11-14-2019

Accounting Restatements and Audit Committee Director Departures

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ACCOUNTING RESTATEMENTS AND AUDIT COMMITTEE DIRECTOR DEPARTURES

A dissertation submitted in partial fulfillment of the

requirements for the degree of

DOCTOR OF PHILOSOPHY

in

BUSINESS ADMINISTRATION

by

Wu-Po Liu

2019

To: Dean Joanne Li
College of Business

This dissertation, written by Wu-Po Liu, and entitled Accounting Restatements and Audit Committee Director Departures, having been approved in respect to style and intellectual content, is referred to you for judgment.

We have read this dissertation and recommend that it be approved.

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Date of Defense: November 14, 2019

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Florida International University, 2019

DEDICATION

I would like to dedicate this dissertation to Prof. Jerry Chiou and Prof. Hua-wei Huang. Prof. Jerry Chiou planted the seeds of my academic career, and Prof. Huang made pursuit of the PhD degree possible. In addition, I would like to thank Prof. Richard Hwang and Prof. Steve Lin for their help and suggestions. Finally, I dedicate this dissertation to my wife, who always stood by my side throughout my journey.

ACKNOWLEDGMENTS

I would like to thank my committee members: Prof. Abhijit Barua, Prof. Suchismita Mishra, Prof. Kannan Raghunandan and Prof. Dasaratha Rama for their guidance and suggestions. In addition, I would like to express my heartfelt gratitude to my co-major professors, Prof. Abhijit Barua and Prof. Kannan Raghunandan, for their invaluable comments and tireless support.

ABSTRACT OF THE DISSERTATION

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Professor Abhijit Barua, Co-Major Professor

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Audit committees play an important role to ensure the reliability of financial reporting. Audit committee directors could choose to depart if they perceive an increased likelihood of low-quality financial reporting. Moreover, their departures and market reactions could signal misstatement risk and the market's attitude toward such departures, respectively. This dissertation explores whether the characteristics of audit committee directors are associated with the likelihood of departures before and after the announcement of financial restatements. Specifically, I examine if financial expertise, busyness, tenure, and gender of the directors are associated with such departures, loss of other directorships, and market reactions.

The first part investigates the association between characteristics of directors and the likelihood of audit committee director departure. My evidence shows that financial

experts are overall less likely to depart before and after the restatement announcement. However, the departure likelihood for financial experts is higher in the post-announcement period than in the pre period. In addition, long-tenured directors are more likely to leave after the announcement. Finally, female directors are less likely to depart in the pre-announcement period.

In part two, I explore how these characteristics are associated with loss of other directorships following the restatement. I find that departing financial experts experience a higher likelihood of loss in other directorships. In addition, busy and female directors are more likely to lose other directorships. I further find a higher likelihood of other directorship loss for departing financial experts when the misstatements are severe.

The third part examines the association between characteristics of departing directors and market reactions. My results show that financial expert departures before the announcement signal misstatement risk and lead to lower cumulative abnormal returns. Further, female director departures serve as a warning signal when the misstatements are severe. In the post-announcement period, I find higher cumulative abnormal returns for unplanned financial expert departures, suggesting that the market expects an improvement in financial expertise.

Overall, my results provide implications to regulators, management, and practitioners that the departures of audit committee directors serve as informative signals to financial reporting failures. The findings also support the requirements of SOX Section 407, which requires disclosures of financial experts serving on audit committees.

TABLE OF CONTENTS

LIST OF TABLES

TABLES PAGE

I. INTRODUCTION

One of the important features of the modern corporation is the presence of two groups with divergent interests: owners (i.e., shareholders) and managers. Starting from Berle and Means (1932), many corporate governance researchers have emphasized the difference in the interests of managers and owners (see, for example, Fama (1980), Watts and Zimmerman (1980), and Fama and Jensen (1983)). The presence of divergent interests naturally gives rise to the demand for monitoring mechanisms, since it is the responsibility of managers to prepare and issue the financial statements of the public corporation.

Many monitoring mechanisms have evolved naturally over the years in response to such need to verify the financial information produced by managers. The board of directors, acting as representatives of the owners, is one of the important mechanisms in the corporate governance and monitoring process. However, a corporate board is made up of people of specialties in multiple areas. Given the global trend towards specialization, the overall responsibilities of the board has been delegated to various sub-committees. Thus, the audit committee, which is a sub-committee of the board, is assigned the primary responsibility for providing oversight over the financial reporting process. The audit committee protects the interests of shareholders by ensuring that there is high quality financial reporting (Carcello 2009). The Securities and Exchange Commission (SEC 1999) notes that “audit committees play a critical role in the financial reporting system by overseeing and monitoring management's and the independent auditors' participation in the financial reporting process.”

At least since the 1940s, both the regulators and others have extensively analyzed the importance of the audit committee in the overall corporate governance process in general and financial reporting in particular (SEC 2000). The U.S. Securities Exchange Commission (SEC) and the stock exchanges (such as, the NYSE or NASDAQ) have periodically taken action designed to strengthen the functioning of audit committees, with a view to improve the quality of financial reporting (SEC 2000). Thus, for example, National Commission on Fraudulent Financial Reportring (Treadway Commission 1987) and the Blue Ribbon Panel (1999) formed by the stock exchanges, made numerous recommendations about the composition of the audit committee. Typically, such recommendations focused on some publicly observable traits, such as director independence and financial expertise.

In the wake of the Enron and Worldcom failures, and the subsequent indictment of one of the Big 5 audit firms (namely, Arthur Andersen), Congress enacted the Sarbanes Oxley Act (U.S. House of Representatives 2002, hereafter SOX). SOX has multiple sections that deal with audit the role of audit committees in the financial reporting process. For example, Section 301 of SOX deals with the composition of audit committees and requires that audit committee directors of publicly-listed companies must be fully independent. Section 301 also states that audit committees "shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer." Section 407 of SOX requires public companies to disclose, in their SEC filings, whether the audit committee has at least one member who is designated as an "audit committee financial expert" (ACFE). In addition, if a company reports that it does not have an ACFE, then it must explain why it does not have such an

expert. Thus, audit committees are expected to effectively monitor the financial reporting process.

When overseeing the financial reporting process, audit committee directors could choose to leave the boards if they perceive an increased likelihood of poor quality financial reporting, including accounting misstatements. Srinivasan (2005) finds higher turnover among audit committee directors for restating firms. However, he focuses only on the ex-post consequences. Also, he does not explore the characteristics of the departing audit committee directors. Audit committee director departures before a restatement announcement could signal misstatement risk, and the market reactions to the departures after the restatement could reflect the market's perceptions about the current (and, future) audit committee directors. Singhvi, Rama, and Barua (2013) find a negative market reaction to the departure of accounting experts. However, Singhvi et al. (2013) do not differentiate between around-restatement departures and other departures.

This study extends the findings of Srinivasan (2005) and Singhvi et al. (2013) in the following ways. First, in addition to the *ex-post* departures of audit committee directors, I investigate whether audit committee directors are able to perceive *ex-ante* risk of financial misstatements before the announcement of financial reporting failures. With access to insider information, audit committee directors may be better able to assess the risk of a financial restatement and leave the boards before such restatement in order to avoid reputation damage and legal liabilities. Second, I examine what characteristics of audit committee directors relate to the *ex-ante* perception and *ex-post* detection of the financial misstatements. I first test whether financial expertise, busyness, long-tenure, and gender of

audit committee directors are associated with their departure decisions *before* and *after* the announcement of financial restatements.[1] Following Srinivasan (2005), I also investigate whether the four characteristics are associated with loss in other directorships following financial statement restatements. Finally, I examine whether the characteristics of departing audit committee directors are associated with the market reactions when the departures occur before and after the financial restatement announcement.

Previous studies examine the effects of audit committee directors' demographics at the level of the firm. Bedard, Chtorou, and Courteau (2004) find a negative relationship between aggressive earnings management and the presence of financial experts on audit committees. Srinidhi, Gul, and Tsui (2011) find that the presence of females on the board of directors is associated with higher quality financial reporting. However, the individual departure may not relate to other directors' characteristics under the firm-level research design. To investigate whether the directors' characteristics are associated with their departures, I test the research questions with the data at the individual audit committee director level. This setting could prevent mismatch of characteristics and departures.[2]

Using a sample of 11,511 director-year observations from 2004 to 2015, I find that audit committee directors with financial expertise are overall less likely to leave boards

[1] I calculate the number of days between date of the director's departure and the announcement date of the restatement. As discussed in more detail later, this enables me to define audit committee director departures as *before* or *after* the announcement of restatements.

