeholders. Independence is the cornerstone of the audit profession, since it is the foundation for the public's trust in the attest function (Caswell & Allen, 2001). Independence, according to Flint (1988) means to be completely objective, unprejudiced by previous involvement in the subject of audit, uncompromised by vested interest in the outcome or its consequences and unbiased and uninfluenced by considerations extraneous to the matter at issue. Put simply, independence connotes a state of mind which depicts demonstration of auditors' disinterestedness in the affairs of company they are auditing aside from the general interest they have as an agent of their client. The essence of auditors' independence is to ensure that auditors are able to discharge their duties in an impersonal, objective and professional manner so that stakeholders' confidence in corporate reporting may be promoted, nurtured and improved. This is because independence is fundamental to the credibility of financial reporting. Thus credibility can only be given by person seen to be independent of the subject of the audit and of any interested stakeholders (Gray & Manson, 2005:39). The European Commission's recommendation on auditor independence regarded independence as important because it was fundamental to the confidence the public had in the audit function. It added credibility to the financial statements and was therefore of value to investors, lenders, employees and other stakeholders. Auditor independence helps to ensure quality audits and contributes to financial statement user's reliance on the financial reporting process. Carrey (1970) as quoted in Panel of Audit effectiveness maintained that, "Independence, both historically and philosophically, is the foundation of the public accounting profession and upon its maintenance depends the profession's strength and its stature."

However, because of the several major instances of corporate misdemeanors especially, in light of the Enron debacle, significant aspects of the audit function in terms of effectiveness and auditor independence have received unwelcome media exposure. In fact, the collapse of Enron has had a very negative impact on the perception of auditor independence. It has also shaken investor confidence in the financial reporting (Jordan & Clark, 2004). Auditor independence has been described in terms of independence in fact and independence in appearance. Independence in fact is a mental state of objectivity and lack of bias. Independence in appearance depends on whether a reasonable investor, with knowledge of all relevant facts and circumstances, can conclude that the auditor is not capable of exercising objective and impartial judgment. Because actual independence (i.e. independence in fact) is a mental state and is in essence embodied in an individual auditor's mind; it is impossible for investors and other users of financial statements to accurately assess actual auditor objectivity (Lindberg & Beck, 2004). According to Okolie (2007:3), the criteria for auditor independence is that the auditor must be intellectually honest and be free from any obligations to or interest in the client, its management, or its owners. To the extent that stakeholders cannot accurately assess auditors' independence, their confidence would wane and deteriorate. It therefore behooves auditors to strive for strict maintenance of their independence in the course of audit exercise.

**Financial Reporting**

The need for financial reporting stems from the diffusion of ownership of corporate body from its management. Management needs to employ devices which will ensure accurate even though the recording is not directly supervised from the top level. Owners need to employ devices which will ensure truthful reporting in financial statements. These devices are internal control and external audit respectively (Smails, 1955). The traditional objectives of financial reporting were the prevention of improprieties by the promoters and managers of corporate body and giving some assurance to creditors and shareholders that their wealth/interest is being taken care of. The current necessity for financial reporting under the Company and Allied Matters Act (CAMA), 2020 is to satisfy the stewardship role of the board of directors. In other words, the directors are answerable to the shareholders who are the supplier of capital for their stewardship of the company and to other stakeholders. Celik (2002) was of the view that delivering of information regarding company activities and their results to shareholders is the most important factor that ensures effectiveness of decisions taken by shareholders. With respect to capital markets, disclosing information regarding company activities is the primary element that ensures efficacy of capital markets. The Institute of Chartered Accountants of New Zealand (1990) in their statement of concepts for general purpose financial reporting (1993), advanced that the objective of general purpose financial reporting are to provide information to assist users in:

i. Assessing the reporting entity's financial and service performance, financial position and cash flows;
ii. Assessing the reporting entity's compliance with legislation, regulations, common law and contractual agreements, as these relate to the assessment of the reporting entity's financial and service performance, financial position and cash flows; and
iii. Making decisions about providing resources to, or doing business with, the reporting entity.

