

AUDIT COMMITTEE EFFECTIVENESS: RELATIONSHIP BETWEEN AUDIT COMMITTEE CHARACTERISTICS AND AUDIT FEES AND NON-AUDIT SERVICE FEES

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Abstract *Audit committee responsibilities have increased significantly in recent years due to uncertainties arising from a changing statutory, regulatory, legal and risk environment for companies. Over the past two decades their role has evolved into an independent oversight responsibility for the audit processes and the financial reporting process. The results highlight that the audit committee size and the presence of independent directors on the audit committee board have a higher demand for oversight and thus a higher requirement for audit effort resulting in higher audit fees. The results indicate that higher audit fees entail increased audit testing and higher audit quality. Audit committee expertise is related to lower audit fees indicating that high-quality audit committees are in a position to effectively oversee the financial reporting process themselves and require less audit efforts from the external auditor.*

Keywords: *Audit Committee, Audit Fees, Non-Audit Service Fees, Corporate Governance*

INTRODUCTION

Governance helps in preserving, nurturing and enhancing stakeholder value and meeting the increasing expectations of all stakeholders. Corporate governance is a globally debated interdisciplinary concept with many characteristics (Nobel, 1998). A system of good corporate governance encourages relationships of accountability between the major players of sound financial reporting i.e. the governing board, the management and the auditor. It holds the management body answerable to the board and the board accountable to the various stakeholders. It is widely established that the financial reporting scandals and related business failures of the past several years have greatly weaken investors' trust in companies. The battle to recuperate and preserve the integrity of financial reporting necessitated on superior corporate governance, which in turn requires balancing pressures from various stakeholders i.e. regulators, management, investors, and the general public. Improved corporate governance acts as a catalyst for efficient financial reporting. Particularly, corporate governance practices of big companies and roles of various committees are being closely reviewed.

THE ROLE OF AN AUDIT COMMITTEE

Audit committees serve as an essential monitoring device in the framework of corporate governance. The audit committee's role flows directly from the board's oversight function. They are a central institution in the perspective of

corporate governance because they assist boards of directors to accomplish their financial and fiduciary responsibilities to the shareholders. An environment of free and unrestricted access involving proper organizational structure and reporting responsibility enables boards of directors to achieve their goals and policies (Abbot *et al.*, 2004). Regulations require audit committees to make certain that audit is conducted in transparent manner with due concern for risks and scope involved. Audit committees must meet on a regular basis with the external auditor to appraise financial reports, audit processes, and internal control mechanisms. A free flow of information between company's internal and external agents mitigates agency costs by monitoring audit process, and consequently reduces information asymmetries. In this regard, the role of audit committees is to create an atmosphere where external auditors corroborate the information provided by the management. Committees have to ensure that auditors are carrying out their auditing function independently and without prejudice. The audit committee in this context prohibits management from indulging in any type of deceitful activities in relation to financial management of the company, so that there is no misstatement in reporting earnings by the management. Audit committees as a supervisory body on behalf of all stakeholders are authorized to ensure trustworthiness of financial information by creating environment liberated from management influence where external auditors can actually certify the accounts and financial statements of the company. To perform its role an audit committee must have competence and be empowered with the authority

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to perform. Audit committee can be a catalyst to put into practice, observe, and maintain good corporate governance practices for the benefit of all concerned stakeholders and management.

REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

There is a rapidly increasing literature on audit committee characteristics that have generally argued that an independent, more expert, more diligent, more active and, with greater number of members tend to carry out its responsibilities more effectively (Mohiuddin and Karbhari, 2010). Vicknair *et al.* (1993) reported that deficient audit committee practices are a major factor behind financial problems of companies. Prior studies have used the word 'effectiveness' to denote 'carrying out or fulfilling its specific oversight responsibilities' (e.g., Kalbers and Fogarty, 1993; Vanasco, 1994; Porter and Gendall, 1998). Several other studies have used 'discharging their oversight responsibilities' to indicate audit committee effectiveness (e.g., Lee and Stone, 1997; Rezaee, 1997; Zain and Subramaniam, 2007).