[2] For example, assume that an audit committee has a female non-financial expert director and a male financial expert director. If this male financial expert director leaves around the announcement of a financial restatement, the dummies to denote both the departure and financial experts equal 1. However, the dummy variable to denote the presence of female directors on the board is also set to 1 under the firm-level research design. Thus, the design at the firm-level mismatches the gender characteristic with the departure of this male financial expert in this case.

before and after the announcement of financial restatements. The results suggest that financial experts inherently experience a lower likelihood of turnover than non-financial experts, but they are better at the detection of financial restatements because they are more professional and cautious about legal liabilities. My empirical evidence shows that busyness does not significantly relate to the likelihood of departures around financial restatements. On the other hand, long-tenured audit committee directors are found to be more likely to leave after the announcement of financial reporting failures. As there is concern about social ties with the companies, long-tenured directors may face higher pressure than short-tenured directors after the announcement. Female audit committee directors, however, are less likely to depart in the pre-announcement period than male directors. The demand for the gender diversity may explain the significantly lower departure likelihood before the announcement for female directors.

In regard to loss in other directorships, using a sample of 4,412 director-year observations, I find that financial experts who depart experience a higher likelihood of other directorship loss following financial restatements. The results might be explained for two reasons. First, the financial experts who just experienced the restatement and left the board are more cautious than other experts who do not depart. Therefore, they might choose not to be reappointed on other boards. Another reason could be damage to the reputations. As the financial misstatements broke out, the expert's "financial expertise" might be challenged and lead to loss of directorships on other boards. In addition, busy directors are found to be more likely to lose other directorships. Whether busyness negatively affects audit committee's monitoring function has been in debate among regulators, researchers, and practitioners for a long time.

Although holding multiple directorships implies more experience, an alternative view is that such multiple directorships results in insufficient monitoring efforts and hence lead to lower quality monitoring. The presence of financial restatements provides evidence to support the argument against busy audit committee directors. Therefore, they experience a higher likelihood of loss in directorships on other boards. I also find that female directors are more likely to lose other directorships following financial restatements.

As discussed in detail later, prior studies indicate that females are more cautious about risk than males in many settings, including those related to financial reporting. Therefore, female audit committee directors, who have experienced a financial restatement in one public company, might hold a conservative attitude toward the directorships on other public company boards.

For the market reaction analyses, using a sample of 948 director-year observations, I find lower cumulative abnormal returns for the departure of financial experts when the departures occur before the restatement announcement. The signaling effect for financial experts is stronger when the departures occur before a restatement. In addition, I find that female audit committee director departures also serve as a warning signal to the market when the misstatements are severe. For the departures in the post-announcement period, I find higher cumulative abnormal returns for financial expert departures when the departures are unplanned, suggesting that the market distrusts the current financial experts in the presence of the financial misstatements and reacts positively to their departures. In addition, I find weak evidence to show the market's distrust of long-tenured directors in certain situations.

This study adds to the audit committee and corporate governance literatures in several ways. First, I add to the literature by examining the *ex-ante* departures of audit committee directors to investigate whether audit committee directors are able to perceive increased risk of financial restatements before the public disclosure of such restatements. Second, I provide evidence that the departure of financial experts could be informative about the potential presence of financial misstatements. My findings support the necessity of the SOX Section 407, which requires the disclosure of the presence of financial experts in audit committees, and the effectiveness of the SOX Section 301, which formalizes the function and responsibility of audit committees. Third, my study offers some indications to professional organizations, researchers, and practitioners who are concerned about the impact of audit committee director characteristics on the effectiveness of monitoring function. For example, I add to the director gender literature by showing that the depature of female audit committee directors can raise a red flag for the market about possible future misstatements of the financial statements. In addition, I add to the audit committee director tenure literature by providing evidence to show that the market holds a positive view toward the departures of long-tenured directors when the departures in certain situations.

This remainder of this dissertation is organized as follows: Chapter II reviews the extant literature on audit committee' issues related to the turnover and characteristics. Based on what has been documented in the extant literature, I then develop the research questions. Chapter III outlines the data collection processes, discusses the research method, and presents three regression models. Chapter IV shows the empirical results. Chapter V demonstrates the additional analyses. Finally, Chapter VI summarizes the study and discusses the extensions in this study.

II. LITERATURE REVIEW AND RESEARCH QUESTIONS

2.1 Audit Committee's Responsibility for Oversight of Financial Reporting

The Securities and Exchange Commission (SEC 1999) notes ''Audit committees play a critical role in the financial reporting system by overseeing and monitoring management's and the independent auditors' participation in the financial reporting process." Section 301 of SOX states that audit committees "shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer." To strengthen the monitoring function, Section 407 of SOX requires firms to disclose whether there is at least one financial expert serving on the audit committees.

Many prior studies have shown that an "effective" audit committee is associated with higher quality financial reporting. Typically, an effective audit committee is characterized by director independence, presence of financial experts, and diligence. Collectively, audit committees are expected to effectively monitor the financial reporting process.

2.2 Audit Committee Director's Turnover and Financial Restatements

Reputation Benefits for Outsiders

Prior literature documents the positive relationship between financial reporting quality and independence in audit committees (Beasley 1996; Dechow, Sloan, and Sweeney 1996; Klein 2002; Farber 2005). Fama and Jensen (1983) suggest that outside directors are viewed to monitor management more effectively than inside directors. After

financial frauds, inside directors are replaced with outside directors to improve the governance mechanism (Farber 2005). Overall, audit committee directors are expected and rewarded to monitor the management in the financial reporting process.

Penalties

While audit committees enjoy reputation benefits as outside directors, they also face penalties such as damage to reputations and even legal liabilities if they fail to play their role appropriately (Fama and Jensen, 1983; Johnson 2005; Brochet and Srinivasan 2014; Hogan et al. 2014). Financial reporting failures damage audit committee directors' reputations. Fama and Jensen (1983) suggest that outside directors enjoy reputation benefits but experience penalties in the labor market once they are involved in monitoring failures. Srinivasan (2005) provides evidence that restating firms experience higher turnover among audit committee directors after financial restatements.

In addition, legal liabilities concern audit committee directors. Johnson (2005) states that directors of audit committees have three sources of obligations: federal law, Self-Regulatory Organization rules, and state law. Audit committee directors are more likely to be sued in class action litigation than other board directors (Brochet and Srinivasan 2014). Hogan, Schmidt, and Thompson (2014) find higher litigation risk for audit committees in the post-SOX time period. In light of such liability concerns, directors may leave voluntarily to avoid reputational damage and legal liabilities (Vafeas 1999) prior to financial misstatements.

2.3 Market Reactions to the Departures of Audit Committee Directors

Prior literature also finds that directors experience loss of directorships when there are monitoring failures (Fama and Jensen, 1983; Srinivasan 2005). Audit committees could monitor the financial reporting process proactively but they are empowered to only "oversee" the financial reporting. In other words, they may not have the real power to "influence" the financial reporting as a CEO or CFO in the corporation. When audit committees perceive increased risk of inappropriate financial reporting, they could choose to depart the company to avoid the penalties mentioned above.

However, there is limited prior research about the market reactions to the departures of audit committee directors. Bar-Hava et al. (2018) find that the market reactions to the departure of independent directors depend on the reason for departures. They find that the market reacts negatively to the departures when the reasons are unverifiable. Agrawal and Chen (2017) also find negative market reactions to director resignation announcements citing disagreement. Gupta and Fields (2009) find that the market reacts negatively to the resignations of outside directors. Nguyen and Nielsen (2010) also provide similar evidence to show that the death of independent directors leads to the drop of stock prices. Singhvi (2011) uses a sample of 360 audit committee director appointments during 2008, and finds that there is no significant market reaction to the appointments of audit committee directors.

However, these studies fail to focus on the implication of accounting quality from the audit committee departures for the market. This study sheds light on how the market reacts to the audit committee departures around the announcement of financial restatements

and whether the reactions differ by the director characteristics to examine whether the market perceives implied financial misreporting risk.

2.4 Financial Restatements and Audit Committee Director's Characteristic: Financial Expertise

2.4.1 Restatements and Departures of Audit Committee Directors

More Professional about the Oversight and Cautious about Legal Liabilities

Extant studies find that financial experts are positively associated with financial reporting quality measured with accruals and conservatism (Xie, Davidson III, and DaDalt 2003; Abbott, Parker, and Peters 2004; Bedard et al. 2004; Farber 2005; Carcello, Hollingsworth, Klein, and Neal 2006; Krishnan and Visvanathan 2008; Dhaliwal, Naiker, and Navissi 2010). Firms with financial experts on audit committees are less likely to have internal control weaknesses (Krishnan, 2005). The market also values the presence of financial experts on audit committees (Davidson III, Xie, and Xu 2004; DeFond, Hann, and Hu 2005).

