

Audit-Firm Tenure and the Quality of Financial Reports*

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First published: 15 January 2010

<https://doi.org/10.1506/LLTH-JXQV-8CEW-8MXD>

* Accepted by Dan Simunic. We thank Dick Dietrich, Mike Ettredge, Jere Francis, Tom Linsmeier, Earl Wilson, two anonymous reviewers, participants at the 1999 American Accounting Association midyear auditing section meeting, the central states accounting research workshop, and workshop participants at University of Illinois, University of Kansas, University of Missouri, and University of North Texas for their valuable comments on this paper.

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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