With high-profile corporate failures in the beginning of this decade, academicians and industry strived to have effective audit committees to ensure sound monitoring. Audit committee's effectiveness is very important for sound corporate governance practices in an organization. Vicknair *et al.* (1993) discerned that the deficiency of effective audit committee practices is an important factor behind rising financial problems of companies. An effective audit committee has a sufficient number of qualified members with both power and resources to safeguard shareholders' safety by supplying reliable financial coverage, and maintaining proper internal control, and effective risk management system (DeZoort *et al.*, 2003). Zain and Subramaniam (2007) emphasized on good relationship between external auditors and audit committees through private meetings and informal communication for effective functioning. The desired effects of audit committee encompass providing quality financial reporting and reinforcing investor confidence in the authenticity of financial reporting and financial markets (Blue Ribbon Committee, 1999).

Results from previous studies have demonstrated that audit quality has a positive relation with independent audit committees. Researchers have used the amount of audit fees as an indicator of quality (Carcello *et al.*, 2002b; Abbott *et al.*, 2003a; Bedard and Johnstone, 2004). Since outsiders cannot observe the level of work done by auditors, researchers commonly assume that the amount of comprehensive audits bills charged to the client as an indicator of amount of work done. Sharma (2004) established a positive association between audit fees and audit committee independence and expertise when meeting regularity is found to be high.

Audit committee size is one of the most important variables recognised by previous researches (Collier and Gregory, 1996; Beasley and Salterio, 2001). The total strength of audit committee is used as an indicator of resources available to the audit committee. The characteristic of an effective audit committee and its role in strengthening financial reporting was examined by Al-Sa'eed and Al-Mahamid (2011).

Early studies on audit committees have put emphasis on presence of association between audit committees and external auditing function proxied by audit fees (Collier and Gregory, 1996; Goddard and Masters, 2000). Studies have emphasized on relationship between various audit committee characteristics, i.e., independence and expertise of committee members, the frequency of meetings, and the audit fees (Carcello *et al.*, 2002a; Sharma *et al.*, 2009). Collier and Gregory (1996), Abbott *et al.* (2003b) as well as Abbott *et al.* (2003a) found a positive relationship of audit fees with both audit committee independence and financial expertise. Young and Mande (2005) also documented a similar positive relationship between the audit committee characteristics and the audit fee. Researchers have used the amount of audit fees and non-audit service fees as an indicator of quality (Carcello *et al.*, 2002b; Abbott *et al.*, 2003a; Bedard and Johnstone, 2004). Again a positive association was found by Stewart and Kent (2006) between the level of audit fees and the existence of an audit committee. A number of studies have used the number of audit committee meetings attended by independent directors as a proxy for diligence (Menon and Williams, 1994; Spira, 2002; Anderson *et al.*, 2004). The results of prior research provide support for a positive association between audit committee expertise and dimensions of effectiveness.

RESEARCH METHODOLOGY

Objectives and Research Focus

The present study attempts to evaluate the extent to which audit committees are effective in terms of providing quality financial reporting for companies included in the S&P BSE 500 Index from April 1, 2006 to March 31, 2012. In specific, the objectives of the study are:

1. To analyse the audit committee characteristics over the study period.
2. To study the relationship between audit committee characteristics and audit committee effectiveness proxied by external auditing function.

Sample Selection and Data Sources

The present study on ACs has been confined to all the companies that are included in the S&P BSE-500 Index. The

sample has been classified on the basis of two digit National Industrial Classification (NIC) codes (2008). For the analysis, a subset of the S&P BSE-500 Index companies has been included. Firstly, all the public sector companies were kept out because of their poor financial performance that may distort the results of the study. Secondly, all banking and financial sector companies were excluded since they are governed by different regulations (e.g., Banking Regulation Act, 1949). Thirdly, companies not constituting a part of S&P BSE-500 Index through the financial year April 1, 2006 to March 31, 2012 have been kept out. Fourthly, those companies which were incorporated after April 1, 2006 have been excluded. Lastly, there are certain companies for which the annual data is not available have also been excluded. These sample selection criteria resulted in a final sample size of 235 companies which accounts for 47 percent of the S&P BSE-500 Index. In all there were 1,410 company year observations.