Audit committee directors are more likely to be sued in class action litigation than other board directors (Brochet and Srinivasan 2014). Although Hogan et al. (2014) indicate that financial experts are no more likely to be named as defendants than other audit committee directors, their results still demonstrate that the likelihood of audit committee litigation is higher in the post-SOX period. Krishnan and Lee (2009) find that firms with higher litigation risk are more likely to have financial experts on their audit committee. Schmid and Wilkins (2013) find that companies with more financial experts on the audit

committee have shorter restating periods. In sum, financial experts might be cautious about legal risk increased due to the expertise than non-financial experts.

Demand for Financial Experts on Audit Committees

Financial experts could experience an inherently lower turnover rate than non-financial experts. As Section 407 requires firms to disclose whether there is the presence of at least one financial expert serving on the audit committees, the demand for the presence of financial experts might make them less likely to depart. Moreover, the presence of financial restatements indicates a problematic financial reporting. Therefore, the restating firms may reply more on the financial experts to improve the reporting quality. As there are competing arguments, I do not make a directional prediction and list the following research questions:

***RQ$_{1a}$**: Are audit committee financial experts more likely to leave the boards than non-financial experts **before** the announcement of restatements?*

***RQ$_{1b}$**: Are audit committee financial experts more likely to leave the boards than non-financial experts **after** the announcement of restatements?*

2.4.2 Restatements and Loss in Other Directorships

Srinivasan (2005) indicates that good monitoring may identify problems quickly and ensured timely disclosure. As mentioned above, the presence of audit committee directors with financial expertise is associated with higher quality financial reporting. Therefore, financial experts might be less likely to lose other directorships following financial restatements. However, the presence of financial restatements might increase the

likelihood of other directorship loss for two reasons. First, financial experts are more cautious about litigation risk. Given they have just experienced the financial restatements of one firm, the cautious mind might make them choose not to be appointed on another board. Secondly, the disclosure of financial misstatements could lead to damage to their reputations. As a result, the director's "financial expertise" might be in doubt and the related concern might lead to loss of other directorships. Based on the arguments mentioned, I develop the following research question:

***RQ$_{1c}$**: Are audit committee financial experts more likely to lose directorships on other boards than non-financial experts following the announcement of restatements?*

2.4.3 Departures of Audit Committee Directors and Market Reactions

Financial experts are perceived as more capable on the oversight of the financial reporting process. SOX Section 407 requires companies to disclose whether there is the presence of at least one financial expert on audit committees. Prior literature also finds positive association between financial reporting quality and the presence of audit committee directors with financial expertise (Xie, Davidson, and DaDalt, 2003; Abbott, Parker, and Peters, 2004; Bedard Chtourou, and Courteau, 2004; Farber, 2005; Carcello, Hollingsworth, Klein, and Neal, 2006; Krishnan and Visvanathan, 2008; Dhaliwal, Naiker, and Navissi, 2010). On the other hand, financial experts may be more sensitive to legal liabilities. Companies with higher litigation risk are more likely to engage financial experts on audit committees (Krishnan and Lee, 2009).

Financial experts may leave the boards when they detect the financial misstatements to avoid litigation risk. Therefore, the departures of audit committee

financial experts may signal increased risk of inappropriate financial reporting to the market. Singhvi et al. (2013) find the market reacts negatively to the departure of audit committee accounting experts. However, the focus of Singhvi et al. (2013) is on all audit committee director departures, as opposed to any examination of departures before and after the restatement announcement. My study examines the difference in reactions between departures of audit committee directors before and after the restatement announcement. This leads to the following research questions:

RQ_{1d}: *Is the market reaction to the departure of financial experts different from the departures of non-financial experts when the departures occur* ***before*** *the announcement of financial restatements?*

RQ_{1e}: *Is the market reaction to the departure of financial experts different from the departures of non-financial experts when the departures occur* ***after*** *the announcement of financial restatements?*

2.5 Financial Restatements and Audit Committee Director's Characteristic: Busyness

2.5.1 Restatements and Departures of Audit Committee Directors

The Reputation Hypothesis

The traditional view suggests that directors improve their reputations by serving on boards (Fama and Jensen 1983). Directors with multiple directorships gain more experience and such directors are expected to provide high quality service. Prior literature

posits that directors of well performing firms gain more directorships (Miwa and Ramseyer 2000; Ferris, Jagannathan, and Pritchard 2003; Yermack 2004). Focusing on the performance of audit committees, Carcello and Neal (2003) and Krishnan (2005) find that audit committee directors with multiple directorships provide higher monitoring quality.

The Busyness Hypothesis

Directors with multiple directorships may not put sufficient effort on monitoring earnings management. Firms are criticized for engaging directors holding multiple board seats (the Council of Institutional Investors (CII) 1998; NACD 1996; NACD 2000). The CII (1998) recommends that directors should not serve on more than two other boards. The NACD (1996, 2000) also argues that the directors should hold at most three directorships. These advocates believe that a considerable amount of time is required for directors to ensure high quality monitoring of the financial reporting process. Academic research also provides evidence that there is a negative association between multiple directorships held by independent directors and monitoring quality. Busy independent directors are not able to monitor the financial reporting process appropriately due to the information overload (Carpenter and Westphal 2001). A positive relationship has been documented between the likelihood of financial misstatements and the number of other directorships held by audit committee directors (Beasley 1996 Ferris 2003; Fich and Shivdasani 2006; Tanyi and Smith 2015).

Because there are competing arguments, I do not predict whether busyness of audit committee directors makes a difference in the early detection of financial restatements. This leads to the following research questions:

RQ$_{2a}$: *Are busy audit committee directors more likely to leave the boards than non-busy directors* ***before*** *the announcement of financial restatements?*

RQ$_{2b}$: *Are busy audit committee directors more likely to leave the boards than non-busy directors* ***after*** *the announcement of financial restatements?*

2.5.2 Restatements and Loss in Other Directorships

Multiple directorships have been of interest to regulators, practitioners, and researchers. As the busyness hypothesis suggests, audit committee directors with multiple directorships may be too busy to put in enough efforts on monitoring a firm's financial reporting process. Once the busy audit committee directors experience financial restatements, these reporting failures could be evidence to support the concern about ineffective oversight due to multiple directorships. Therefore, I expect that busy audit committee directors are more likely to lose directorships on other boards following financial restatements. Thus, the next research question is:

RQ$_{2c}$: *Are busy audit committee directors more likely to lose directorships on other boards than non-busy directors following the announcement of restatements?*

2.5.3 Departures of Audit Committee Directors and Market Reactions

Whether the busy audit committee directors can properly monitor the financial reporting process is still in debate. As noted above, on the one hand, the reputation hypothesis suggests that directors with multiple directorships are viewed favorably because with such directorships they are able to gain more experience and, hence, provide better quality service. In addition, directors can have multiple directorships due to good

performance. Prior literature finds that well performing directors gain more directorships (Miwa and Ramseyer, 2000; Ferris, Jagannathan, and Pritchard, 2003; Yermack, 2004). Carcello and Neal (2003) and Krishnan (2005) also provide evidence to show the positive association between busy audit committee directors and monitoring effectiveness.

On the other hand, the busyness hypothesis suggests that the monitoring quality is affected when the directors have multi directorships, since they are unable to exert sufficient effort on the work of all the boards (the Council of Institutional Investors (CII), 1998; National Association of Corporate Directors (NACD), 1996; NACD, 2000). Extant studies also find the negative association between the monitoring quality and busy directors (Beasley, 1996; Carpenter and Westphal, 2001; Ferris et al., 2003; Fich and Shivdasani, 2006; Tanyi and Smith, 2015). Investors have similar view about the multi directorships. Dewally and Peck (2010) find positive but insignificant market reactions to director departures citing busy reasons. Fich and Shivdasani (2006) also find that the market reacts positively to departures of directors who have three or more directorships. However, these studies generally discuss the market reactions to the departures of busy board directors in general, rather than departures from companies with financial restatements. I add to the literature by examining audit committee director departures around the announcement of financial restatements. The next set of research questions is:

RQ$_{2d}$: *Is the market reaction to the departure of busy directors different from the reaction to departures of non-busy directors when the departures occur* ***before*** *the announcement of financial restatements?*

RQ$_{2e}$: *Is the market reaction to the departure of busy directors different from the reaction to departures of non-busy directors when the departures occur* ***after*** *the announcement of financial restatements?*

2.6 Financial Restatements and Audit Committee Director's Characteristic: Tenure

2.6.1 Restatements and Departures of Audit Committee Directors

The Expertise Hypothesis

The director accumulates more experience and knowledge about the company as the director's tenure on the board continues (Vafeas 2003). Yang and Krishnan (2005) find that companies having audit committee directors with long tenure are more likely to have lower earnings management. Similarly, auditor tenure is found to be positively associated with earnings quality (Geiger and Raghunandan 2002; Johnson, Khurana, and Reynolds 2002; Carcello and Nagy 2004; Chen, Lin, and Lin 2008). The expertise hypothesis suggests that long tenure indicates accumulation of experience and knowledge of the firm's business environment, which could strengthen audit committee directors' ability to monitor the financial reporting process.

