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The association between audit committee and board of director effectiveness and changes in the nonaudit fee ratio

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Notes

¹ For example, in 1990, 71% of Big 5 auditors's revenues were from audit service fees, while 12% were from consulting services. However, by 1998, 48% of auditors's revenues were from auditing fees, while 32% were from consulting services. The SEC ([2000b](#)) also indicated that the percentage of Big 5 audit clients that paid MAS fees in excess of audit fees did not exceed 1.5% until 1997, but by 1999, 4.6% of Big 5 audit clients paid MAS fees in excess of audit fees, an increase of over 200% in 2 years.

² The SEC issued a final rule implementing Sarbanes–Oxley Section 407, which requires a public company to disclose that it has at least one ‘financial expert’s on its audit committee or, otherwise, to explain why it does not.

³ According to the Blue Ribbon Committee (BRC) ([1999](#)), financial expertise is

demonstrated by a person who has either:
• worked for a public company in a position that requires financial expertise, such as Chief Financial Officer, Controller, Treasurer, or Director of Finance;
• worked for a public company in a position that requires financial expertise, such as Chief Financial Officer, Controller, Treasurer, or Director of Finance;



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⁴ When I was a member of the subcommittee,



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⁵ I also examined measures of financial expertise indicators that they themselves

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⁶ Industry expertise is defined by Frankel et al. ([2002](#)) as

by Frankel et

⁷ The sample mean (median) nonaudit to audit fee ratio in fiscal year 2000 is 1.7152 (1.1981), which is similar to what the SEC found in its study of 563 proxy statements in 2001 (see 'SEC's Unger calls Andersen Fraud Case 'Smoking Gun's, by CFO.com staff, CFO.com, 25 June 2001).

⁸ When the continuous variables are not winsorized, the statistical implications and the conclusion remain the same. However, some of the explanatory variables are less significant and lowers the goodness of model fit (adjusted $R^2 = 0.0495$).

⁹ In fact, eliminating one or both of these variables improves the statistical significance of other variables.

¹⁰ The third highest correlation is between SIZE and INDGROW ($\rho = 0.25$). Neither the multicollinearity indicators (Variance Inflation Factors and Condition Index) nor the heteroscedasticity indicators (White and Breusch-Pagan test scores) indicate significant problems.

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