The study is fundamentally empirically-based constituting primarily of secondary data. The audit committee characteristics variables were obtained by scanning corporate governance reports. The data regarding audit fees and non-audit service fees and control variables were sourced from the corporate database (PROWESS) maintained by the Center for Monitoring the Indian Economy (CMIE).

EXTERNAL AUDITING FUNCTION (*EXAUD*)

One of the main responsibilities of the audit committee is to oversee the external audit function, including the selection, compensation, and independence of the external auditor. Effective oversight is expected to strengthen the audit quality. The amount of audit and non-audit service fees has been used as a proxy for external auditing function.

(a) Audit Fees (*AF*)

The amount charged by an audit firm for performing external auditing function is known as audit fees (Carcello *et al.*, 2002a; Abbott *et al.*, 2003a; Bedard and Johnstone, 2004). The amount of audit fee charged by an audit firm is dependent upon the auditee firm's risk, business complexities and firm size (Collier and Gregory, 1996). The amount of audit fees has been measured by the natural logarithm of audit fees for the current research effort.

(b) Non-Audit Service Fees (*NASF*)

Non-audit services fees (*NASF*) is also known as management consultancy services fees. The range of non-audit services offered by the external firm includes, corporate recovery and insolvency, risk management advice, system and IT, taxation, legal services, portfolio monitoring, forensic and litigation support, transaction support, and initial public offerings etc. (Beattie & Fearnley, 2002). Non audit service

fee has been determined by the natural logarithm of non-audit service fees.

AUDIT COMMITTEE CHARACTERISTICS VARIABLES

Audit Committee Size (*ACSIZE*)

The independent variable, *ACSIZE* has been measured as the total number of directors on the audit committee during the previous year.

Audit Committee Meetings (*ACMEET*)

With respect to the frequency of audit committee meetings, represents the number of times the audit committee meetings have been held during the previous year.

Audit Committee Independence (*ACIND*)

Audit committee independence (*ACIND*) has been measured as the proportion of independent non-executive directors on the audit committee board to the total number of committee members.

Audit Committee Expertise (*ACEXP*)

Audit committee expertise is operationalised as the continuous variable representing percentage of members with accounting or financial management experience to the total members on the audit committee board.

Audit Committee Diligence (*ACDIL*)

Audit committee diligence variable has been defined as the number of audit committee meetings attended by independent members to total number of meetings held.

Control Variables

Auditor (*Big Four*)

A dummy variable which takes value of one if the companies under the study are audited by one of the 'big four' audit firms (i.e., PriceWaterhouseCoopers, KPMG, Deloitte, and Ernst & Young) or zero otherwise.

Market-to-book asset ratio (*MKT*)

It is the sum of market value of equity, book value of total debt, and book value of preferred stock divided by the book value of assets.

Size (*SIZE*)

The natural logarithm of sales is considered to control for the size effect.

Leverage (*LEV*)

Debt equity ratio is a measure of company's financial leverage

calculated by dividing its total liabilities by stockholder's equity (Dechow and Sloan, 1995; Klein, 2002).

Age of the Company (AGE)

Age is measured as for the number of years for which the company has been in existence since its incorporation.

Risk (RISK)

Beta is calculated as the ratio of covariance between market returns and the firms' return to the market return variance for the financial year 2006-2012.

Industrial Control (INDCON)

Industrial control is taken as a dummy variable which takes the value of one if the company is a manufacturing company or zero otherwise.

In order to achieve the objectives of the study, the data have been analysed using Statistical Package for Social Sciences version 15 (SPSS 15) and STATA S.E. 12. Section 4.4.1 describes the empirical tests used to analyse the changes in audit committee characteristics over the study period.

FRAMEWORK FOR ANALYSIS

Univariate Analysis

The study used descriptive statistics (e.g., mean, median, and standard deviation) to examine the basic features of the sample.