The Management Friendliness Hypothesis

Long tenure, however, could impair the monitoring function due to the directors' development of friendship and social ties with the companies. The NACD (1996) suggests that directors should not serve more than 15 years on the same boards. The concern about

long tenure is supported by academic research findings. Sharma and Iselin (2012) find a positive association between audit committee directors' tenure and financial misstatements. Moreover, long-serving directors are less employable and less mobile compared to short-serving directors (Vafeas 2003). As a result, audit committee directors with long tenure may be less willing to protect the interests of shareholders by restraining earnings management (Kesner 1988; Boeker and Goodstein 1993). Previous scandals also show that firms such as Enron and WorldCom had long-serving directors on audit committees (Lavelle 2002; U.S. Senate 2002).

Since there are competing theories, I do not make a directional prediction and have the following research questions:

RQ$_{3a}$: *Are long-tenured audit committee directors more likely to leave the boards than short-tenured directors* ***before*** *the announcement of financial restatements?*

RQ$_{3b}$: *Are long-tenured audit committee directors more likely to leave the boards than short-tenured directors* ***after*** *the announcement of financial restatements?*

2.6.2 Restatements and Loss in Other Directorships

Like the issue of busyness, whether long tenure of audit committee directors enhances the monitoring function is in debate. The presence of financial restatements would damage the reputation of long-tenured audit committee directors. As suggested by the management friendliness hypothesis, friendship and social ties develop and strengthen as a director's tenure continues. Therefore, history may repeat if a firm keeps appointing an audit committee director who has long-served on another board and just experienced a

financial restatement. Hence, it is possible that long-tenured audit committee directors are more likely to lose directorships on other boards than short-tenured audit committee directors. This leads to the following research question:

RQ$_{3c}$: *Are long-tenured audit committee directors more likely to lose directorships on other boards than short-tenured directors following the announcement of restatements?*

2.6.3 Departures of Audit Committee Directors and Market Reactions

As noted earlier, the expertise hypothesis suggests that long-tenured directors accumulate more experience and hence provide good quality monitoring. Prior research finds a positive association between audit committee directors' tenure and both earnings quality and audit quality (Yang and Krishnan, 2005; Geiger and Raghunandan, 2002; Johnson, Khurana, and Reynolds, 2002; Carcello and Nagy, 2004; Chen, Lin, Lin, 2008). Therefore, the departures of long-tenured directors may send negative signals to the market.

However, the management friendliness hypothesis suggests that social ties between long-tenured directors and companies may affect the director's attitude and hence the monitoring effectiveness. Extant literature also finds that longer-tenured directors are less likely to protect shareholder's interest (Kesner, 1988; Boeker and Goodstein, 1993). Sharma and Iselin (2012) also provide evidence to show that firms with long-tenured audit committee directors are more likely to experience financial restatements. In addition, Singhvi et al. (2013) find negative market reactions to the departures of short-tenured accounting experts.

Since there are competing theories about the length of director's tenure, it is unclear how the investors view departures of long-tenured directors around the announcement of financial restatements. The next set of research questions are:

RQ$_{3d}$: *Is the market reaction to the departure of long-tenured directors different from the reaction to the departure of short-tenured directors when the departures occur* ***before*** *the announcement of financial restatements?*

RQ$_{3e}$: *Is the market reaction to the departure of long-tenured directors different from the reaction to the departure of short-tenured directors when the departures occur* ***after*** *the announcement of financial restatements?*

2.7 Financial Restatements and Audit Committee Director's Characteristic: Gender

2.7.1 Restatements and Departures of Audit Committee Directors

Risk Aversion and Ethical Mind

Prior research indicates that females are, in general, more risk averse than males (Powell and Ansic 1997; Byrnes, Miller, and Schafer 1999; Olsen and Cox 2001; Fehr-Duda, De Gennaro, and Schubert 2006; Beckman and Menkhoff 2008; Croson and Gneezy 2009; Bellucci, Borisov, and Zazzaro 2010). In addition, the extant literature indicates that females are more cautious and ethical compared to males (Powell and Ansic 1997; Bilic and Sustic 2011).

Turning to accounting and auditing settings, Niskanen, Karjalainen, Niskanen, and Karjalainen (2011) suggest that female auditors are more conservative. Female CEOs and CFOs are found to be positively related with earnings quality (Barua, Davidson, Rama, and Thiruvadi 2010; Peni and Vahamaa 2010; Thiruvadi and Huang 2011; Ho, Li, Tam, and Zhang 2015; Duong and Evans 2016; Liu, Wei, and Xie 2016). Extant literature also suggests that female directors are associated with higher financial reporting quality (Krishnan and Parsons 2008; Srinidhi et al. 2011; Sun, Liu, and Lan 2011; Abbott, Parker, and Presley 2012; Arun, Almahrog, and Aribi 2015). Overall, females play a positive role in the financial reporting process in firms.

The Selectivity Hypothesis

Meyers-Levy (1989) indicates that genders process information in different ways. Males focus on information which is readily available and highly salient. On the other hand, females could process comprehensive information by taking all available cues into consideration. For example, Chung and Monroe (2001) find that female auditors make better judgments when they face high task complexity through taking advantaging of numerous and inconsistent information cues. Females, therefore, may have "superior ability to differentiate between and integrate decision cues." This perspective also suggests that there would be differences based on the gender of audit committee directors.

Working Hard

Gender inequality requires females to work harder than males. Females face stricter performance standards when they perform the same jobs as males (Gorman and Kmec 2007). Stewart and Munro (2007) indicate that female audit committee directors have better

meeting preparations. Parker, Dao, Huang, and Yan (2017) suggest that female audit committee directors examine internal controls more critically and thoroughly resulting in firms with female audit committee directors being more likely to disclose internal control weaknesses. This argument also suggests that we can expect differences based on the gender of the audit committee director.

Demand for Diversity and Gendered Perceptions

Another perspective is that the demand for gender diversity on boards may lead to an inherently lower departure rate for female audit committee directors. Prior literature finds that client firms pay higher audit fees to female auditors because of "gender differences in knowledge, skills, abilities, preferences, and behavior" (Ittonen and Peni 2012; Hardies, Breesch, and Branson 2015). Similarly, given the demand for board diversity and needs of many companies to have female directors, females are expected to be less likely to lose other directorships. The next set of research questions is as follows:

***RQ$_{4a}$**: Are female audit committee directors more likely to leave the boards than male directors **before** the announcement of financial restatements?*

***RQ$_{4b}$**: Are female audit committee directors more likely to leave the boards than male directors **after** the announcement of financial restatements?*

2.7.2 Restatements and Loss in Other Directorships

Lower Job Status

In addition to the demand for gender diversity on boards, the lower job status might also affect the likelihood of other directorship loss following the financial restatements.

Van Vliet (2009) notes that "Authority and responsibility go together and they are two sides of the same coin". Whiting and Wright (2001) examine whether there is a gender equity issue within the accounting profession, and find that females have lower job status. Therefore, as female audit committee directors have less authority (lower job status) than male directors, female directors might bear less responsibility (lose fewer directorships) than males. Thus, my next research question is:

RQ$_{4c}$: *Are female audit committee directors less likely to lose directorships on other boards than male directors following the announcement of restatements?*

2.7.3 Departures of Audit Committee Directors and Market Reactions

Firms with female CEOs or CFOs have higher earnings quality (Barua, Davidson, Rama, and Thiruvadi, 2010; Peni and Vahamaa, 2010; Thiruvadi and Huang, 2011; Ho, Li, Tam, and Zhang, 2015; Duong and Evans, 2016; Liu, Wei, and Xie, 2016). Female directors are also found to positively contribute to financial reporting quality (Krishnan and Parsons, 2008; Srinidhi, Gul, and Tsui, 2011; Sun, Liu, and Lan, 2011; Abbott, Parker, and Presley, 2012; Arun, Almahrog, and Aribi, 2015). Moreover, females work harder than males to get the same positions because females face higher requirements (Gorman and Kmec, 2007). This view is consistent with the finding that female audit committee directors exert more effort on providing oversight over internal controls than males (Parker, Dao, Huang, and Yan, 2017). Given the above, investors also may react more negatively to the departures of female audit committee directors compared to their male counterparts. Therefore, I have the following research questions:

RQ$_{4d}$: *Is the market reaction to the departure of female directors different from the market reaction to the departure of male directors when the departures occur* ***before*** *the announcement of financial restatements?*

RQ$_{4e}$: *Is the market reaction to the departure of female directors different from the market reaction to the departure of male directors when the departures occur* ***after*** *the announcement of financial restatements?*

III. DATA AND RESEARCH DESIGN

3.1 Data

Previous studies examining the association between director characteristics and various outcomes, such as financial reporting quality, focus on measuring the variables at the firm level. However, to measure the effects of departures of individual directors, it is more appropriate to measure the characteristics at the level of the individual director. This problem is exacerbated by the fact that multiple characteristics, such as gender and expertise, may be correlated. To investigate whether the director's own characteristics are associated with their departures, I test the research questions with the data at the individual audit committee director level. This setting could prevent mismatch of characteristics and departures.