**Regulatory framework for financial reporting in Nigeria**

Financial reporting in Nigeria has legislative backing as contained in the Companies and Allied Matters Act Cap.59 Laws of Federation of Nigeria 2020, (CAMA 2020).Other rules and guidelines, according to Ajibolade and Ogundele (2006), consist of the Statements of Accounting Standards (SAS) of the Nigerian Accounting Standards Board (NASB), International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and pronouncements of other regulatory bodies including, the Nigerian Securities and Exchange Commission, the Nigerian stock Exchange, and the Professional Accounting

Bodies. On July 10, 2003 the Nigerian Accounting Standards Board Act was enacted raising the status of the Statements of Accounting standards from mere guidelines to actual legislation.

**Empirical Review**

Abudullahi, Norfadzilah, Umar and Lateef (2020), examine impact of audit quality on the financial performance of listed companies in Nigeria. The major corporate failures and other related collapses which occurred around the globe and in Nigeria have raised fears about the reliability of the financial reporting practices by listed companies in Nigeria. This agitated a number of regulatory and professional institutions to advocate for reforms that will enhance transparency in financial reporting and thus increase performance as well as audit quality. Therefore, this study offers proof on the direct influence of audit quality on the financial performance of listed companies Nigeria. We employ 84 companies listed on the NSE with 756 samples for the period of nine years which is from 2010 to 2018 based on panel data approach. Furthermore, the research used secondary approach to retrieve data from Thompson Reuters DataStream as well as the financial statement of the listed companies. This present study employs multiple regression to examine the model. The results reveal that audit fee shows a positively and insignificant relationship with ROA. This implies that if there is decrease in the amount paid to auditors for audit services, then financial performance of listed companies in Nigeria will increase. Consistent with the agency theory, auditor size displays a significant positive relationship with ROA. This positive figure implies that a percentage increase in firms audited by Big4, then financial performance (ROA) will also increase. Auditor independence is also seen to be positive and statistically significantly related to the ROA. Finally, auditor independence is found to be more powerful than auditor size on the financial performance. The result of this research will assist the management as well as the executives of the listed companies in Nigeria to put more effort on independence of an auditor. The study recommend that the executives should engage the services provided by audit firms whose integrity and character is unquestionable. It will also assist policy makers and relevant authorities in decision making.

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

Itoro and Emmanuel (2019), examine impact of audit quality on financial reports of Deposit Money Banks (DMBs) in Nigeria. The motivation was the corporate collapses and failures experienced in the banking sector amidst the clean audit reports. The methodology adopted was ex-post-facto. Using descriptive and inferential statistics, a sample of 10 deposit money banks was purposively selected for a period of 14 years, resulting in 140 data points. The data were obtained basically from content analysis of published annual reports and accounts, and notes to the financial statements. Using Pearson Product-Moment Correlation and Linear multiple regression; the study revealed that Audit fees and Auditor tenure exert insignificant influence (3.4%, 3.3%) and exhibited significant relationship with the amount of discretionary accruals of deposit money banks in Nigeria. There existed 85.8% positive joint relationship

between audit quality and financial reports. However, auditor tenure has more influence on discretionary accruals than audit fees. It was recommended that the regulatory bodies should strengthen the quality of financial reports by taking measures such as fixing optimal non-discretional accrual levels. Supervisory and regulatory authorities should check the excesses of management of these DMBs, this will reduce the risk of bank failures even with clean reports. The auditors of DMBs in Nigeria given their fees should conduct Earnings Quality Assessment (EQA) and issue "Integrated Audit reports" which will include EQA reports and Internal Control Reports in addition to normal annual audit reports. These measures will reduce and address the issues in financial reports policy which could create threat for auditors. Aliu and Mohammed (2018), examines the effect of auditor's independence on audit quality of listed oil and gas companies in Nigeria over a period of ten (10) years (from 2007 to 2016). The sample size comprises of nine (9) out of the fourteen (14) companies listed in the downstream sector of the Nigeria Stock Exchange selected using purposive sampling technique. The study uses secondary data which were sourced from the audited annual financial statements of the sampled companies. The panel data were analyzed using descriptive statistics, correlation matrix and binary logit regression technique. The findings show that there is a significant positive relationship between auditor's independence and audit quality, while the control variable of company size and leverage showed positive and negative relationship with audit quality respectively. The study recommends that the entire components of audit fees pricing and calculation should be regulated and disclosed in order to provide public insight into the financial dependence of an auditor on a client and whether the fee corresponds with the complexity of the audit assignment.

