

Carcello, J.V., Hermanson, D.R., Neal, T.L., and Riley, R.A. (2002). Board Characteristics and Audit Fees. *Contemporary Accounting Research* (Fall), 365-384.

### **Abstract**

This paper examines the relations between three board characteristics (independence, diligence, and expertise) and Big 6 audit fees for Fortune 1000 companies. To protect its reputation capital, avoid legal liability, and promote shareholder interests, a more independent, diligent, and expert board may demand differentially higher audit quality (greater assurance which requires more audit work) than the Big 6 audit firm normally would provide. The audit fee would increase as the auditor's additional costs are passed on to the client, such that we would expect positive relations between audit fees and the board characteristics examined.

We find significant positive relations between audit fees and board independence, diligence, and expertise. The results persist when similar measures of audit committee "quality" are included in the model. The results add to the growing body of literature documenting relations between corporate governance mechanisms and various facets of the financial reporting and audit processes, as well as to our understanding of the determinants of audit fees.