I obtain the data from the *BoardEx* database, which provides the turnover and details about the demographic characteristics of board directors. Audit and financial related data are obtained from *Audit Analytics* and *Compustat*, respectively.

The sample period begins in 2004 because this is the first year in the post-SOX period and ends in 2015. Panel A of Table 1 shows the sample selection process. To investigate the research questions at the individual level, I begin with 15,805 director-year observations one year *before* or *after* the announcement of financial restatements. Consistent with most prior research relating to audit committees and corporate governance, I delete observations relating to financial and foreign firms. Observations with missing director, audit, and financial data from *BoardEx*, *Audit Analytics*, and *Compustat* are also

removed. This yields a total of 11,511 director-year observations to analyze the RQ_{as} and RQ_{bs}.

Panel B and Panel C of Table 1 present the sample distribution by year and industry. As seen in Panel B, I find more observations in the first few years following the SOX adoption. The results suggest that the implementation of SOX may have triggered more restatements in the first few years. In regard to the distribution by industry, manufacturing firms account for nearly half of the total observations, consistent with prior studies.

To examine other directorship loss, I keep the observations in the post-announcement period and further delete those with missing data for loss of the directorships in three years. There are total 4,412 observations to test the RQ_{cs}.

To examine the RQ_{ds} and RQ_{es}, departures around the announcement of financial restatements, I limit my sample to departures within 1 year before and after restatement announcement. I first obtain the audit committee director' departure data between 2004 and 2015 from *Audit Analytics* dataset. Then, I merge the director departures with the characteristics data obtained from *BoeardEx* by the company key and names of directors. Table 1, Panel D shows the sample selection process. I begin with 553 and 646 observations in one year before and after the announcement. I then remove 53 and 61 observations having a gap between the 8-K effective date and announcement date greater than 45 days because such a big gap may be indicative of a pre-planned departure rather than a sudden departure because of the restatement announcement. After removing the observations with missing data from *BoardEx*, *Compustat*, and *Eventus*, I have 481 and 512 observations in one year before and after the restatement announcement, respectively.

3.2 Research Design

3.2.1 Departures of Audit Committee Directors *before* and *after* the Announcement of Financial Restatements

As discussed earlier, this study aims to explore whether the characteristics of audit committee directors are associated with the likelihood of departures *before* and *after* the announcement of financial restatements. To examine this question, I follow Srinivasan (2005) by using the probit regression Model 1 using data for the two periods (before and after the restatement).

$$ACDepart = \alpha_0 + \alpha_1 FinExp + \alpha_2 Busy + \alpha_3 Tenure + \alpha_4 Female + \alpha_4 CEOTURNOVER + \alpha_5 CFOTURNOVER + \alpha_6 LNMV + \alpha_7 ROA + \alpha_8 LOSS + \alpha_9 CHNI + \alpha_{10} DURATION + \alpha_{11} OTHERCEO + \alpha_{20} ACSIZE + YEARD + INDUSTRYD + \varepsilon \quad (1)$$

ACDepart is the dummy variable which equals 1 if the audit committee director leaves in the period, one year *before* or *after* the announcement of the financial restatement. For this calculation, I calculate the number of days between the date of the director's departure and the announcement date of the restatement. *FinExp* is coded 1 if the audit committee director has financial expertise, and 0 otherwise. *Busy* is coded 1 if the number of directorships of the audit committee director is greater than the median value, and 0 otherwise. *Tenure* is coded 1 if the tenure of the audit committee director is greater than the median value, and 0 otherwise. *Female* is coded 1 if the audit committee director is a

female director, and 0 otherwise. The variables of interest for research questions RQ_{1ab} to RQ_{4ab} are the four dummy variables measuring the four demographic characteristics. A positive coefficient indicates that audit committee directors with certain characteristics are more likely to leave around the announcement of financial restatements. Control variables are also included based on Srinivasan (2005). The definitions of these control variables are reported in Appendix A.

3.2.2 Loss in Other Directorships Following Financial Restatements

Srinivasan (2005) finds that audit committee directors lose directorships on other boards following financial reporting failures. To examine whether the loss of directorhsips in other companies results depends on the characteristics of audit committee directors, I follow Srinivasan (2005) to build up the regression Model 2. Since the dependent variable *OtherDtrLoss* measures the number of other directorship loss in three years following the restatement announcement, an *ordered probit* regression model is applied to examine the R_{1c} to R_{4c}.

$$\begin{aligned} OtherDtrLoss = {} & \beta_0 + \beta_1 + \beta_2 + \beta_3 FinExp + \beta_4 Busy + \beta_5 Tenure + \beta_6 Female + \beta_7 ACDepart \\ & + \beta_8 FinExp \times ACDepart + \beta_9 Busy \times ACDepart + \beta_{10} Tenure \times ACDepart \\ & + \beta_{11} Female \times ACDepart + \beta_{12} CEOTURNOVER + \beta_{13} CFOTURNOVER \\ & + \beta_{14} LNMV + \beta_{15} ROA + \beta_{16} LOSS + \beta_{17} CHNI + \beta_{18} DURATION + \\ & \beta_{19} OTHERCEO + \beta_{20} ACSIZE + YEARD + INDUSTRYD + \varepsilon \end{aligned} \quad (2)$$

Since *OtherDtrLoss* takes values from zero to three, I include three intercepts in the ordered porbit regression model. To further explore whether the departing directors are more likely to lose other directorships, I also include the interactions between the characteristics and the director departures.

3.2.3 Market Reactions to Departures of Audit Committee Directors *before* and *after* the Announcement of Restatements

This study aims to explore whether the market reactions to audit committee director departures are associated with the characteristics of departing audit committee directors. To investigate the research questions, I develop the following OLS regression Model 3 based on prior literature (Srinivasan, 2005; Singhvi et al., 2013):

$$CAR = \gamma_0 + \gamma_1 FinExp + \gamma_2 Busy + \gamma_3 Tenure + \gamma_4 Female + \gamma_5 CEOT\_BACT + \gamma_6 CFOT\_BACT + \gamma_7 OTHERCEO + \gamma_8 LNMV + \gamma_9 DA + \gamma_{10} MB + \gamma_{11} ROA + \gamma_{12} RECINV + \gamma_{13} CASH + \gamma_{14} GC + \gamma_{15} LOSS + \gamma_{16} SMBD + \gamma_{17} INDEP + \gamma_{18} ACCFILER + \gamma_{19} FRGN + \gamma_{20} FIND + \varepsilon \quad (3)$$

CAR indicates cumulative abnormal returns estimated by the market adjusted model using the five-day [-2,+2] window. Following Singhvi et al. (2013), I also control for other factors that affect cumulative abnormal returns. The definitions of other control variables are reported in Appendix A. The variables of interest in the regression model are the four audit committee director characteristic variables. To examine whether there is a difference

in market reactions between the periods before and after the announcement of restatements, I run the regression with the observations in the *pre* and *post* announcement period, respectively.

IV. EMPIRICAL RESULTS

4.1 Descriptive Statistics and Univariate Analyses

Table 2, Panel A reports the descriptive statistics of the study. As shown in the table, the mean of *ACDepart* is 0.137 (13.7%). The mean of *FinExp* is 0.457, suggesting that 45.7% of audit committee directors have financial expertise.

In addition to the dummy variables used in the regression, the raw data of *Busy* and *Tenure* are provided in the descriptive statistics. The mean of *Busy_raw* is 1.786, indicating that on average audit committee directors serve on more than one board. The mean of *Tenure_raw* is 7.134, suggesting that on average audit committee directors have served for more than 7 years. The mean of *Female* is 0.103, showing that female directors account for only 10.3% of total audit committee directors. This is consistent with evidence from prior studies that there are relatively few female directors serving on boards.

Panel B of Table 2 reports the descriptive statistics for the sample used to test other directorship loss. As RQ_{cs} examines other directorship loss in three years following the announcement of restatements, I remove the observations in the pre-announcement period and those with missing value of other directorship loss in three years. The mean value of *OtherDtrLoss* is 0.391, suggesting that audit committee directors on average lose 0.391 directorship on other boards following the announcement of financial restatements. The Q3 value is 1, indicating that more than 25% of directors lose at least one position on other boards. The mean values of other interest variables are similar to those in Panel A.

