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Etienne Redor. Board Turnover, Director Characteristics and Audit Fees. *Economics Bulletin*, 2017. hal-01624979

HAL Id: hal-01624979

<https://audencia.hal.science/hal-01624979>

Submitted on 26 Oct 2017

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Volume 37, Issue 4

Board Turnover, Director Characteristics and Audit Fees

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Abstract

Two competing theories correlate board characteristics and audit fees. The Audit-Risk Perspective suggests that there is a negative relationship between the quality of corporate governance and audit fees while, contrarily, the Demand-Based Perspective posits a positive relationship between these two variables. In this paper, I reexamine the relationship between corporate board characteristics and audit fees by analyzing whether auditors adjust their fees in response to board turnover. If the departure of an effective director reduces the quality of corporate governance, a change in the audit fees should be observed. I show that when the variables are individually included in the regressions, audit fees significantly go down only when an independent director or a female director leaves. The departure of other board members has no impact on audit fees. When both of these variables (independence and gender) are included in the model, a significant decrease in audit fees is observed only when an independent director leaves. On the basis of my analysis, I conclude that the Demand-Based Perspective is correct and that director independence is the most significant variable for explaining the changes in audit fees following a change in corporate board membership.

Citation: Etienne Redor, (2017) "Board Turnover, Director Characteristics and Audit Fees", *Economics Bulletin*, Volume 37, Issue 4, pages 2446-2457

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Submitted: February 21, 2017. **Published:** October 26, 2017.

1. Introduction

Internal and external governance mechanisms are, in general, considered to be substitutes for one another (Zajac and Westphal, 1994; Rediker and Seth, 1995). According to the Substitution Hypothesis, since a less effective board is more likely to have a detrimental impact on a firm's internal controls, the due diligence performed in reviewing a firm's financial statements by the external auditors requires greater effort, caution, and redundancy, which necessarily results in higher audit fees (Tsui *et al.*, 2001). On the other hand, where a firm has strong governance mechanisms, the quality of the internal controls, and thus the reliability of the firm's financial statements, will be high. Thus, external auditors will be exposed to less risk and there will be less need for redundant processes to validate and verify the firm's financial statements. However, the Reputation Hypothesis (Fama and Jensen, 1983a) suggests that directors with good reputations are concerned about maintaining their reputations, and will insist on unnecessarily rigorous external audits thereby raising audit fees in order to maintain their reputations. Thus, in these situations, an effective board would incur higher audit fees.

The preliminary results of the corporate governance and audit fees relationship are not clear (Hay *et al.*, 2006). Some studies show that audit fees are significantly higher for firms that disclose material weakness in internal control, and significantly lower for firms that remediate material weakness (Jiang and Son, 2015). On the other hand, other studies show that strong corporate governance can lead to higher audit fees (O'Sullivan, 2000; Carcello *et al.*, 2002). In this paper, this relationship is reexamined. Rather than study the determinants of audit fees again (Simunic, 1980; Francis, 1984 and Firth, 1985), an innovative approach that examines whether valued director departures have an impact on audit fees is adopted in the hope of improving understanding of the corporate governance and audit fees relationship¹.

Different studies have demonstrated a connection between individual directors and share value (Yermack, 2006). This suggests that investors value some director characteristics (for instance independence or expertise) such that the departure of a valued director is deemed to be detrimental to the firm. Pursuant to the Substitution Hypothesis, audit fees should increase when a valued director leaves the board while, pursuant to the Reputation Hypothesis, a decrease in the audit fees should be observed when a valued director departs.

In light of the work done by Carcello *et al.* (2002) and Beasley (1996), the full board of directors and not only the audit committee of the board have been studied because it has been shown that, when board variables are included in the model, the audit committee variables have no explanatory power. Moreover, most of the previous literature has focused on the relationship between audit committee characteristics and audit fees (Abbott *et al.*, 2003; Yatim *et al.* 2006; Vafeas and Waagelein, 2007; Krishnan and Visvanathan, 2009) and has not examined the relationship between board characteristics and audit fees. One notable exception is Carcello *et al.* (2002), who show a positive relationship between the board independence, board diligence, and board expertise and audit fees.

The rest of this paper is organized as follows: Section 2 presents further background and develops the hypotheses. Section 3 describes the research model. The results of the study are reported in Section 4. The final section concludes the paper.

