The Effects of the Disclosure of the Location and Term of Auditor Tenure on Investors' Perceptions of Auditor Independence

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ABSTRACT: The Public Company Accounting Oversight Board (PCAOB 2017) adopted a standard that requires auditors to disclose the year the auditor began serving consecutively as a company's auditor (AS 3101.10.b). Our study investigates whether requiring tenure disclosure in the auditor's report versus disclosure on Form AP impacts investors' perceptions of auditor independence. We also investigate whether the length of tenure affects investors' perception of auditor independence. We employ a 2 x 2 + control group between-subjects experimental design. Our findings suggest that the length of tenure affects investors' perceptions of auditor independence. There is a negative correlation between longer tenure and auditor independence. However, we do not find any evidence that the location of auditor tenure either on Form AP or in the auditor's report makes any significant difference in investors' perceptions of auditor independence. This study contributes to the auditing literature by investigating investors' perceptions of tenure and independence after the PCAOB adopted tenure disclosure requirement.

Keywords: auditor tenure; auditor independence, investors, PCAOB

1. INTRODUCTION

In October 2017, the Securities and Exchange Commission (SEC) approved Public Company Accounting Oversight Board (PCAOB 2017) rule which requires the disclosure of the year in which the auditor began serving consecutively as the company's auditor (AS 3101.10.b). This new provision is for all audits of fiscal years ending on or after December 15, 2017. The Board contends that the disclosure of tenure in the auditor's report is intended to provide a consistent location and make the information readily accessible for investors, thus reducing investors' search costs (PCAOB 2015). The Board posits that disclosures enhance audit quality through transparency and accountability, adding further that the inclusion of tenure would encourage further discussion of the subject by management and the audit committee, and that the disclosure of auditor tenure would add to the mix of information available to investors and other users of financial information. Auditors, however, posit that disclosure of tenure in the auditor's report will encourage users of the report to draw a correlation between auditor tenure and audit quality or between auditor tenure and auditor independence (Burke, Hoitash and Hoitash, 2019).

However, apart from institutional investors who staunchly support the new standard, several commenters such as public accounting firms oppose the concept on the basis that such disclosure could result in false conclusions about the correlation between auditor tenure and audit quality or auditor tenure and auditor independence. After over six years of contentious deliberations, in 2017, the Public Company Accounting Oversight Board (PCAOB) adopted AS 3101, The Auditor's Report on an Audit of Financial Statements When the auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards (PCAOB 2017-001). One of the requirements of AS3101 is the disclosure of auditor tenure—that is, the auditor is required to disclose the year in which he or she began serving consecutively as the company's auditor. Some commentors on the proposal to disclose tenure in the auditor's report expressed reservation that such disclosure in the auditor's report could send wrong signals about correlations between auditor tenure and audit quality or between tenure and auditor independence (Franzel 2017; Hanson 2016).

The AICPA has suggested safeguards or non-authoritative guidance to counter the effects on independence when senior personnel are involved in an attest engagement for an extended period. Academic research shows that there is a significant familiarity threat to independence when audit personnel serve on an attest engagement team for a long period (Gendron 2002). Members on an audit team often develop a close working relationship with client personnel. Such ongoing relationships and familiarity may ultimately affect team members' judgment, introducing subconscious bias and potentially compromising their independence and objectivity (Bazerman et al., 2002). Similarly, Guenin-Paracini et al. (2015) finds that since the audit team members rely on client personnel for access to evidence, auditors are beholden to client personnel. Hence, the nature of the working relationship undercuts team members' ability to remain independent.

