

Politically skilled audit committee directors and audit fees

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ABSTRACT

Provoking a cause for concern, a decline in audit fees—as a component of total revenue for audit firms from 2006 to 2011—was observed by Public Company Accounting Oversight Board chairman James Doty. Prior research suggests that audit fees may indicate the degree of audit effort exerted by the external auditor, and a decline in fees may suggest a decline in audit quality. Given the important role the audit committee has in selecting, hiring, and retaining the external auditor, the impact of corporate audit committee directors' political skill on audit fees is examined in this study. Political skill is defined as a system of social competencies that enables an individual to understand others in work-applicable situations and utilize that knowledge to impact others' behavior in ways that heighten one's organizational and/or personal objectives. Utilizing a hybrid resource dependence theory and agency theory underpinning, arguments as to why differences in the amount of audit fees paid due to the presence of a politically skilled audit committee director are advanced. Archival data from a sample of 258 S&P SmallCap 600 firms with a December 31, 2012 fiscal year-end and ordinary least squares (OLS) are used to test the association between an audit committee director's political skill and the amount of audit fees. A marginally significant positive relationship is documented. This finding suggests that a more comprehensive audit is demanded by audit committees with at least one politically skilled director.

Keywords: audit committee, political skill, audit fees