2. Background and Hypothesis

Two different perspectives have been used to address the relationship between audit fees and board characteristics: the Audit-Risk Perspective and the Demand-Based Perspective. According to the Audit-Risk Perspective, auditors factor the quality of corporate governance and the strength of internal control mechanisms into their determination of the nature and extent to which audit testing is necessary (Boo and Sharma, 2008). Thus, a stronger governance structure should reduce the external auditor's assessment of control risk², as well as the extent of audit procedures. As a result, the audit fees should be lower (Carcello *et al.*, 2002). In an experimental setting, Cohen and Hanno (2000) studied whether auditors incorporate management control philosophy and corporate governance into preplanning and planning judgments. They show that, where a firm has strong corporate governance, external auditors reduce their effort. Conversely, if external auditors think that the corporate governance mechanisms are flawed and fail to provide reliable financial reporting, they may increase effort in conducting an audit (Bedard and Johnstone, 2004). According to this view, the external auditor's effort serves as a substitute for an ineffective corporate board, the Substitution Hypothesis, and the relationship between corporate governance quality and a firm's audit fees is negative (Johl *et al.*, 2012).

According to the Demand-Based Perspective (Carcello *et al.*, 2002; Abbott *et al.*, 2003), firms with stronger governance structure may also have directors with reputational concerns, the Reputation Hypothesis, who will demand additional (and perhaps unnecessary) assurances from the auditors in order to preserve their reputation and to avoid potential litigation. This leads to higher audit fees. According to Carcello *et al.* (2002), a more independent, diligent and expert board may demand differentially higher audit quality (which requires more audit work).

2.1. Board Independence

According to Agency Theory (Fama and Jensen, 1983a, b), corporate boards with a higher proportion of outside directors (directors who not members of the firm's management team) are more effective at monitoring and controlling managers. Outside directors are more motivated and have more freedom than inside directors (directors who are members of the firm's management team) to take positions that are contrary to recommendations made by the management team. Nevertheless, not all outside directors are equally effective at monitoring management (Coles *et al.*, 2014). Non-co-opted directors (directors appointed before the CEO assumed office) are more likely to be "really independent" from the management than those appointed after the CEO assumed office, so-called "co-opted" directors.

According to the Audit-Risk Perspective, the departure of an independent director must be offset by the auditor in order to maintain the same audit quality. This should result in higher audit fees. The following hypotheses are therefore tested:

Hypothesis 1a: According to the Audit-Risk Perspective, a significant increase in the external audit fees following the departure of outside directors should be observed.

Hypothesis 2a: According to the Audit-Risk Perspective, a significant increase in the external audit fees following the departure of non-co-opted directors should be observed.

Nevertheless, according to the Reputation Hypothesis (Fama and Jensen, 1983a), independent directors may be concerned about damaging their reputations if they fail to protect shareholder interests. As a result, according to the Demand-Based Perspective and the Reputation Hypothesis if an independent director leaves the firm, the pressure on auditors will diminish, resulting in lower audit fees. The following hypotheses are therefore tested:

Hypothesis 1b: According to the Demand-Based Perspective, a significant decrease in the external audit fees following the departure of outside directors should be observed.

Hypothesis 2b: According to the Demand-Based Perspective, a significant decrease in the external audit fees following the departure of non-co-opted directors should be observed.

2.2. Board Expertise

According to the Reputation Hypothesis, if directors want to retain their seats or if they are seeking new directorships, they have to establish good reputations in the market for outside directorships by effectively performing their monitoring and advising duties. Therefore, the number of appointments held by a director should indicate whether a director is valued by the market. If there is great demand for a director, it is reasonable to believe that such director is more experienced, provides better advice, and/or offers better monitoring (Redor, 2016).

Vafeas (2003) argues that director tenure is also a determinant of director quality since directors with long tenure on corporate boards can be presumed to have greater experience and expertise in monitoring corporate management in general, and the financial reporting process in particular (Chan *et al.*, 2013). Therefore, the departure of a director with long tenure can be considered detrimental to corporate governance.

According to the Audit-Risk Perspective, the departure of an experienced director must be offset by the external auditor in order to maintain the same audit quality. This should result in higher audit fees.

Hypothesis 3a: According to the Audit-Risk Perspective, a significant increase in the external audit fees following the departure of a director who holds multiple directorships should be observed.

Hypothesis 4a: According to the Audit-Risk Perspective, a significant increase in the external audit fees following the departure of a director with a long tenure should be observed.