Multivariate Analysis

The data in the present study spans for six years from FY 2007 to FY 2012 and covers 235 S&P BSE-500 listed

companies with 1,410 company year observations. The data is a balanced panel, i.e., for each unit (company), six time series data have been observed which are observed over a period of time (FY 2007-2012). To decide between pooled OLS regression compared to fixed effect panel regression, the redundant fixed effect test-likelihood ratio (TOBIT estimation) was employed under the null hypothesis that the fixed effects are redundant, i.e., the fixed effects are all equal to each other. The statistic values and the associated *p* values of sigma_u strongly rejected the null hypothesis that the effects are redundant indicating the presence of strong cross-section and period effects. Therefore, the pooled OLS model was found to be unsuitable for the present analysis and panel data was used for the analysis.

The random effects model is used to test the proposed relationship between audit committee characteristics and their effectiveness. There are two basic frameworks used to account for relationships within or between each cross section. Mundlak (1978) viewed that the generalised least squares (random effect) approach assumed exogeneity of all the regressors and the random individual or cross-section specific error component. In contrast, the least squares dummy variable (fixed effect) allows for endogeneity of all the regressors and the individual effects. The random effects approach to panel data regression models as proposed by Gujarati (2004) and used in the present study, takes the form of the following equation:

$$Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 X_{it} + \dots + \beta_n X_{it} + e_{it}$$

$$i = 1, 2, 3, \dots, 235$$

$$t = 1, 2, 3, \dots, 6$$

The following modified model as proposed by Dezoort *et al.* (2002) has been invoked to examine the impact of audit committee characteristics on the dimensions of effectiveness:

Table 1: Regression Models for Relationship between Audit Committee Characteristics and Dimensions of Effectiveness

Model	Equation	
Model 1	$AF_{it} =$	$\beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACMEET_{it} + \beta_3 ACIND_{it} + \beta_4 ACEXP_{it} + \beta_5 ACDIL_{it} + \beta_6 BIGFOUR + \beta_7 MKT + \beta_8 SIZE + \beta_9 LEV_{it} + \beta_{10} AGE_{it} + \beta_{11} INDCON_{it} + \beta_{12} RISK_{it} + \epsilon_{it}$
Model 2	$NASF_{it} =$	$\beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACMEET_{it} + \beta_3 ACIND_{it} + \beta_4 ACEXP_{it} + \beta_5 ACDIL_{it} + \beta_6 BIGFOUR + \beta_7 MKT + \beta_8 SIZE + \beta_9 LEV_{it} + \beta_{10} AGE_{it} + \beta_{11} INDCON_{it} + \beta_{12} RISK_{it} + \epsilon_{it}$

Where
 ACE = Audit committee effectiveness is denoted by external auditing function, measured by the natural logarithm of the amount of audit fees (AF) and non-audit service fees for company *i* for year *t*
 ACSIZE = Total number of directors on the board of AC
 ACMEET = Number of audit committee meetings conducted during the previous year

ACIND = Proportion of independent non-executive directors to total number of directors on board
 ACEXP = Proportion of audit committee members with accounting or financial management experience to the total members on the audit committee board
 ACDILL = Number of meeting attended by independent committee members to total number meetings

BIGFOUR	=	Equals one if company audited by big four auditor and zero otherwise
SIZE	=	Natural logarithm of the current by book Year's total sales of the firm
MKT	=	Market value of the firm divided by book value of total assets of the firm
LEV	=	Ratio of long term debts to shareholder equity
AGE	=	Number of years for which the company has been in existence since incorporation
BETA	=	Measured by beta
INDCON	=	Dummy variable which equals one for manufacturing company and zero for services
€	=	Error term

effectiveness, viz., audit fees (*AF*), non-audit service fees (*NASF*) as a proxy for external auditing function. The mean *AF* for companies in the sample is `0.49 million ranging from a minimum of `0.10 million to a maximum of `92.30 million. The average (mean) *NASF* paid by the Indian companies is `1.56 million with a maximum of `29,340 million. In relation to audit committee characteristics observed across the sample companies, Panel B of Table 2 shows that the average size of an audit committee (*ACSIZE*) in the sample is around 1 with a minimum of 3 members and a maximum of 9 members. The average number of audit committee meetings (*ACMEET*) held during the study period is about 1 with a minimum of 2 meetings and a maximum of 14 meetings. Regarding the composition of audit committees, the average ratio of independent directors (*ACIND*) on the audit committee board is 86 percent. Further, the average financial expertise (*ACEXP*) as a percentage of audit committee members with financial expertise to total number of directors was 35 percent. On an average, independent directors (*ACDIL*) attended about 87 percent of total audit committee meetings conducted during the previous year. Panel C of Table 2 indicates that, the average company in the sample is nearly fifty years old (*AGE*), with a minimum age of 6 years to a maximum of 100 years, indicating that the sample companies are well established.