For the market reactions, Panel C of Table 2 reports the descriptive statistics of *pre* and *post* announcement period respectively. The mean values of *CAR* [-2,+2] is 0 and 0.004, suggesting that the market reacts slightly positively to the overall audit committee director departures. The mean values of *FinExp* is 0.318 and 0.324, indicating that the departures of financial experts account for around 32% of the total audit committee director departures. *Busy* has the mean values of 0.385 and 0.375 in two periods, suggesting that around 38% of departing directors have multiple directorships. The mean of *Tenure* is 50% as Tenure is coded as 1 if the director's tenure is longer than the median value (4.6 from the untabulated results). *Female* has the mean values of 0.081 and 0.096, suggesting that the proportion of departing female directors is less than 10%.

Table 3 presents the results of univariate analyses. As shown in Table 3, all observations are partitioned into two subsamples for *pre* and *post* announcement periods. As illustrated in Panel A, the rate of departures before the restatement announcement is 15.04%. On the other hand, the rate of departures after the announcement of financial restatements is 12.48%, which is lower than the departure rate before the restatement announcement. The results suggest that a higher proportion of audit committee directors leave before the restatement announcement than after the announcement.

In Panel B of Table 3, I further split the sample by the four characteristics investigated in this study. The departure rate before announcement for financial experts is 9.62%, quite similar to the 9.68% after the announcement. On the other hand, the departure rates for non-financial experts are 19.38% and 14.94% in the before and after periods, respectively. The results suggest that the departure likelihood of non-financial experts decreases after the restatement announcement.

I find that the departure rates for busy audit committee directors are 14.30% and 12.24% in two periods, respectively. The rates for non-busy directors are 15.65% and 12.68%. The results suggest a similar trend of departure rates for both busy and non-busy audit committee directors. For the analyses of audit committee directors with long tenure, I also find that the pattern is similar for both long-tenured (14.25%, 12.46%) and short-tenured directors (15.79%, 12.50%).

Finally, female audit committee directors have lower departure rates than male directors *before* and *after* the announcement of financial restatements (11.41% < 15.40%; 10.13% < 12.76%), suggesting that female directors are less likely to depart around the restatement announcement. However, the male directors show a larger decrease in the departure likelihood after the announcement.

For the market reaction tests, I report the results of univariate analyses by the director characteristics in Panel C of Table 3. In the pre-announcement period, I find that *CAR* with the window [-2,+2] for the financial expert departures is significantly lower than the *CAR* for non-financial expert departures (Diff. = -0.02, p-value = 0.034), suggesting that the market reactions to financial expert departures are significantly lower than the ones to non-financial expert departures. On the other hand, the difference in *CARs* between financial and non-financial expert departures is insignificantly different in the post-announcement period (Diff = -0.003, p-value = 0.744), indicating that the market does not react differently to the departures between financial and non-financial expertise directors after the restatement announcement. Overall, the results suggest that the financial expert departures ***before*** the restatement announcement raise a red flag to send a negative signal

to the market, but the departures in the *post* period does not make a difference in the market reactions.

The difference in *CARs* between busy and non-busy director departures is 0.002, suggesting that the market reacts insignificantly to busy director departures compared to non-busy director departures in the pre-announcement period. After the announcement of restatements, the difference in *CAR* is negative but still insignificant (Diff = -0.002, p-value = 0.840), suggesting that the market reactions to departures of busy and non-busy directors are not statistically different. Overall, the market does not react differently to busy and non-busy director departures in both *pre* and *post* announcement periods, indicating that the busyness is not informative of potential misstatement risk to the market.

For audit committee director tenure, I find a negative but insignificant difference in *CARs* between long-tenured and short-tenured directors in the pre-announcement period (Diff = -0.002, p-value = 0.794). However, after the restatement announcement, I find positive and significant market reactions to the departures of long-tenured audit committee directors (Mean = 0.009, p-value = 0.063). In addition, the *CARs* for long-tenured director departures are marginally lower than the ones for short-tenured director departures (Diff = 0.011, p-value < 0.10, one-tailed), indicating that the market holds a positive view toward the long-tenured director departures after the restatement announcement. In sum, the results suggest that the departures of long-tenured directors before the announcement do not signal misstatement risk to the market. However, the market rewards companies that lose long-tenured directors after the announcement of financial reporting failures.

For gender, I find that the difference in *CARs* between female and male audit committee director departures is negative but insignificant before the announcement (Diff = -0.009, p-value = 0.410), suggesting that the departures of female directors does not serve as a differential signal for the market. In the post-announcement period, the difference is positive but insignificant (Diff = 0.003, p-value = 0.830), indicating that the market again does not react differently to the departures of female directors and male directors. Overall, the market does not view the departures differently based on director gender in both the *pre* and *post* announcement periods.

4.2 Regression Analyses for the Departures of Audit Committee Directors

4.2.1 Departures of Audit Committee Directors and Financial Expertise

As stated earlier in RQ_{1ab} to RQ_{4ab} I investigate whether the characteristics of audit committee directors are associated with the likelihood of departures *before* and *after* the announcement of financial restatements. Table 4 presents the regression results to show the relationship between audit committee director characteristics and the likelihood of departures *before* and *after* the announcement of financial restatements, respectively.

FinExp is negatively and significantly associated with *ACDepart* (Coef = -0.470, p-value = < 0.001), suggesting that audit committee directors with financial expertise are less likely to leave before the announcement of financial restatements. The coefficient is negative and significant also in the post announcement period (Coef = -0.349, p-value < 0.001). Thus, the overall results indicate that the financial experts are less likely to leave

the boards in both *pre* and *post* periods. However, the difference in the coefficients is positive and significant (Diff = +0.121, p-value = 0.084), indicating that the departure likelihood of financial experts increases after the restatement announcement. The results suggest that financial experts are more sensitive to financial misreporting risk, consistent with the arguments that financial experts are more cautious about the potential legal liabilities. The results provide evidence to answer RQ_{1a} and RQ_{1b}.

4.2.2 Departures of Audit Committee Directors and Busyness

For RQ_{2a} and RQ_{2b}, I find a negative but insignificant coefficient on *Busy* (Coef = -0.034, p-value = 0.485), indicating that audit committee director busyness does not make a significant impact on the likelihood of departures in the pre-announcement period. The coefficient on *Busy* is also insignificant (Coef = -0.012, p-value = 0.810) for the post period. The difference in two period coefficients is positive but insignificant (Diff = +0.021, p-value = 0.764). The presence of competing theories may explain the insignificant results. While busy audit committee directors may be unable to exert sufficient effort on boards, their better ability (implied by the better reputations) may compensate the deficiency. Overall, I find that the departure likelihood of busy audit committee directors is not significantly different from that of non-busy directors.

4.2.3 Departures of Audit Committee Directors and Tenure

The coefficient on *Tenure* is positive but insignificant in the period before the announcement (Coef = +0.051, p-value = 0.272), suggesting that long-tenured directors are no more likely to depart before the announcement of restatements. The results might be caused by the development of social ties with the companies. However, their experience

may also compensate the deficiency of the independence impairment. As a result, the length of tenure does not make a difference in the departure likelihood before the restatement announcement. On the other hand, after the restatement announcement, *Tenure* is positively and significantly associated with *ACDepart* (Coef = +0.125, p-value = 0.012), indicating that long-tenured directors are more likely to depart after the announcement of financial misstatements. Given concerns about the development of ties over time with managers, long-tenured directors may face higher pressure to resign than short-tenured directors in the post-announcement period. Overall, the results answer RQ_{3a} and RQ_{3b} about the association between the tenure and departure likelihood around the restatement announcement.

4.2.4 Departures of Audit Committee Directors and Gender

Turning to audit committee director gender, the coefficient on *Female* is negative and marginally significant (Coef = -0.133, p-value = 0.104, two-tailed), suggesting that female audit committee directors are less likely to leave the boards than male directors before the restatement announcement. On the other hand, the difference in the departure likelihood between female and male directors is insignificant in the post-announcement period (Coef = -0.109, p-value = 0.206), indicating that female directors are no more likely to leave audit committees after the announcement of financial reporting failures. The demand for gender diversity may explain the significantly lower departure likelihood before the announcement for female directors. However, in the post-announcement period, the demand effect gets weaker, probably due to the presence of financial misstatements. Therefore, the restatement announcement weakens the tendency of female directors to be

less likely to resign from audit committees. The results provide evidence to answer RQ_{4a} and RQ_{4b}.

4.2.5 Departures of Audit Committee Directors and Severity of Restatements

Prior studies find that severe financial restatements have large and negative impacts on firms. To examine whether the results differ between severe and non-severe financial restatements, I partition the restating firm-director-year observations according to the incidence of SEC investigated restatements.