A significant development to the disclosure debate appeared in the 2019 Audit Committee Transparency Barometer report. The report shows that from 2015 to 2019, more audit committees disclosed the length of audit firm engagement, with percentages growing from 54% to 71% for S&P 500 companies, 44% to 54% for S&P Midcap companies, and 46% to 55% for S&P SmallCap companies (2019 Audit Committee Transparency Barometer Center). Also, the Center for Audit Quality report on proxy statements of Fortune 100 companies in 2014, 2015, and 2016 noted that Ernst & Young identified 63 percent of firms that they reviewed voluntarily disclosed auditor tenure in 2016 compared to 62 percent in 2015, 51 percent in 2014, and 29 percent in 2013 (Center for Audit Quality, 2019). PCAOB Release No. 2017-001 counter this trend by noting that some of the disclosures were in the audit committee report, while others appeared in different sections of the proxy statement, noting that proxy rules do not apply to all companies required to be audited under PCAOB standards. The PCAOB further contends that public disclosure of auditor tenure is vital, therefore, it should be readily accessible and consistent to make the information readily available to investors without incurring any search costs. While the trend of voluntary disclosure of auditor tenure is praiseworthy, the disclosure is voluntary. Studies show that both auditors and management are averse to providing information that is not required.

Though the new standard of the PCAOB requires the disclosure of tenure by accounting firms it did not initially specify the location. Since December 2017 when the standard became effective, most auditors disclose tenure information on the face of the audit report. It is also worth noting that while audit committees are not required to disclose tenure information, many do, and in 2021, 70% of S & P 500 companies provided auditor tenure disclosure in their proxy statements (2021 Audit Committee Transparency Barometer). The PCAOB also notes that disclosure of auditor tenure does not have the potential liability or other consequences as disclosure of the engagement partner’s name or other accounting firms, hence disclosure of tenure in Form AP is not crucial now. The PCAOB acknowledges that the U.S. Securities and Exchange Commission (SEC) may in the future require auditor tenure to be disclosed by some other party or in some other location (PCAOB 2017). Thus, this study investigates whether the location of audit tenure disclosure, either in Form AP or in the auditor's report, affects investors' perceptions of the auditor's independence.

The tenure debate has its roots in Section 207 of the Sarbanes-Oxley Act, which required a study by the General Accounting Office (GAO 2003) on the potential effects of mandatory audit firm rotation. Then in 2010, the European Commission picked up the debate when they issued a Green Paper in which they posited that when a company appoints the same audit firm for decades, the situation becomes incompatible with desirable standards of independence due to the threat of familiarity (Lennox 2013). Therefore, the debate about tenure disclosure revolves around the alleged impact tenure has on auditor independence and by implication audit quality (Johnson et al. 2002; Myers et al. 2003; Davis et al. 2009).

Identifying audit quality indicators has been the subject matter of an ongoing debate. In its 2008 Final report, the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury (ACAP, 2008, vol. 17) recommended that the PCAOB should determine the feasibility of developing audit quality indicators and the effectiveness of requiring auditing firms to publicly disclose these indicators. Based on ACAP recommendations, the PCAOB took several initiatives towards developing audit quality indicators. In 2015, the Board issued a concept release to explain the purpose of the audit quality project, which includes improving the ability of auditors and users of financial statements to evaluate the quality of the audited financial statement (PCAOB 2015). Interestingly, independence is listed as one of the 28 audit quality indicators. The independence indicator measures the amount and time devoted to independence training and monitoring programs at both the engagement and firm levels. Though the specifics or ratio of the training has not been determined, the PCAOB mentioned that personal cost and cost of technology would play a role in determining the acceptable level of training.

One of the questions posed by the PCAOB under the independence indicator is: what measures of independence, or independence issues, would be appropriate (PCAOB 2015), and would information generated by this indicator be more meaningful if measurements were stratified by personnel level? Our study revisits the issues of auditor tenure and independence given the increased talk on audit quality indicators since extant research into the tenure debate has turned out mixed findings regarding the relation between auditor tenure and auditor independence or objectivity. For instance, Davis et al. (2009) finds that both short auditor tenure (two to three years) and long auditor tenure (13 years or more) are associated with greater client discretionary accruals. Hence, our study investigates investors' perceptions of the relations between tenure and auditor independence.

Overall, the results of our study indicate that the location of tenure disclosure, whether in Form AP or the auditor's report, does not have any significant impact on investors' perceptions of auditor independence. Our findings, however, indicate that length of tenure affects investors' perceptions of auditor independence. The investors in this study associate longer auditor tenure with impaired auditor independence. Consistent with PCAOB's prediction, the results show that tenure disclosure provides additional information to investors.