Godwin, Ganiat and Kabiru (2018), empirically ascertained the relationship between audit quality attributes and financial reporting quality of listed consumer goods companies in Nigeria. The study adopted a correlational research design and adopted 12 out of the entire population of 17 quoted companies in the industrial goods sector using purposive sampling technique to determine sample size. The result of the panel regression with the aid of STATA indicated that audit firm size has a negative significant relationship, auditor tenure has a positive insignificant relationship while audit fees has a negative insignificant relationship with financial reporting quality of quoted industrial goods companies in Nigeria. The study recommended that consumer goods companies should not rely on audit fees paid to auditors as a guarantee of qualitative financial reporting since audit fees contributes negatively and insignificantly to financial reporting quality. Consumer goods companies should not emphasis on elongated tenure of auditors and should reasonably consider the size of audit firms before engaging them. Zayol, Kukeng and Iortule (2017), examine effect of auditor independence on audit quality Auditor independence and audit quality are two concepts that work inseparably. Many have argued that auditor independence begets audit quality and as such audit quality cannot be different from the system that produces it. This paper reviews literature related to auditor independence and audit quality in order to determine the effect of the former on the latter. The ex post facto research design is employed. Information for this study was obtained from secondary sources to include journals, text books and other internet materials. Based on the review, findings show that there is a strong relationship between auditor independence and audit quality. The review also revealed four threats to auditor independence, which are client importance, non-audit services (NAS), audit tenure, and client's affiliation with CPA firms. However, some studies indicated a positive relationship while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used. Most of the studies on auditor independence and audit quality were centered on one or two of the threats and majorly done outside Nigeria. Even the ones done in Nigeria were focused on the banking sector. This study therefore, recommends that more investigations should be conducted in Nigeria taking into consideration the four major threats revealed and extend to other sectors like manufacturing, transport, media and education.

## Theoretical Framework

### Stakeholders Theory

Stakeholder theory was developed by Freeman (1984) who argue that organizations are accountable to the shareholders as well as other stakeholders which in contrary to the traditional view that shareholders were the only stakeholders of the firm. Stakeholders are groups of individuals who may benefit or be harmed by activities of the firm. These stakeholders have contracting interest which have to be taken into account when releasing the audit reports. This is important because their varying interests can affect the firm's ability to achieve its objectives (Freeman, 2001). The stakeholder theory is defined by (Freeman 1984, quoted in Schilling 2000) as any group or individual who can influence or is influenced by the achievement of the organization's objectives. So Carroll 1993 (quoted in Schilling 2000) add that the term stakeholder may, therefore, include a large group of participants, in fact anyone who has a direct or indirect stake in the business. Examples for direct stakeholders are the shareholders, employees, investors, customers and suppliers, all whose interests are aligned with the interests of the firm, on the other side, the indirect stakeholders are those who are indirectly affected by the functions of the firm and an example for the is the government (Kiel & Nicholson 2003). Another definition for the stakeholder theory is that "the Stakeholder theory defines organizations as multilateral agreements between the enterprise and its multiple stakeholders". The stakeholders can be divided into two groups, the internal group consists of the employees, managers and the owners while the external group includes customers, suppliers and the community, the relation between the firm and those stakeholders group is controlled by different types of rules (Clarke 2004).

**Big bath Theory**

The big bath theory suggests that firms experiencing low earnings in a given year may take discretionary write downs to reduce even further the current period's earnings. By so doing, earnings could be managed downward if the manager believes that the firm is not in a position to meet the contractual earnings' target or upward to improve an impending bonus. The notion is, according to Jordan and Clark (2004) that the company and its management will not be punished proportionately more for the big hit it takes to its already depressed earnings. This "clearing of the decks" makes it easier to generate higher profits in later years. They however conclude that the big bath theory is more than just a theory but is instead a practical method of managing earnings. One subset of earnings management involves "big bath" charges, which represents significant nonrecurring losses or expenses taken in the current period to clear the decks for improved future earnings performance (Sikora, 1999) in Jordan and Clark (2004). This is creative accounting at its finest (Zeckhauser, Patel & Degeorge, 1997). The idea works by reporting a steadily increasing growth in earnings year after year, regardless of the actual state of the company. As this results in increase in the company's share price and the market commending management, they decide to take a massive one-off hit to their earnings to set things right. This is accomplished by writing-off huge capital losses and expenditures, declaring a heap of bad debts as well as writing-off other assets perhaps, to take all their lumps in one swift hit. Consequently, the company is able to go back dishing up the kind of steady, predictable growth that the market is accustomed to from this stock. Hopefully, the problems are soon forgotten as a one-off extraordinary expense, and all is forgiven, at which stage the company can go back to being a darling of the stock market with steady growth in earnings and an excellent track record. Henry and Schmitt (2001) noted that companies with negative earnings may be more prone to take big hits than companies with positive earnings. That is, firms with extremely poor earnings are more likely to take big baths. The study of Chenheiter and Melumad (2002) also provides evidence of the existence of big bath theory.