Panel A of Table 5 reports the results of the departure likelihood of audit committee directors around the announcement of SEC investigated restatements. The coefficients on *FinExp* are significantly negative in both *pre* and *post* announcement periods (Coef = -0.344, p-value; Coef = -0.355, p-value = 0.089), suggesting that financial experts are less likely to leave audit committees than non-financial experts around the announcement of severe restatements. The demand for financial experts on audit committees might lead to the lower turnover for financial expertise directors.

However, compared with the main results in Table 4, I find that the magnitude of coefficient on *FinExp* before the severe restatement announcement is smaller (Coef = -0.344, Panel A of Table 5 vs. Coef = -0.470, Table 4), indicating that the likelihood of financial expert departures before the announcement is higher for severe restatements than the general ones. The results suggest that financial experts are more sensitive to misreporting risk when the misstatements are severe. I find insignificant coefficients on *Busy* and *Tenure*, suggesting that these characteristics do not make a difference in the departure likelihood around the announcement when the misstatements are severe. For

gender, unlike the negative coefficients in the main results, the coefficients on *Female* are both positive but insignificant in the *pre* and *post* announcement periods (Coef = +0.258, p-value = 0.463; Coef = +0.278, p-value = 0.499), indicating that female directors are no more likely to depart than male directors when the misstatements are severe. Although the difference in genders is insignificant, I still observe that the female director departure likelihood is higher in the case of severe misstatements than the one in the case of general misstatements. Overall, I find that financial experts are slightly more likely to depart before the announcement of severe misstatements than general ones. In addition, female directors experience a higher departure likelihood when the severe misstatements are severe.

Panel B, Table 5 reports the results for the departures around the announcement of other types of financial restatements. Overall, the results are consistent with the main results in Table 4.

4.3 Regression Analyses for Other Directorship Loss

Srinivasan (2005) finds that audit committee directors lose directorships in other companies following financial reporting failures. I further examine whether the characteristics of audit committee directors affect loss of directorships in other firms.

Table 6 reports the results of the regression where the dependent variable is loss of other directorships around the announcement of financial restatements. The variables of interest are the four audit committee director characteristics variables, discussed earlier. To explore further, I add the interactions between characteristics and *ACDepart* to see whether

the departing directors experience a difference in other directorship loss from non-departing directors.

4.3.1 Loss in Other Directorships and Financial Expertise

In Table 6, the coefficient on *FinExp* is positive but insignificant in the pre-announcement period (Coef = +0.030, p-value = 0.541), suggesting that financial experts are no more likely to lose directorships on other company's boards than non-financial experts following the announcement of financial restatements. The results are consistent with the argument that there is a higher demand for financial experts on audit committees. On the other hand, the coefficient on the interaction term *FinExp* × *ACDepart* is positive and marginally significant (Coef = +0.235, p-value = 0.106), meaning that financial experts who depart following the restatement announcement are more likely to lose other directorships.

The results are consistent with two arguments. First, the financial experts who just experienced the restatement and left the board are more cautious than other experts who did not depart. Therefore, they might choose not to be appointed on other boards. Another reason could be damage to the reputations. After the announcement of financial misstatements, the director's "financial expertise" might be challenged and the announcement might lead to loss of directorships on other boards. Overall, the results answer RQ_{1c} regarding financial experts' loss of other directorships following restatements.

4.3.2 Loss in Other Directorships and Busyness

The coefficient on *Busy* is positive and significant (Coef = +1.397, p-value < 0.001), suggesting that busy audit committee directors are more likely to lose other directorships following reporting failures than non-busy directors. As many practitioners are concerned about the insufficient efforts and time paid by busy directors, the presence of financial misstatements provides evidence to show the ineffectiveness of monitoring function for these directors with multiple directorships. Therefore, these busy directors are more likely to lose directorships on other boards. On the other hand, the interaction term *Busy* × *ACDepart* is positive but insignificant (Coef = +0.188, p-value = 0.298), meaning that the busy directors who depart after the restatements do not experience a difference in the likelihood of other directorship loss compared with busy directors who stay on the boards.

4.3.3 Loss in Other Directorships and Tenure

The results show that the coefficient on *Tenure* is positive but insignificant (Coef = +0.035, p-value = 0.476), suggesting that long-tenured directors are no more likely to lose other directorships following the financial restatements. As there is concern about the long-tenured directorship, it appears the tenure on other boards is not necessarily too long to lose independence. Therefore, these long-tenured directors serving on the restating firm's audit committees do not lose the directorships on other companies' boards. The coefficient on the interaction term *Tenure* × *ACDepart* is negative but insignificant (Coef = -0.103, p-value = 0.471), suggesting the long-tenured directors who depart are no more likely to lose other directorships than those who do not.

4.3.4 Loss in Other Directorships and Gender

I find a positive and significant association between *Female* and *OtherDtrLoss* (Coef = +0.251, p-value = 0.001), suggesting that female directors are more likely to lose other directorships than male directors following financial restatements. The conservative mind might explain the difference in the likelihood of other directorship loss between females and males. Prior studies indicate that females are more cautious about risk than males. Therefore, female directors who have just experienced the financial restatements might hold a conservative attitude toward the directorships on other boards. As a result, they may choose not to be reappointed and lose the directorships on other boards. The difference in the likelihood of other directorship loss between departing and non-departing female directors is negative but insignificant (Coef = -0.079, p-value = 0.740).

4.3.5 Loss in Other Directorships and Severity of Restatements

To examine whether loss in other directorships differs between severe and non-severe restatements, as before, I split the full sample into two groups by the severity. Table 7, Panel A reports the results for other directorship loss following the announcement of severe restatements. The coefficient on *FinExp* is negative but insignificant (Coef = -0.178, p-value = 0.360). Consistent with the main results, the financial experts are no more likely to lose other directorships than non-financial experts following severe restatements. I find a positive and significant coefficient on the interaction term *FinExp* × *ACDepart* (Coef = +1.872, p-value = 0.020). The magnitude of the coefficient for the severe restatements is greater than the one for the general sample (Coef = +1.872, Panel A of Table 7; Coef = +0.235, Table 6), suggesting that departing financial experts are more likely to lose other directorships following the announcement of severe restatements than general ones. As the

reporting failure is more severe, the departing financial experts might be more cautious or experience major damage to their reputations. Therefore, they are more likely to lose other directorships following severe restatements. Panel B of Table 7 shows the results for loss in other directorships following other restatements. The results for other characteristics are generally consistent with the main results.

4.4 Regression Analyses for the Market Reactions

4.4.1 Market Reactions to Departures and Financial Expertise

I now examine market reactions to the departures of audit committee directors, conditional on director characteristics. Table 8 shows that the coefficient on *FinExp* is negative and significant (Coef = -0.018, p-value = 0.063), suggesting that CARs around the departures of financial experts are lower than CARs around the departures of non-financial experts. The results support RQ_{1d} and show that financial expert departures, compared with non-financial expert ones, signal potential misstatement risk to the market.

For the director departures after the announcement, I find positive but insignificant coefficient on *FinExp* in the post-announcement period (Coef = +0.001, p-value = 0.928), suggesting that the market reactions to the financial expert departures are not significantly different from the ones to non-financial expert departures when the departures occur after the announcement of financial restatements. The results answer RQ_{1e} to imply that the market does not view the financial expert departures differently from the departure of non-experts after the announcement of financial misstatements. The coefficient tests further

show that the difference in market reactions between *pre* and *post* announcement period is significant at the one-tailed significance level (Diff = +0.019, p-value < .10). In sum, the results suggest that the departures of audit committee financial expert directors serve as a signal of potential misstatement risk for the market before the restatement announcement, but the market does not view their departures differently from non-expert ones if financial experts depart after the announcement of reporting failures.

4.4.2 Market Reactions to Departures and Busyness

To answer RQ_{2d}, I find that the coefficient on *Busy* is negative but insignificant in the pre-announcement period (Coef = -0.001, p-value = 0.915), indicating that the market reactions to the busy director departures are not statistically different from the ones to the non-busy director departures. The results show that the departures of busy audit committee directors do not inform misstatement risk to the market before the restatement announcement.

For RQ_{2e}, the variable of interest *Busy* is insignificantly associated with *CAR* (Coef = 0, p-value = 0.992), suggesting that the market does not value the departures of busy audit committee directors differently after the announcement of financial restatements. The difference in coefficients between two periods is insignificantly different from zero (Diff = 0.001, p-value = 0.931), suggesting that the difference in market reactions to the busy director departures are not significant between the *pre* and *post* announcement periods. The presence of competing theories for the director busyness may explain the results. Although busy audit committee directors have better reputations and more experiences, the market may be concerned about the inadequate efforts of busy directors on the oversight of the

financial reporting process. Overall, I fail to find a difference in market reactions between busy and non-busy director departures around the announcement of reporting failures.