Our study contributes to accounting literature on independence by showing that the location of tenure, whether in Form AP or on the face of the auditor's report, has no significant effect on investors' perceptions of auditor independence. This finding is essential given the possibility that the SEC may wade in and rule on the location of the auditor's tenure. Second, our study evaluates professional investors' perceptions of the PCAOB's newly issued standard on the disclosure of the length of auditor tenure. Finally, given the increased discussion of audit quality indicators, this study's finding suggests that investors view auditors with longer tenures as lacking independence. The investors' reasoning is unclear, but they may perceive those prolonged interactions between client and auditor enhance familiarity, impair independence, and cloud auditor judgments.

The remainder of the paper is organized as follows. The second section presents a literature review and develops our hypotheses. The third section presents our methodology, and the fourth section discusses the results of the study. The fifth section concludes the study.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Academic research on the relationship between auditor tenure and audit quality has produced varied conclusions. Extant research findings are mixed, with some suggesting that engagements with short tenure (1 to 5 years) are relatively riskier, and that audit quality improves when auditors have had time to gain expertise in the company under audit and the related industry (Carcello et al. 2004). Audit quality improves as the length of auditor tenure increases because auditors gain more knowledge and experience from longer tenure to determine whether the client's accounting and reporting choices are appropriate (Myers et al. 2003; Chen et al. 2008). Other researchers suggest that both short tenure (5 years or less) and long tenure (15 years or more) can have detrimental effects on audit quality (Davis et al. 2009). Kao et al. 2008 find that investors view long-term auditor-client relationships as detrimental to auditor independence. To add to this confusion, two board members of the PCAOB (Franzel 2016; Hanson 2016) have expressed sentiments that there is no clearly documented link between auditor tenure and multiple measures of audit and financial reporting quality.

Thus, there are essentially two opposing views about the relationship between auditor tenure and auditor independence and its impacts on financial reporting reliability. It is no surprise that practitioners and regulators lead these opposing views. Regulators and stakeholders concerned with corporate governance posit that (based primarily on threats to auditor objectivity) audit quality deteriorates under longer auditor tenure and that quality may be highest in the early years of the auditor-client relationship (Carcello and Nagy 2004). Practitioners at the other end of the spectrum argue that (based primarily on concerns about auditor knowledge) audit quality is lowest in the early years of the auditor-client relationship and that audit quality increases with more exposure to the client (Carcello and Nagy, 2004). To the extent that a new auditor is less familiar with the client's industry, it may pave the way for fraudulent financial reporting. In essence, both regulators and practitioners could be partly correct: audit quality could be lower given short auditor tenure because of the auditor's lack of knowledge about the company and its industry; it could also be lower given long auditor tenure because of the auditor's lack of objectivity. Research corroborates this view. Kwon et al. (2014) and Cassell et al. (2014) find that long tenure does not negatively impact audit quality. Lennox (2014), on the other hand, finds that long tenure has a positive impact on audit quality.

Proponents of mandatory disclosure of tenure contend that long auditor tenure leads to a reduction in audit quality (Jenkins and Stanley 2019). Long auditor tenure could lower audit quality for two reasons. On one hand, it is argued that long auditor tenure could lead, perhaps subconsciously, to complacency among the audit team (Jenkins and Stanley 2019). In other words, the audit team could grow to associate client management with integrity and competence over time (Jenkins and Stanley 2019). If the audit team expects those attributes to continue, they will readily accept glib answers from management, and that will impact the rigor and professional skepticism that should be brought to the engagement. When auditor-client interactions occur on an ongoing basis, it leads to social bonding which potentially undercuts independence (Jenkins and Stanley 2019). On the other hand, a new audit firm could bring along professional skepticism and fresh perspective to the audit (Commission on Public Trust and Private Enterprise 2003; Silvers 2003).