REGRESSION DIAGNOSTICS

To check for the unbiasedness and efficiency of regression estimates, four aspects of the data, viz., normality, multicollinearity, verification of absence of heteroscedasticity, and autocorrelation were checked.

RESULTS AND DISCUSSION

Descriptive Statistics

Panel A of Table 2 reports the descriptive statistics relating to dependent variables as well as dimensions of audit committee

Table 2: Descriptive Statistics for Key Variables Under Study

Panel A : Dependent Variables							
Continuous Variables	Symbols	N	Mean	Med	Std Dev	Min	Max
Audit Fees (Rs. millions)	AF	235	0.49	0.49	0.45	0.10	92.30
Non-Audit Service Fees (Rs. millions)	NASF	235	1.56	1.73	0.99	0.00	29,340
Panel B: Audit Committee Characteristics Variable							
Audit Committee Size	ACSIZE	235	0.57	4	0.09	3	9
Audit Committee Meeting	ACMEET	235	0.67	4	0.10	2	14
Audit Committee Independence (%)	ACIND	235	0.86	0.83	0.14	0.50	1
Audit Committee Expertise (%)	ACEXP	235	0.35	0.25	0.22	0.13	1
Audit Committee Diligence (%)	ACDIL	235	0.87	0.88	0.11	0.39	1
Panel C: Control Variables							
Market Cap/Total Assets (%)	MKT	235	1.61	1.09	1.82	0.03	36
Sales (Rs. millions)	SIZE	235	4.20	4.20	0.61	100	340
Leverage (%)	LEV	235	0.80	0.54	0.91	00	5.36
Age (years)	AGE	235	54	1.46	0.28	6	100
Risk	RISK	235	1.01	0.99	0.33	0.09	2.07
Panel D: Dichotomous Variable							
		Frequency of 1's			Frequency of 0's		
Big four Auditors	BIGFOUR	516	63.4	894	36.6		
Industrial Control	INDCON	923	65.5	487	34.5		

Note: Table presents sample distribution for FY 2007 to FY 2012

The descriptive statistics show that the size of Indian companies measured by the amount of sales (*SIZE*) does not exceed the value of ₹340 million with a minimum of ₹100 million and ₹4.204 million on an average. Risk (*RISK*) as measured by beta is close to 1. Market capitalization to total assets (*MKT*) is used as a proxy to measure firm's growth/investment opportunities. The mean market-to-book ratio (*MKT*) is 1.61 percent with a minimum of 0.03 percent. Finally, the sample companies often use debt for financing activities and the debt ratio sometimes exceeds unity for some heavily indebted companies which are facing financial difficulties is supported by the statistics. The mean debt equity ratio (*LEV*) which is a measure of financial leverage is 0.80 times with a maximum of five times during the study period. With regard to dichotomous variables (Panel D), it can be observed that 63 percent of the sample companies were audited by big four auditors (*BIGFOUR*) and 37 percent by non-big four auditors. With regard to industrial control (*INDCON*), it is revealed that about 65 percent of the sample companies belong to manufacturing sector and 35 percent to the service sector. Overall, the value of standard

deviation suggests that significant changes have occurred in audit committee structure over the study period. These changes can either be due to government regulations or are driven by the recent financial scandals.

(a) Audit Committee Characteristics and Audit Fees (AF)

Table 3 depicts regression analysis on the panel data set of 1,410 observations to capture the effect of various audit committee characteristics on external auditing function (Model 1) performed by audit committees after controlling for selected control variables. The amount of audit fees (*AF*) has been used as a proxy for external auditing which is expected to strengthen audit committee effectiveness. The intercept is found to be significant at 1 percent level. The results show a significant positive coefficient of *ACSIZE* ($\beta = 0.158$; $p < 0.05$) on *AF*, indicating that larger audit committee size is associated with higher audit fees. The variable *ACMEET* ($\beta = 0.102$; $p < 0.10$) also reported a significant positive coefficient.

