

Carcello, J.V., Hollingsworth, C.W., and Neal, T.L. (2006). Audit Committee Financial Experts: A Closer Examination Using Firm Designations. *Accounting Horizons* (December): 351-373.

ABSTRACT

The Sarbanes-Oxley Act (SOX) requires the disclosure of whether the audit committee has a financial expert. We examine disclosures related to audit committee financial experts (ACFEs) in the first year that this disclosure requirement is in effect. We find that virtually all companies disclose whether or not an ACFE is on the audit committee, although the transparency of the disclosure regarding the ACFEs background is limited. We also find that most ACFEs do not have a background in accounting or finance, although there are notable differences between stock exchanges on this dimension. In addition, we find that companies designate ACFEs who would not have been identified using extant research methods, and companies fail to voluntarily designate many individuals who appear to qualify as an ACFE, particularly if another audit committee member is already designated as an ACFE. Thus, some companies appear to be extremely conservative in designating directors as an ACFE, possibly due to concerns about the legal liability faced by designated ACFEs. Finally, we identify certain company characteristics that are associated with the designation or type of financial expert on the audit committee.