Audit Tenure and Auditor Independence

DeAngelo (1981) argues that long-standing clients of an audit firm may be viewed as a source of a perpetual annuity. DeAngelo further notes that an existing audit client provides the auditor with client-specific quasi-rents, an annuity that represents the rents (the present value of excess audit fees over avoidable costs) the auditor expects to receive over the life of the auditor-client relationship. DeAngelo (1981) further argues that if the client is viewed as a source of a perpetual annuity, it may compromise the auditor's independence because long auditor tenure tends to reduce the auditor’s professional skepticism and impair the auditor’s independence, thus encouraging fraudulent financial reporting. Other researchers further argue that by reducing the length of auditor-client tenure, that mandatory rotation can strengthen an auditor’s incentives to remain independent of the client, because the auditor will have less incentive to carry favor with the client’s management in order to retain the business.

Lennox (2014) notes that if there is a relationship between audit firm tenure and auditor independence which negatively impact audit quality, then we should have a good grasp of the direction of causality. Prior archival literature on the relationship between tenure and audit quality provides mixed results (Patterson, Smith, and Tiras 2019: PCAOB 2011B; Beck and Wu 2006), so there is no consensus on whether longer tenure leads to higher audit and financial reporting quality, or whether higher audit and financial reporting quality leads to longer audit firm tenure. This study contributes to auditing literature by exploring investors' perceptions of tenure and independence following the enactment of the tenure disclosure rule by the PCAOB.

2.1 Location of Disclosure of Tenure

The SEC’s Investor Advocate Group recommends that the PCAOB should require disclosure of auditor tenure either in the auditor's report or in Form AP. The PCAOB also posits that auditor tenure disclosure in a readily accessible and consistent location in the auditor’s report will make tenure information available to investors, thereby reducing search costs for investors interested in auditor tenure and encouraging further discussion of the subject by management and the audit committee. The PCAOB’s avowed goal is to bridge the alleged information asymmetry between investors and auditors (PCAOB 2017, 2). The theory behind this line of thinking is that more disclosures obviate the effects of information asymmetry and constrain insiders' ability to exploit non-insiders (Huang and Zhang 2012). The question then is whether where the information is presented would matter, that is, does the location of disclosure of auditor tenure in the auditor’s report or in Form AP matter? To answer this question, we use source credibility and information processing theories used in similar disclosure studies (Christensen, Glover, and Wolfe 2014). Christensen et al. 2014 conclude that information persuasiveness depends on the credibility of its source, implying that disclosure of tenure will be more credible to investors if it is conveyed in the auditor's report.

Prior research has established that if a piece of information does not readily draw attention or requires significant processing because of its location, some individuals cannot encode it because most humans are cognitive misers (Hirshleifer and Teo 2003). Disclosure of tenure in Form AP will likely be long and analytical compared to recognizing or disclosing the same information in the auditor's report, and the credibility that will be accorded the source of the two disclosures will differ. Thus, we predict that the higher source credibility that will be accorded disclosure of tenure in the auditor's report (as against Form AP) will enhance stockholders' perceptions of auditor independence and objectivity, thereby enhancing financial reporting reliability, which in turn will encourage reliance on audited financial reports regarding investing decisions. Thus, we propose the following hypothesis:

H1: Investors who receive an auditor's report with auditor tenure disclosed on the face of the report will have a more positive perception regarding auditor independence than investors who receive the same report with auditor tenure disclosed in Form AP.

2.2 Length of Auditor association with the client:

External auditors are the key figures who guarantee the quality and reliability of financial statements prepared by a company's management. As a result of this undeniable fact, the relationship between the auditor and his or her client plays a pivotal role in the public acceptance of audited financial reports. John Carey, former Executive Director of the American Institute of Certified Public Accountants, remarked that "independence is the certified public accountant's economic excuse for existence" (Carey 1946). Independence is commonly accepted as the foundation to auditing, enhancing auditor objectivity, integrity, and credibility (Church, Jenkins, and Stanley 2018). Research shows that long auditor-client relationship causes auditor complacency about management decisions regarding financial statements. For instance, Blandon and Bosch (2013) find that the likelihood of audit report qualification decreases as tenure increases because professional skepticism required to ensure independence and objectivity is compromised with longer tenure.