Table 3 : Multivariate Regression Analysis for Audit Committee Characteristics and Audit Fees (FY 2007–FY 2012)

Model 1: AF =	$B_0 + \beta_1 ACSIZE_{it} + \beta_2 ACMEET_{it} + \beta_3 ACIND_{it} + \beta_4 ACEXP_{it} + \beta_5 ACDIL_{it} + \beta_6 BIGFOUR_{it} + \beta_7 MKT_{it} + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} AGE_{it} + \beta_{11} INDCON_{it} + \beta_{12} RISK_{it} + \phi_{it}$	
Explanatory Variable	Estimated Coefficient	P-value
Intercept	-2.366***	0.000
ACSIZE	0.158**	0.028
ACMEET	0.102*	0.081
ACIND	0.038	0.471
ACEXP	-0.085**	0.026
ACDIL	0.003	0.925
BIGFOUR	0.164***	0.000
MKT	-0.007**	0.029
SIZE	0.471 ***	0.000
LEV	-0.022**	0.012
AGE	0.390***	0.000
RISK	0.132***	0.000
INDCON	-0.054	0.194
No. of Observations	1,410	
Groups	235	
Wald chi square (F)	941.290	
Prob>chi square	0.000	
Overall R ²	0.396	

Notes: ***, **, * indicates significance at the 0.01, 0.05 and 0.10 level respectively

Dependent variable is audit fees

P values have been shown in the parentheses

The results have been obtained using STATA 12

These results are consistent with the idea that audit committees with higher number of audit committee members and more frequent audit committee meetings insist a higher

level of audit assurance from auditors, thereby resulting in higher audit fees (Zaman *et al.*, 2011). Further, the coefficients of *ACIND* and *ACDIL* are positive, consistent

with the predictions. The results are however not significant. Further, significant negative coefficients on *ACEXP* ($\beta = -0.085$; $p < 0.05$) for *AF* are consistent with the view that audit pricing reflects the effectiveness of audit committees, i.e., expert audit committees are in a position to effectively oversee the financial reporting process themselves (Krishnan and Visvanathan, 2008). In addition, it has been found that *AF* is positively and significantly related to *SIZE* ($\beta = 0.471$, $p < 0.01$) suggesting that bigger firms demand greater auditing effort resulting in higher audit fees (Felo *et al.*, 2003). The coefficient on *LEV* ($\beta = -0.022$, $p < 0.05$) and *MKT* ($\beta = -0.007$, $p < 0.05$) is negative and significant. A negative relationship between financial leverage and audit fees suggests that firms with high financial leverage have a lower demand for oversight and thus a lesser requirement for audit efforts resulting in lower audit fees. The coefficient on control variables *BIGFOUR* ($\beta = 0.164$, $p < 0.01$) and *AGE* ($\beta = 0.390$, $p < 0.01$) and *RISK* ($\beta = 0.132$, $p < 0.01$) is positive and significant indicating that big four auditors (i.e., PriceWaterhouseCoopers, KPMG, Deloitte, and Ernst & Young) charge higher fees for audit services, therefore, it is more expensive to have audit services performed by them (Francis, 1984; Palmrose, 1986). The value of R^2 for the model is 39.66 percent, indicates a strong relationship between outcome and predictor variables as proposed by Cohen (1988).

Overall, the results highlight that the audit committee size and the presence of independent directors on the audit committee board have a higher demand for oversight and thus a higher requirement for audit effort resulting in higher audit fees (Krishnan and Visvanathan, 2009). The results indicate that higher audit fees entail increased audit

testing and higher audit quality. Audit committee expertise is related to lower audit fees indicating that high-quality audit committees are in a position to effectively oversee the financial reporting process themselves and require less audit efforts from the external auditor (Collier and Gregory, 1996; Cohen and Hanno, 2000; Sharma *et al.*, 2009). Higher the number of audit committee members with financial expertise on the audit committee board, lower the overall audit risk, because these experts are in a position to provide effective supervision to the audit process. Thus, members with financial expertise are valued by auditors for their ability to strengthen the effectiveness of audit committees.