The Financial Accounting Standards Board (FASB) in 2001 issued Statement of Financial Accounting Standard (SFAS) number 142: Accounting for Goodwill and Other Intangible Assets recommending the elimination of the periodic amortization of goodwill but instead; requires that goodwill be evaluated each year for impairment. But because testing for impairment involves significant use of estimates, this opens the door for earnings management. The implication of this theory for this study lies in the fact that, this management practice negates the "matching concept" which holds that periodic income should be properly matched with its corresponding expenses so as not to over burden a particular period's income with previous or future expenses. In addition, this practice also leads to distortion of financial report

through account material misstatement- a situation that further put auditor's diligence to test. Auditor's, in order to serve the interest of general stakeholders must, therefore strive to detect this financial impropriety so that financial statement could reflect the true picture of a concern's operation.

**Agency Theory**

Agency theory is defined by (Jensen and Meckling 1976) as the theory that addresses the relationship where in a contract the principal engages another person called the agent to perform some service on their behalf which involves delegating some decision making authority to the agent. Agency problem occurs when the objectives of the principal and agent contradict and it is difficult and costly for the principal to detect what the agent is actually doing. Also, due to this separation of ownership, managers usually focus on their own personal gains and interests and forget about the shareholder's interest which ultimately leads to the agency problem as well as incurring costs that the owners bare at the end, and this is referred to the agency cost. It is added by (Jensen & Meckling 1976) that these contradictions are because of the inability of the shareholders to monitor the actions and the performance of the management. Moreover, (Leuz;2003) state that the pursuit of self-interest by the managers, increases costs to the firm, like the costs of forming a contract, loss due to decisions being taken by the agents and the costs of observing and controlling the actions of the agents. Therefore the effects of such behavior are ultimately reflected in the company's' earnings. Financial reporting quality practice might be an indicator of the existence of an agency problem. Ownership and management are normally separated in modern corporations as shareholders are not always involved in the management of their firms. And this sets the basis for the agency problem (Habbash; 2010).

## METHODOLOGY

This study adopted the ex post facto research design since the study is a secondary data research. The population of the study covers all the fourteen (14) listed industrial goods firms on the Nigerian Stock Exchange as at 2020. A ten (10) years period ranging from 2011 to 2020 is selected in order to bring a clearer picture of the problem in a determinable period of time. The sample size of twelve (12) was selected out of the total population of fourteen (14) listed industrial goods firms on the Nigerian Stock Exchange as at 2020, using the purposive sampling technique. The inferential analyses also involved the application the appropriate statistical technique of Panel Regression Analysis; this is due to the nature of the data, the study adopted Godwin, Ganiat and Kabiru (2018) model.

$$DACC = \beta_0 + \beta_1 AT + \epsilon_{it} \quad (3.1)$$

Where:

| | | |
|---|---|---|
| $\beta_0$ | = | The autonomous parameter estimate (Intercept or constant term) |
| $\beta_1$ | = | Parameter coefficient of Audit Tenure |
| DACC | = | Discretionary Accruals |
| AT | = | Audit Tenure |
| $\epsilon_{it}$ | = | Stochastic Error term |

**Measurement of variables**

Audit Tenure = measured If it is 3yrs and above is dichotomize as 1 and '0' If less than 3yrs

Financial Reporting Quality = Discretionary Accrual: Residual from Modified Jones' Model by Dechow, *et. al.,* (1995)

## RESULT AND DISCUSSION

### Descriptive Statistics

Descriptive statistics gives a presentation of the mean, maximum and minimum values of variables applied together with their standard deviations obtainable. The table below shows the descriptive statistics for the variables applied in the study. An analysis of all variables was obtained using the E-view 10 software for the period under review.