Nevertheless, expert directors have a stronger incentive to promote and protect their reputations. Therefore, if an expert director leaves the firm, the pressure put on auditors should decrease which will result in lower audit fees.

Hypothesis 3b: According to the Demand-Based Perspective, a significant decrease in the external audit fees following the departure of a director who holds multiple directorships should be observed.

Hypothesis 4b: According to the Demand-Based Perspective, a significant increase in the external audit fees following the departure of a director with a long tenure should be observed.

2.3. Board Diversity

A line of corporate governance research shows that board diversity (gender and ethnic) is associated with stronger board monitoring, higher profitability, and greater competitive advantage (Gul *et al.*, 2008). First, the Resource Dependence Theory (Pfeffer and Salancik 1978; Pfeffer 1981), suggests that diverse directors are in a distinct position to provide access to valuable resources and connections that might not be available to the firm otherwise. Diversity in the boardroom can also help secure access to critical resources such as capital, customers and suppliers (Stiles, 2001). Second, Agency Theory (Fama and Jensen, 1983a, b), suggests that conflicts of interest between shareholders and management can be mitigated by increasing the board's independence. This is supported by Carter *et al.* (2003), who suggests that directors with diverse backgrounds are more likely to protect shareholder interests by improving board independence.

According to the Audit-Risk Perspective, the departure of a diverse director must be offset by the external auditor in order to maintain the same audit quality. This should result in higher audit fees.

Hypothesis 5a: According to the Audit-Risk Perspective, a significant increase in the external audit fees following the departure of a female director should be observed.

Hypothesis 6a: According to the audit-risk perspective, a significant increase in the external audit fees following the departure of a non-Caucasian director should be observed.

Nevertheless, diverse directors are more likely to seek to protect their reputation capital, to avoid legal liability and promote shareholder interests (Gul *et al.*, 2008). Therefore, if a diverse director leaves the firm, the pressure put on auditors should decrease which will result in lower audit fees.

Hypothesis 5b: According to the Demand-Based Perspective, a significant decrease in the external audit fees following the departure of a female director should be observed.

Hypothesis 6b: According to the Demand-Based Perspective, a significant decrease in the external audit fees following the departure of a non-Caucasian director should be observed.

3. Research Design

The sample consists of all of the director departure announcements made by S&P 100 firms between 2004 and 2014. By collecting all the proxy statements of S&P 100 firms from the Securities and Exchange Commission website, it was possible to track the changes in board composition. The departure of short-term directors (directors who served less than one year on the board), CEO departures, and anticipated departures (for example, mandatory retirements) were excluded from the sample. The final sample is comprised of 241 director departure announcements.

In this paper, the impact of director departures on auditor fees is analyzed. A cross-sectional regression model is used to examine the director characteristics and changes in audit fees relationship. Therefore, the dependent variable is the absolute change in audit fees following a director departure. It can be seen from Table 1 that, on average, audit fees increased by almost 10% following a director departure. Of course, while this increase cannot be attributed solely

to this departure, important disparities in audit fee adjustments after board departures can be observed.

| Variables | Number of observations | Mean | Standard deviation | Minimum | Maximum |
|------------------------|------------------------|-----------|--------------------|------------|-----------|
| Change in audit fees | 241 | 0.0947893 | 0.3191414 | -0.6692759 | 2 |
| Outside directors | 241 | 0.7925311 | 0.4063381 | 0 | 1 |
| Non co-opted directors | 241 | 0.4605809 | 0.4994811 | 0 | 1 |
| Director tenure | 241 | 1.539419 | 1.335221 | 0 | 6 |
| Multiple directorships | 241 | 8.825726 | 7.39839 | 1 | 57 |
| Director gender | 241 | 0.1327801 | 0.3400431 | 0 | 1 |
| Director ethnicity | 241 | 0.1908714 | 0.3938058 | 0 | 1 |
| Segment | 241 | 4.282158 | 1.939516 | 1 | 9 |
| Foreign sales | 237 | 0.424508 | 0.233159 | 0 | 1 |
| Utilities | 241 | 0.0539419 | 0.2263732 | 0 | 1 |
| Loss | 241 | 0.0414938 | 0.1998443 | 0 | 1 |
| Recint | 241 | 0.1134582 | 0.0677795 | 0.0022726 | 0.3387666 |
| Invint | 239 | 0.0747108 | 0.0764444 | 0 | 0.435123 |
| Year | 241 | 2008.203 | 3.015956 | 2004 | 2014 |
| Ln assets | 241 | 17.60093 | 0.9345902 | 15.12324 | 20.49733 |

Table 1 : Descriptive statistics for the variables of interest.