(b) Audit Committee Characteristics and Non-Audit Service Fees (NASF)

The results of panel data regression (random effect) analysis to determine the effect of all measures of audit committee characteristics along with selected control variables on *NASF* (Model 2) are presented in Table 4. The results show that the coefficient of *ACMEET* ($\beta = -0.378$, $p < 0.05$) is negative and significant at 5 percent level of significance, hence, supporting the evidence put forth by Abbott *et al.* (2003b) that audit committees that are fully independent and hold at least four meetings per year are associated with lower non-audit service fees.

Further, the coefficient of *ACSIZE* is positive but insignificant. The coefficients of *ACIND* and *ACEXP* have the expected negative signs. These results are, however, not significant. Among the control variables, the coefficient of *SIZE* ($\beta = 0.672$, $p < 0.01$) is positive and statistically significant at 1 percent level, suggesting that bigger firms are in a position to pay more fees to avail non-audit service fees.

Table 4: Multivariate Regression Analysis for Audit Committee Characteristics and Non-Audit Service Fees (FY 2007–FY 2012)

Model 2:	NASF =	$B_0 + \beta_1 ACSIZE_{it} + \beta_2 ACMEET_{it} + \beta_3 ACIND_{it} + \beta_4 ACEXP_{it} + \beta_5 ACDIL_{it} + \beta_6 BIGFOUR_{it} + \beta_7 MKT_{it} + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} AGE_{it} + \beta_{11} INDCON_{it} + \beta_{12} RISK_{it} + \phi_{it}$	
Explanatory Variable		Estimated Coefficients	P-value
Intercept		-1.085***	0.004
ACSIZE		0.273	0.175
ACMEET		-0.378**	0.023
ACIND		-0.183	0.222
ACEXP		-0.033	0.765
ACDIL		0.048	0.696
BIGFOUR		0.147	0.209
MKT		0.003	0.679
SIZE		0.672***	0.000
LEV		-0.038	0.120
AGE		0.057	0.737

RISK	0.141**	0.037
INDCON	-0.334***	0.004
No. of Observations	1,410	
Groups	235	
Wald chi square (F)	193.920	
Prob>chi square	0.000	
Overall R ²	0.063	

Notes: ***, **, * indicates significance at the 0.01, 0.05 and 0.10 level respectively

P values have been shown in the parentheses

Dependent variable is non-audit service fees

The results have been obtained using STATA 12

The coefficient of *INDCON* ($\beta = -0.334$, $p < 0.01$) is negative and statistically significant at 1 percent level. *RISK* ($\beta = 0.141$, $p < 0.05$) reported a significant positive coefficient. However, other variables were not found to be significant. The intercept for the model is significant at 1 percent level. The above results suggest that an active audit committee need less audit efforts from auditors, thus resulting in lesser non-audit service fees as proposed by Antle *et al.* (1997). It has also been proved that audit firms should reduce their overreliance on non-audit services because the scope of audit firms' services potentially jeopardizes the auditors' independence (Ashbaugh *et al.*, 2003). These finding are inconsistent with Zaman *et al.* (2011) who found that, in the case of larger clients, audit committee meetings is positively associated with non-audit service fees. An audit committee which holds frequent meetings helps in reducing non-audit service fees, which is supposed to hinder the auditor's objectivity (Dezort *et al.*, 2002; Abbott *et al.*, 2003). The model is significant and R² is 6.33 percent, signifying a weak relationship between outcome variable and the predictor variables, indicating that there might be many other factors affecting the pricing of non-audit services.

Overall, the results suggested that an active audit committee help in mitigating non-audit service fees. Holding of frequent meetings is found to be associated with a reduced level of non-audit service fees (DeZort *et al.*, 2002; Abbott *et al.*, 2003; Turley and Zaman, 2004). In other words, companies which conduct more frequent audit committee meetings are in a position to effectively oversee the financial reporting process themselves, thus resulting in lower non-audit service fees in comparison to those with inactive audit committees.

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