Section 203 of the Sarbanes-Oxley Act (SOX) requires audit engagements of publicly traded companies to change the lead partner every five years to eliminate economic and social bonding (DeAngelo 1981) which could lead to complacency between the audit team and the client. This provision of the Act is intended to forestall any relationship that would interfere with the audit partner's professional skepticism and independence. Since SOX limits the allowable lead partner tenure on an engagement to five years, our study settled on five years as the optimum number of years acceptable to regulators and standard setters. Earlier studies by Carcello and Nagy (2004), and Johnson et al., (2002) adopted nine years or more as long tenure. Cassel et al. (2014), use three years or less for short tenure and 15 years or more for long tenure and find that long tenure improves audit quality. Davis et al. (2009) classifies short auditor tenure as 2 to 3 years and long auditor tenure as 13 years or more. The designations of nine years, thirteen years, or fifteen years are arbitrary. Like these earlier studies, we use 15 years or more to delineate long tenure because, as earlier researchers have shown, any definition of short or long auditor tenure is inherently arbitrary.

Regulators posit that long auditor tenure tends to impede the auditor's professional skepticism and impairs independence (Carcello and Nagy 2004), thus giving grounds for fraudulent financial reporting. It is to be expected that investors would perceive auditors as more independent in the early years of the client-auditor relationship and less independent as tenure increases. Accordingly, we hypothesize the following:

H2: Investors who receive an auditor's report with auditor tenure of 5 years or less will have a more positive perception regarding auditor independence than investors who receive the same report with auditor tenure of 15 years or more

3. METHODOLOGY:

3.1 Participants

We use Qualtrics to recruit professional investors and evaluate their perceptions of auditor independence with regards to disclosing the location and length of tenure in the auditor's report. A total of 105 participants completed the experiment. The demographic information in Table 1 shows that about 96 percent of the participants have professional certification and over 80 percent reported their professional title as either a professional investor or a financial analyst. About 73 percent of the participants have more than five years of work experience. Eighty percent of the participants report that they either occasionally or frequently use the auditor's report. About 90 percent report that they understand audit opinion, and about 80 percent report they understand audit tenure. Eighty percent of the participants are over thirty years old, and about 68 percent are male, while about 32 percent are female.

Table 1
Demographic Information about Participants (n =105)

Certification	
CPA	40.0%
CFP	9.5
Other	46.7%
None	3.8%
Total	**100%**
Title of Position	
Professional investor	20.0%
Financial Analyst	63.8%
Other	16.2%
Total	**100%**
Work Experience	
1-5 years	26.7%
6-14 years	55.2%
≥ 15 years	18.1%
Total	**100%**
Frequency of Using Auditor Report	
Rarely	20%
Occasionally	38.1%
Frequently	41.9%
Total	**100%**
Understanding of Audit Opinion	
Limited	11.4%
Average	49.5%
Full	39.0%
Total	**100%**
Understanding of Audit Tenure	
Limited	21.1%
Average	41.0%
Full	38.1%
Total	**100%**
Age	
20-30 years	5%
31-40 years	30%
41-50 years	28%
>50 years	17%
Total	**100%**
Gender	
Male	68.3%
Female	31.7%
Total	**100%**

3.2 Experimental Design and Instrument

Like Brown and Popova (2019), our study uses a 2 x 2 + control group between-subjects experimental design. Participants are presented a short description of a fictitious company, Shoprite Superstore, abridged financial statements, and an accompanying auditor's report. We manipulate two independent variables: length of tenure (short tenure, 5 years or less; and long tenure (15 years or more), and mode of disclosure (face of auditor's report, versus Form AP). The control group is given the audit report as it existed before the adoption of the tenure requirement. In all five scenarios, the auditor's report on the financial statements is unqualified. After reading the case, participants are asked to express their opinions on the perceptions of auditor independence (on a 7-point scale anchored on 1 = Low Confidence and 7 = High Confidence).