**Table 1: Descriptive Statistics Result**

| | DACC | AT |
|---|---|---|
| Mean | 0.803125 | 0.525000 |
| Median | 0.259500 | 1.000000 |
| Maximum | 4.567000 | 1.000000 |
| Minimum | 0.001000 | 0.000000 |
| Std. Dev. | 1.134309 | 0.501468 |
| Skewness | 1.852395 | -0.100125 |
| Kurtosis | 5.435017 | 1.010025 |
| Jarque-Bera | 98.27387 | 20.00050 |
| Probability | 0.000000 | 0.000045 |
| Sum | 96.37500 | 63.00000 |
| Sum Sq. Dev. | 153.1123 | 29.92500 |
| Observations | 120 | 120 |

***Source: E-View 10 Output (2021)***

Table 1 presents the descriptive statistics of effect of audit tenure on financial reporting quality of industrial goods firms in Nigeria during the period of 2011 to 2020. The table shows that discretionary accruals (DACC) as a measure of financial reporting quality (FRQ) has a mean of 0.803125 with a standard deviation of 1.134309 and the minimum and maximum values of 0.001000 and 4.567000respectively. As observed, the table shows that the audit tenure (AT) during the period has an average value of 0.525000 with standard deviation of 0.501468 and the minimum and maximum values of 0.000000 and 1.000000 respectively. This implies a fair balance in audit tenure during the study period. Also the mean values for audit firm size is 0.426583, while the standard deviations also indicates 0.512510. The minimum and maximum value for audit firm size is 0.000000 and 1.650000 respectively.

The standard deviation values shown on table 4.1 indicate the dispersion or spread in the data series. The higher the value of the standard deviation, the wider the deviation of the series from its mean. Similarly, the smaller the value of the standard deviation, the lower the deviation of the series from its mean. The variable with the highest degree of dispersion from the mean is the discretionary accruals, while the variable with the lowest is audit fee. Skewness which measures the shape of the distribution and equally shows the measure of the symmetry of the data set, indicated that DACC is positively skewed and have values greater than zero which suggests that the distribution tails to the right-hand side of the mean, the case is different for AT which is negatively skewed at -0.100125, but the mean value of 0.525000, is less than the median value of 1.000000. Kurtosis value measures the peakness and flatness of the distribution of the series. If Kurtosis value is less than 3, it means the distribution of the variable is normal, but when it is more than 3, the distribution of the variable is said to be abnormal. Variables with value of kurtosis less than three are called platykurtic (fat or short-tailed) and AT and AFS with a kurtosis value of 1.010025qualified for this during the study period. The Jarque-Bera statistic is for testing normality of a variable. If the variable is normally distributed, the histogram will be bell-shaped and as such the Jarque-Bera test of normality is an asymptotic, or large-sample test. Jarque-Bera also measures the difference between the skewness and kurtosis of each of the variables. DACC and AT has the highest Jarque-Bera value of 98.27387 and 20.00050 respectively.

**Table 2: Hausman Test**

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 0.001590 | 1 | 0.9682 |

***Source: E-View 10 Output (2021)***

The Result of Hausman test shows that chi-square statistics value is 0.00159 while the probability values of is 0.9682. This implies that there is enough evidence to rejectthe alternate hypothesis which states that fixed effect is most appropriate for the Panel Regression analysis. It thus stands that error component model (fixed effect) estimator is not the most appropriate because the fixed effects are not well correlated with the regressors. Thus, the most consistent and efficient estimation for the study is the random effect cross-sectional model. Consequently, the result suggests that the randomeffect regression model is most appropriate for the sampled data because the Hausman test statistics as represented by corresponding probability value is greater than 5%.

**Decision Rule:** The decision rule for accepting or rejecting the null hypothesis for any of these tests will be based on the Probability Value (PV) and the Probability (F-statistic). If the PV is less than 5% or 0.05 (that is, if PV < 0.05).

