

Audit-Firm Tenure and the Quality of Financial Reports*

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Abstract

This study examines whether the length of the relationship between a company and an audit firm (audit-firm tenure) is associated with financial-reporting quality. Using two proxies for financial-reporting quality and a sample of Big 6 clients matched on industry and size, we find that relative to medium audit-firm tenures of four to eight years, short audit-firm tenures of two to three years are associated with lower-quality financial reports. In contrast, we find no evidence of reduced financial-reporting quality for longer audit-firm tenures of nine or more years. Overall, our results provide empirical evidence pertinent to the recurring debate regarding mandatory audit-firm rotation — a debate that has, to date, relied on anecdotal evidence and isolated cases.

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