Each participant is given a link to a web-based case study hosted by Qualtrics.com. Prior to beginning the experimental case, participants are required to take a three-question screening quiz to ensure that only knowledgeable participants take the survey. The quiz evaluates participants' understanding of audit reports and the related financial statements. Besides the control condition, participants are randomly assigned to one of four treatment groups. Experimental condition 1: Tenure of 5 years or less included in Form AP; Experimental condition 2: Tenure of 15 years or more included in Form AP; Experimental condition 3: Tenure of 5 years or less in the audit report; Experimental condition 4: Tenure of 15 years or more included in the audit report. The control condition, which serves as a benchmark for comparisons, provides an opportunity to examine the current reporting format where auditors are not required to provide tenure information. We include a post-experiment questionnaire to assess participants' understanding of the tenure disclosure treatment. (See the Appendix for details of the cases). The instrument concludes with a questionnaire, demographic, and professional experience questions.

Following Garcia-Blandon and Argiles-Bosch, (2016), we use the ability of the auditor to issue a qualified audit report when it is warranted as a proxy for auditor independence. After subjects access the Qualtrics website, fill in the necessary consent form, and satisfy the screening questions, they are provided common information about a fictitious company and its industry along with selected audited financial statement data and an accompanying auditor's report. We then ask subjects to respond to experimental questions on the audited financial statements and auditor's report in terms of audit tenure. Participants later completed a manipulation check and demographic survey.

4. RESULTS

4.1 Manipulation Checks

Participants respond to two manipulation check questions. The first question asks participants to indicate with either yes or no about the manipulation question "whether the number of years an auditor served was indicated in the document they reviewed." Eighty-seven percent (79/90) of the participants in the treatment groups correctly answered manipulation question one, while eighty-two percent (74/90) correctly answered manipulation question two. The analyses indicate that majority of the participants correctly answered the manipulation.

4.2 Location of Auditor's Tenure and Independence

H1 predicts that investors who receive an auditor’s report with auditor tenure disclosed on the face of the report have a more positive perception regarding auditor independence than investors who receive the same report with auditor tenure disclosed in Form AP. Descriptive statistics for the position of tenure and length of tenure are provided in Table 2, Panel A.

The ANOVA results (Table 2, Panel B) show that the position of tenure whether on the face of the auditor’s report or on Form AP is not statistically significant (p= 0.520) as it relates to independence. The mean responses are 5.043 for Form AP, 5.258 for the auditor’s report, and 5.571 for the control group (Table 2, Panel A). These results do not support H1, which indicates that the tenure position either on the face of the auditor's report or in Form AP has no significant effect on investors' perception of independence.

4.3 Length of Auditor Tenure and Independence

H2 predicts that investors who receive an auditor’s report with an auditor’s tenure of 5 years or less have a more positive perception regarding auditor independence than investors who receive the same information with an auditor tenure of 15 years or more. The ANOVA results (Table 2, Panel B) show that length of tenure is significant as it relates to independence (p=.013). The mean responses for the length of tenure are 5.572 and 4.730 for more than 15 years (Table 2, Panel A). We conducted a Pairwise comparison for the length of tenure using the control group, the group with less than five years, and the group for more than 15years years. The results show no statistically significant difference between the control group and the less than 5years group (p=1.0). However, there is a statistically significant difference between the control group and the investors that received the report with more than 15 years of auditor's tenure (p=0.045). There is also a statistically significant difference between those who received the report for less than five years and those that received the report for more than 15 years (p=0.013)- See Table2, Panel C. These results support H2, which indicate that investors' perceptions of independence decrease as the length of tenure increases.

TABLE 2
Investors' Perceptions of Auditor Independence

Panel A: Descriptive Statistic (Mean, Standard Deviation, and n) for independence

Position of Tenure	Mean	Form AP	Auditor's Report	Control
	SD	5.043	5.258	5.571
	n	.226	.245	.324
		19	24	21
Length of Tenure	Mean	≤ 5years	≥15 years	
	SD	5.572	4.730	
	n	.212	.257	
		25	15	

[a] Perception of Auditor independence is a variable measured by a 7- point Likert scale anchored at "1" equals Low
Confidence and "7" equals High Confidence.

