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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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## Abstract

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## Notes

- <sup>1</sup> 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.
- <sup>2</sup> 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.
- <sup>3</sup> According to the Blue Ribbon Committee (BRC) ([1999](#)), financial expertise is demonstrated by employment experience in accounting or finance, a CPA certification or comparable experience, including a position of CEO, or other senior executive with financial oversight responsibilities. Following Abbott et al . ([2004](#)), we define an expert as a Director who is a CPA, investment banker, or venture capitalizt, or who served as CFO, vice-president of finance, controller, treasurer or CEO.
- <sup>4</sup> When I member the same
- <sup>5</sup> I also e meas indic themself
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<sup>7</sup> 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).

<sup>8</sup> 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  $R^2 = 0.0495$ ).

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

<sup>10</sup> 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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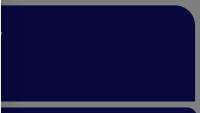
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