**Table 3: Panel Regression Result (Random Effect)**

Dependent Variable: DACC
Method: Panel EGLS (Cross-section random effects)
Date: 08/16/21 Time: 07:55
Sample: 2011 2020
Periods included: 10
Cross-sections included: 12
Total panel (balanced) observations: 120
Swamy and Arora estimator of component variances

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.641275 | 0.312637 | 2.051177 | 0.0425 |
| AT | 0.308287 | 0.327971 | 0.939981 | 0.0391 |
| | | Effects Specification | | |
| | | | S.D. | Rho |
| Cross-section random | | | 0.867942 | 0.5414 |
| Idiosyncratic random | | | 0.798818 | 0.4586 |

| | | Weighted Statistics | |
|---|---|---|---|
| R-squared | 0.510495 | Mean dependent var | 0.224432 |
| Adjusted R-squared | 0.500916 | S.D. dependent var | 0.795068 |
| S.E. of regression | 0.795432 | Sum squared resid | 74.65999 |
| F-statistic | 0.891104 | Durbin-Watson stat | 1.165716 |
| Prob(F-statistic) | 0.007107 | | |

***Source: E-View 10 Output (2021)***

From table 3 above, the coefficient of multiple determinations ($R^2$) is 0.51, this indicates that about 51% of the total variations in return on asset is explained by the variations in the independent variables (AT),

while the remaining 49% of the variation in the model is captured by the error term. This indicates that the line of best fit is highly fitted. The standard error test is applied in order to measure the size of the error and determine the degree of confidence in the validity of the estimates. Usually if the standard error is smaller than half the numerical value of the parameter estimate, it can be concluded that the estimate is statistically significant. Having carried out a standard error test on the parameters estimated and as also indicated by their respective probability values, the parameter estimate for AT is slightly statistically significant, given that the individual probability is0.0391which is less than 5%.However, when taken collectively, the regressors (AT) against the regressed (DACC), the value of F-statistic is 0.891104and the value of the probability of F-statistic is 0.00710. This result implies that the overall regression is both positive and statistically significant at 5%.

### Discussion of Findings

This study succinctly examined the effect of audit tenure on financial reporting quality of industrial goods firms in Nigeria using panel series data and regression analysis approach. Audit tenure (AT) for twelve (12) listed industrial goods firms, for 10 years ranging from 2011 to 2020, were the independent variable while the Discretionary Accruals (used to proxy financial reporting quality) was the dependent variable for the study. The effect of the independent variable on dependent variable was analyzed in terms of strength and significant and the panel regression analysis was used to compare the relationship among the variables.

The result for the model of the audit tenure has a positive and significant effect on discretionary accruals taken as a measure of financial reporting quality. This implies that audit tenure significantly and relevant predictor of financial reporting quality in industrial goods firms in Nigeria. This finding is not in agreement with the research efforts Godwin, Ganiat and Kabiru (2018), who empirically ascertained the relationship between audit quality attributes and financial reporting quality of listed consumer goods companies in Nigeria and concluded that there exist a negative and insignificant relationship between audit quality and financial reporting quality of quoted industrial goods companies in Nigeria. Similarly, the findings of this study is also not in agreement with the research work of Zayol, Kukeng and Iortule (2017), who established four threats (which are client importance, non-audit services, audit tenure, and client's affiliation) as being responsible for the insignificant effect between auditor independence attributes and financial reporting quality.

## CONCLUSION AND RECOMMENDATIONS

In the Accounting and Financial literature several studies have investigated the link between audit tenure and financial reporting quality of firms. This research contributes to the strands of literature by investigating the audit tenure on the financial reporting quality of listed industrial goods firms in Nigeria.The policy implication of the finding from the analysis in this study is that audit tenure has contributed immensely and yet to spur Nigeria's industrial goods firms to increased financial performance and reporting quality, as well as provide a spring board that can enable the manufacturing sector at large to emerge as a quality-oriented sector in terms of its financial performance and reporting devoid of earnings management, with its attendant positive multiplier effects on the overall economy. This revelation is instructive, given the magnitude of activities within the industrial goods sector of the Nigerian economy.

The conclusion of the study therefore is that audit tenure has significantly positive effect on financial reporting quality and does substantially reduces the discretionary accruals of listed industrial goods firms in Nigeria. The study recommend that stakeholders and decision makerswho are interested in the services of external auditors in listed firms in Nigeria should judge and determine the auditors tenure on the basis of effectiveness, efficiency and output and not just on other considerations. This is because large 'earnings' is not necessarily associated with auditorscompetence and quality of financial reporting of listed industrial goods firms in Nigerian.

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