Based on the literature review, 6 hypothesised variables were defined: independent directors and non-co-opted directors are proxies for Director Independence; multiple directorships and director tenure are proxies for Director Expertise, and director gender and director ethnicity are proxies for Director Diversity. Table 2 contains definitions of the variables used in the study.

Moreover, control variables for the effects of other variables that are supposed to affect the audit fees were included. First, audit complexity was controlled by adding the number of business segments (Segment) and the ratio of foreign sales to total sales (Foreign sales). In keeping with Carcello *et al.* (2002), a dummy variable that indicates whether the firm operates in the utility industry was included. The model also controls for losses since managers have a greater incentive to manage earnings in the presence of poor performance (Vafeas and Waagelein, 2007) and to take into account firm's difficulty to pay higher fees (Mitra *et al.*, 2007). In addition, inventories (Invint) and receivables (Recint) were also controlled since it has been argued that these items normally require a higher audit effort (Vafeas and Waagelein, 2007). Finally, the year of departure and for the natural logarithms of total assets (Ln assets) were also included to control for greater audit effort and increased business risk for audits of large firms (Bedard and Johnstone, 2004).

The correlation matrix is presented in Table 3 and shows a strong correlation between some of the variables. The individual variance inflation factors (VIF) and the mean VIF were calculated to check for potential multicollinearity issues in the regression analyses. Here, multicollinearity does not seem to be a problem in the multivariate analysis since in the regressions, the individual VIF are less than 10 (ranging from 1.03 to 1.61) while the maximum mean VIF at 1.24 is not considerably larger than 1.

| Variable | Definition |
|--------------------------------|---|
| Dependent variable: | |
| Change in audit fees | Absolute change in audit fees between the year prior a director departure and the year of a director departure. $\Delta \text{ audit fees} = (\text{audit fees}_t - \text{audit fees}_{t-1}) / \text{audit fees}_{t-1}$, where t represents the fiscal year of a director departure and $t-1$ the year before. |
| Hypothesised variables: | |
| Outside directors | Dummy variable that equals to '1' if the departing director is an outside director, and '0' otherwise. |
| Non co-opted directors | Dummy variable that equals to '1' if the departing director is a non co-opted director, and '0' otherwise. |
| Board tenure | Number of years since board members have been appointed. |
| Multiple directorships | Number of outside directorships held in other firms by the departing director. |
| Board gender diversity | Dummy variable that equals to '1' if the departing director is a woman, and '0' otherwise. |
| Board ethnic diversity | Dummy variable that equals to '1' if the departing director is a non caucasian director, and '0' otherwise. |
| Control variables: | |
| Segment | Number of business segments. |
| Foreign sales | Proportion of foreign sales to total sales. |
| Utilities | Dummy variable that equals to '1' if the firm is a utility firm, and '0' otherwise. |
| Loss | Dummy variable that equals to '1' if the firm suffered a loss from continuing operations during any of the three preceding years. |
| Recint | Accounts receivable divided by total assets. |
| Invint | Inventory divided by total assets. |
| Year | Year of departure. |
| Ln assets | Natural logarithms of total assets. |

Table 2 : This table defines the variables used in this study. The source of data is, on the one hand, the Securities and Exchange Commission website for the dependent and independent variables, on the other hand, Thomson ONE Banker for control variables (except for Segment, Utilities and Year that were retrieved from the Securities and Exchange Commission website).