Panel B: ANOVA Model of Position of Tenure Disclosure and Length of Audit Tenure on Investor's Perceptions of Auditor's Independence

Source	df	SS	MS	F-value	p-value[1]
Position of Tenure IV_1	1	.922	.922	.417	.520
Length of Tenure IV_2	1	14.106	14.106	6.382	.013
IV_1 * IV_2	1	.733	.733	.331	.566
Error	99	218.806	2.210		

Panel C-Pairwise Comparison

Length of Tenure	p-value[1]
Control Group Vs. ≤ 5 years	1.00
Control Group Vs. ≥ 15 years	0.045
≤ 5 years Vs. ≥ 15 years	0.013

[1] One-tailed p-value where directional effect is predicted.

5. DISCUSSION AND CONCLUSION

Our study examines whether location or mode of disclosure (Form AP vs. face of auditor's report) and length of disclosure (5 years or less vs. 15 years or more) of auditor tenure impact investors' perceptions about the auditor's independence and objectivity. We conduct an experiment using investors as participants. Overall, the results indicate that the mode of disclosure of auditor tenure does not significantly impact investors' perceptions about auditor independence. We do not find any consistent evidence that disclosure of auditor tenure either in Form AP or in the auditor's report significantly impacts investors' perceptions of independence when we compare treatment groups to the control group.

However, the results indicate that the length of association between the audit firm and its clients affect investors' perceptions of auditor independence and objectivity. While the disclosure of tenure may not have the same potential liability as the disclosure of the engagement partner's name or other accounting firms, making the information accessible draws investors' attention to it. Consistent with the PCAOB's position, the disclosure of auditor tenure has the added advantage of helping investors decide whether to vote to ratify the appointment of the auditor or not.

Several studies investigate the effects of tenure on auditor independence and objectivity. However, those studies were undertaken prior to the PCAOB requiring tenure disclosure in the auditor's report. This lends credence to our study's contribution. To the best of our knowledge, we are not aware of any other study conducted post tenure disclosure requirement. While our choice of 15 years or more to denote longer tenure is arbitrary, it gives investor participants wider latitude to gauge the impact of tenure on the audit engagement.

Our finding contrasts with Rummell et al. (2019) study, which finds that long-tenured auditors are more reliable because of the greater expertise associated with longevity. Our study suggests that the expertise accumulated because of longer tenure is outweighed by impaired independence and objectivity because longer tenure makes the auditor complacent and reduces the auditor's skepticism (Carcello and Nagy 2004).

Our study contributes to the PCAOB's ongoing efforts to make the auditor's report more informative and relevant to investors and other financial statement users. Our result reinforces prior research findings that additional information disclosures are helpful to investors and analysts because such disclosures add some degree of credibility and transparency to the audit process (Manson & Zaman 2001; Davis 2007; Ofori-Mensah et al. 2018). Furthermore, just as explicit clarification of auditor independence in the auditor's report provides relevant information useful to public users of the report (Zhang and Ofori-Mensah 2019), disclosure of tenure is another data point about the auditor, in addition to firm name and the office issuing the report (PCAOB 2017).

The findings of this study are subject to the usual caveat associated with experimental research. First, the sample size of 105 participants may not be representative enough to be generalized over the investor population in the U. S. Second, the participants are professional investors; future research may use other stakeholders like audit committee members or non-professional investors. Finally, surveys involve presenting participants a set of questions to answer, so the data collected represent respondents' responses to the questions. Thus, replicating the study using other stakeholders, a different set of questions, and a different method of data analysis may produce a different outcome. Our finding should be of interest to investors, practitioners, and regulators, particularly the PCAOB, because it corroborates their position that tenure disclosure enhances the usefulness of the auditor's report by serving as another data point about the auditor.

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