

The Association between Audit Committee Multiple-Directorships, Tenure, and Financial Misstatements

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SUMMARY

This study examines the association between multiple-directorships and tenure of independent audit committee members and financial misstatements in the pre- and post-Sarbanes-Oxley (SOX) reform environment. Regulatory reforms following the accounting scandals at Enron and WorldCom substantially expanded the responsibilities and scrutiny of the audit committee and, consequently, amplify the reputational and litigation risks facing the directors serving on the committee. Our results show a significant positive association between financial misstatements and multiple-directorships in the post-SOX environment. This finding suggests that independent audit committee members serving on multiple boards may be stretched too thinly to effectively perform their monitoring responsibilities. We also find a significant positive association between the tenure of independent audit committee members and financial misstatements in the post-SOX environment, suggesting that directors with longer tenure may not exercise independent judgment. These observations support calls for limits on multiple-directorships and director tenure, and add to our understanding of how independent directors' characteristics affect the effectiveness of the audit committee.

Keywords: [audit committee](#), [multiple-directorships](#), [tenure](#), [restatement](#), [misstatement](#), [financial reporting quality](#).

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