| | Δ audit fees | Outside dir. | Non co- opted dir. | Tenure | Multiple dir. | Gender | Ethnic | Segment | Foreign sales | Utilities | Loss | Recint | Invint | Year |
|--------------------------|---------------------------|-----------------|--------------------------|--------|------------------|--------|--------|---------|------------------|-----------|-------|--------|--------|------|
| Outside dir. | -0.21 | | | | | | | | | | | | | |
| Non co- opted dir. | -0.16 | 0.04 | | | | | | | | | | | | |
| Tenure | 0.02 | 0.10 | 0.36 | | | | | | | | | | | |
| Multiple dir. | 0.06 | 0.24 | -0.01 | -0.10 | | | | | | | | | | |
| Gender | -0.11 | 0.09 | 0.13 | 0.06 | -0.03 | | | | | | | | | |
| Ethnic | -0.07 | 0.12 | -0.07 | -0.16 | 0.19 | -0.03 | | | | | | | | |
| Segment | 0.06 | -0.09 | 0.01 | 0.04 | 0.02 | 0.11 | 0.03 | | | | | | | |
| Foreign sales | 0.01 | -0.15 | -0.00 | 0.10 | -0.07 | 0.09 | 0.06 | 0.31 | | | | | | |
| Utilities | -0.10 | 0.08 | 0.00 | -0.03 | 0.12 | -0.04 | 0.03 | -0.04 | -0.44 | | | | | |
| Loss | -0.06 | 0.11 | 0.10 | -0.06 | -0.02 | -0.08 | -0.05 | 0.01 | -0.13 | -0.05 | | | | |
| Recint | -0.01 | -0.08 | 0.14 | 0.11 | 0.01 | -0.00 | 0.05 | 0.10 | 0.35 | -0.24 | -0.01 | | | |
| Invint | 0.03 | -0.01 | -0.03 | -0.01 | -0.03 | 0.01 | -0.15 | -0.05 | 0.09 | -0.17 | -0.10 | 0.10 | | |
| Year | -0.26 | 0.20 | 0.03 | 0.06 | -0.16 | 0.01 | 0.10 | -0.01 | -0.04 | 0.11 | 0.04 | -0.15 | -0.11 | |
| Ln assets | -0.04 | -0.15 | -0.07 | 0.02 | -0.08 | -0.08 | 0.01 | 0.21 | -0.06 | -0.01 | 0.06 | -0.15 | -0.28 | 0.19 |

Table 3: Correlation matrix for the variables of interest.

4. Results

The first regression of Table 4 shows a negative relationship between Director Independence and the change in the audit fees for our two proxies (namely, outside directors and non-co-opted directors). This indicates that the decrease in the audit fees (or the increase in the audit fees) will be stronger (weaker) if an outside director or a non-co-opted director leaves the board.

| | (1) | (2) | (3) | (4) | (5) |
|-------------------------|--------------------------|-------------------------|--------------------------|--------------------------|--------------------------|
| Constant | 44.2316*** (0.002) | | 51.82424*** (0.000) | 41.30299*** (0.005) | 44.07206*** (0.002) |
| Outside directors | -0.1350545*** (0.010) | | | -0.1336402** (0.015) | -0.1279393** (0.014) |
| Non co-opted directors | -0.0917283** (0.026) | | | -0.106112** (0.018) | -0.0829346** (0.046) |
| Director tenure | | 0.0019512 (0.499) | | 0.0040188 (0.190) | |
| Multiple directors hips | | 0.0055863 (0.728) | | 0.0182539 (0.268) | |
| Director gender | | | -0.1242285** (0.041) | -0.09085 (0.133) | -0.0921089 (0.127) |
| Director ethnicity | | | -0.0387544 (0.469) | -0.0316858 (0.561) | |
| Segment | 0.0144926 (0.199) | 0.013685 (0.237) | 0.0168527 (0.145) | 0.0160968 (0.156) | 0.0165766 (0.144) |
| Foreign sales | -0.0012216 (0.260) | -0.000847 (0.444) | -0.0007344 (0.502) | -0.0011918 (0.273) | -0.0011579 (0.284) |
| Utilities | -0.1636876 (0.109) | -0.1667474 (0.113) | -0.1708638* (0.100) | -0.1810982* (0.077) | -0.1708017* (0.094) |
| Loss | -0.0547325 (0.595) | -0.0970285 (0.355) | -0.1230081 (0.238) | -0.0573413 (0.581) | -0.0708797 (0.492) |
| Recint | -0.2423059 (0.461) | -0.3476453 (0.300) | -0.3443753 (0.299) | -0.2869013 (0.384) | -0.2749188 (0.403) |
| Invint | -0.1163504 (0.676) | -0.0646962 (0.821) | -0.1180831 (0.680) | -0.1350593 (0.631) | -0.1234517 (0.657) |
| Year | -0.0216526*** (0.002) | -0.026589*** (0.000) | -0.0255939*** (0.000) | -0.0201788*** (0.006) | -0.0215469*** (0.002) |
| Ln assets | -0.0264092 (0.273) | -0.0094814 (0.695) | -0.016054 (0.505) | -0.0304209 (0.207) | -0.0295913 (0.220) |
| Adj. R ² | 0.0934 | 0.0473 | 0.0643 | 0.0998 | 0.0988 |
| Observations | 235 | 235 | 235 | 235 | 235 |
| Mean VIF | 1.22 | 1.20 | 1.20 | 1.24 | 1.21 |
| Max VIF | 1.59 | 1.58 | 1.57 | 1.61 | 1.59 |
| Min VIF | 1.04 | 1.03 | 1.04 | 1.07 | 1.06 |

Table 4: Regression results for change in audit fees on board independence, board expertise and board diversity.

These results are consistent with the Demand-Based Perspective and validate hypotheses 1b and 2b. They also support Carcello *et al.* (2002), Abbott *et al.* (2003), Goodwin-Stewart *et al.* (2006) and Yatim *et al.* (2006), who show that external audit fees are positively and significantly associated to the proportion of independent directors.

The second regression of Table 4 indicates that the departure of Expert Directors has no impact on audit fees. Neither the length of the director's tenure nor the number of outside directorships held by the departing director is significantly correlated with a change in audit fees. Our hypotheses 3a/3b and 4a/4b have to be rejected. This result is not consistent with Carcello *et al.* (2002) who shows a positive relation between audit fees and the average number of other director positions held by independent directors. One explanation for this lack of significance may be the fact that director tenure and multiple directorships are proxies for Director Expertise in the broad sense only. Thus, future research could include the use of more specific definitions of Director Expertise such as accounting and finance expertise³.

The third regression of Table 4 tends to show that the departure of a female director has a negative impact on the change in audit fees which would be consistent with hypothesis 5b. However, when board independence variables are included in the model (regressions 4 and 5), this correlation disappears. Under no model is ethnic diversity significant. These results prompt us to reject our hypotheses 5a/6a and 5b/6b and do not go in the direction of previous work. Indeed, while Abdulmalik and Che Ahmad (2016) show that boardroom ethnic diversity has a positive relationship with audit fees, Gul *et al.* (2008) document significantly higher audit fees in firms with at least one female director and in firms with a higher proportion of female directors on the board. Moreover, Gul *et al.* (2011) conclude that boards with female directors are more likely to demand higher audit quality since they show that audit fees are 5% higher for gender diverse boards.

5. Conclusion

The previous literature on auditor remuneration gives raise to two competing theories regarding the relationship between board characteristics and audit fees. According to the Audit-Risk Perspective, a negative relationship between corporate governance quality and audit fees should be observed whereas according to the Demand-Based Perspective, we should observe a positive relationship between these two variables.

Contrary to previous work, we don't analyze whether board characteristics are determinants of audit fees, but instead, we examine the impact of a director departures on the audit fees. Since the departure of a valuable directors reduces the quality of firm governance, changes in the audit fees after a valuable director departure are expected. In this paper, I analyze whether some characteristics of a departing director (such as Director Independence, Director Expertise or Director Diversity) have an impact on the audit fees paid by the audit client to the audit firm after the departure.

When the variables are individually included in the model, I show that the departure of an independent director or of a female director results in a significant decrease in the audit fees. These results are consistent with the Demand-Based Perspective but not with the Audit-Risk Perspective. On the contrary, Director Expertise measured by board tenure or the number of independent directorships held by the departing director has no impact on the changes in audit fees.

Interestingly, when Director Independence and Director Gender are simultaneously included in the model, only Director Independence has a significant impact on the audit fees. This suggests that Director Independence is the most significant variable for explaining changes in audit fees when a director departs. This result is consistent with the idea that firms with stronger governance structure have directors who demand additional assurance from the auditors in order to preserve their reputations and avoid potential litigation and such firms also have higher audit fees. Therefore, when an independent director leaves a firm, the pressure put on auditors decreases which results in lower audit fees.

Notes

¹ This work departs from Feldmann *et al.* (2009) or Kester *et al.* (2013) which analyze whether CFO or directors' turnovers moderate the relationship between restatement and audit fees. This paper examines whether certain departing directors' characteristics have an impact on audit fees.

² The control risk has been defined under International Standards of Auditing (ISAs) as "the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control".

³ For instance, DeFond *et al.* (2005) found that the market reacts positively to the appointment of accounting financial experts, but not to the appointment of non-accounting financial experts, nor directors who have no financial expertise.

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