4.4.3 Market Reactions to Departures and Tenure

The results on *Tenure* provide evidence to answer RQ_{3d} and RQ_{3e}. For RQ_{3d}, the coefficient on *Tenure* is insignificantly different from zero (Coef = 0, p-value = 0.997), indicating that the market does not price the long-tenured director departures differently from the short-tenured director departures in the pre-announcement period. The results suggest that the departures of long-tenured audit committee directors do not inform the market of misstatement risk before the announcement of reporting failures. Considering the post restatement announcement period, the coefficient on *Tenure* is positive but insignificant (Coef = +0.009, p-value = 0.266). The test of differences in coefficients shows a positive but insignificant difference between two periods (Diff = +0.009, p-value = 0.461). The insignificant results could be explained by the presence of both positive and negative attitudes toward the long-tenured directors serving on audit committees. Tong-tenured audit committee directors are more experienced, but the development of social ties with the companies may be of concern to the market. As a result, the market does not react differently to long-tenured director departures.

4.4.4 Market Reactions to Departures and Gender

The coefficients on *Female* provide the results to answer RQ_{4d} *and* RQ_{4e}. For RQ_{4d}, I find a negative but insignificant coefficient on *Female* in the pre-announcement period (Coef = -0.009, p-value = 0.603), suggesting that market reactions to female director departures are not statistically different from the ones to male director departures before

the restatement announcement. Similarly, *Female* is positively but insignificantly associated with *CAR* in the post-announcement period (Coef = +0.007, p-value = 0.629). Overall, I fail to find a difference in market reactions between male and female director departures around the announcement of financial restatements.

4.4.5 Market Reactions to Departures and Severity of Restatements

The market reacts differently to the financial restatements based on severity. Thus, it is possible that market reactions to audit committee director departures are associated with the severity of financial misstatements. To investigate whether the association between market reactions and departing directors' characteristics depends on the severity of misstatements, I split the full sample into the departures around severe and non-severe restatements, where the severe misstatements are defined as those restatements that are associated with SEC investigation, fraud, or other severe accounting errors.

Panel A, Table 9 shows the results of market reactions to departing director characteristics when the financial misstatements are severe. Consistent with the main results, I find a negative and significant coefficient on *FinExp* at the one-tailed significance level in the pre-announcement period (Coef = -0.033, p-value < .10), suggesting that CARs are lower for departing financial experts than for non-experts when the departures occur before the announcement of severe reporting failures. The coefficient on *FinExp* is insignificantly different from zero in the post-announcement period (Coef = +0.008, p-value = 0.779), indicating that the market does not price the departures of financial experts differently from the ones of non-financial experts after the announcement of severe

misstatements. The coefficient test shows that the difference in the market reactions is not statistically different from zero between two periods (Diff = +0.041, p-value = 0.257).

For busyness, I find that the coefficient is positive when the departures occur before the severe restatement announcement but negative when the departures occur later. However, the coefficients are statistically insignificant (Coef = +0.024, p-value = 0.207; Coef = -0.011, p-value = 0.752).

I fail to find significant results for the departures of long-tenured audit committee directors. The coefficient is negative in the pre-announcement period but positive in *post* one, however the coefficients are statistically insignificant in both periods (Coef = -0.014, p-value = 0.454; Coef = +0.021, p-value = 0.488). The difference in the coefficients between two periods is positive but insignificant (Diff = +0.034, p-value = 0.312).

For the gender issue, I find that the market reacts negatively and significantly to the departures of female audit committee directors before the announcement of severe misstatements (Coef = -0.078, p-value = 0.016). On the other hand, the market does not price the gender difference in the post-announcement period (Coef = 0, p-value = 0.994). The difference in the coefficients between two periods is also significant at the one-tailed significance level (Diff = +0.078, p-value = 0.183). The results suggest that the departures of female directors send a warning signal to the market when the departures occur before the announcement of severe reporting failures. However, the gender difference does not affect the market's perception after the announcement of financial misstatements. The findings could be explained by the argument that females are more ethical and cautious. Therefore, their departures raise a red flag for the market prior to a restatement

announcement. However, gender difference is not priced differently after the announcement of severe misstatements.

Panel B of Table 9 reports the results when the departures occur around the non-severe financial misstatements. Consistent with the main results, *FinExp* is negatively and significantly associated with *CAR* in the pre-announcement period (Coef = -0.021, p-value = 0.052), suggesting that financial expert departures before the announcement of other restatements signal misreporting risk to the market. After the announcement, the market does not price the financial expert departures differently from non-expert ones (Coef = -0.001, p-value = 0.938). The coefficient test shows the significant difference in coefficients between two periods at the one-tailed significance level (Diff = +0.020, p-value = 0.157). Overall, the departures of financial expert departures before the restatement announcement raise a red flag of misstatement risk for the market. For the busyness, I fail to find significant difference in departures between busy and non-busy audit committee directors when departures occur before and after other types of misstatements (Coef = -0.004, p-value = 0.713; Coef = +0.002, p-value = 0.793), consistent with the main results. For director tenure, I find an insignificant coefficient on *Tenure* in the pre-announcement period (Coef = +0.003, p-value = 0.768), indicating that departures of long-tenured directors do not signal misreporting risk to the market. However, their departures are positively and marginally significantly associated with *CAR* when they depart after the announcement (Coef = +0.012, p-value < 10, one-tailed). For gender, consistent with the main results, I fail to find the significant association between *CAR* and female director departures before and after the non-severe restatement announcement (Coef = -0.004, p-

value = 0.823; Coef = +0.005, p-value = 0.748). Overall, the results for the other types of restatements are consistent with the main results.

V. ADDITIONAL ANALYSES

5.1 Sub-Group Windows in the Pre-Announcement Period

This study examines whether the audit committee director's characteristics are associated with the departure in one year before and after the restatement announcement. The investigation of financial restatements, however, does not begin at the date of the announcement. That is, there could be a contaminated period in which the misstatements have been investigated before the announcement. To further explore this issue, I break the whole year pre-announcement period into the following three sub-groups [-365,-181], [-180,-91] and [-90,-1] and run the same regression Model 1.

The results in Table 10 show that the coefficients on *FinExp* are negative and significant in all three sub-group windows, consistent with the main results. However, I find the differences in the magnitudes of these coefficients among three windows. The coefficient for the window [-365,-181] is -0.491, and the ones for the windows [-180,-91] and the one [-90,-1] are -0.364 and -0.340, respectively. Recall that the coefficient on *FinExp* in the post-announcement period [0,+365] is -0.349, and the difference in coefficients between the period [-365,-1] and the one [0,+365] is significant.

In Table 10, the results show that the difference in coefficients is significant only between the sub-group *pre* window [-365,-181] and the *post* period [0,+365] (Diff = +0.142, p-value = 0.077). The differences are insignificant between the other two sub-group *pre* windows and the *post* period (Diff = +0.015, p-value = 0.868; Diff = -0.009, p-value = 0.916). The results show that the departure likelihood for financial experts between the *pre*

and *post* announcement periods start to change in the pre window [-180,-91], suggesting that financial experts may perceive misreporting risk about three to six months before the announcement of financial restatements and hence the departure likelihood increases accordingly.

5.2 Market Reactions to Audit Committee Director Departures around the Announcement of *Audit Committee Involved* Restatements

As audit committee directors are responsible for the oversight of the financial reporting process, the correction (restatement) of the financial misstatements may require their knowledge and involvement in the restatement process. To investigate whether the audit committees' knowledge and involvement of the restatements affect market reactions, I limit my observations to the departures around the announcement of restatements involving audit committees' knowledge. The results in Table 11 show that *FinExp* is negatively and significantly associated with *CAR* in the pre-announcement period (Coef = -0.031, p-value = 0.053), suggesting that financial expert departures before the announcement of *audit committee involved* restatements serve as a warning signal to the market. In addition, before the announcement, the magnitude of coefficient on *FinExp* is greater than the one in Table 8 (Coef = -0.031, Table 11; Coef = -0.018, Table 8), suggesting that the signal effect of financial expert departures is stronger when the restatement involves the audit committee. For the other three characteristics, consistent with the main results, I fail to find the significant results.

5.3 Planned Departures and Unplanned Departures

In most cases, audit committee directors leave the boards a few days prior to the date of filing 8-K to the SEC. However, some departures occur differently. To investigate whether the unplanned departures of audit committee directors affect the results, I split the sample into the planned and unplanned departure groups, where the planned departure is defined as the director departs between 1 and 6 days prior to the 8-K filing date.

For the planned departures, consistent with the main results, Panel A of Table 12 shows that the coefficient on *FinExp* is significantly negative (Coef = -0.024, p-value = 0.062), suggesting that the planned financial expert departures in the pre-announcement period signal misstatement risk to the market. For other characteristics, I fail to find significant differences in both the *pre* and *post* announcement periods. Overall, the results for planned departures are consistent with the main results.

On the other hand, for the unplanned departures, Panel B shows that the coefficient on *FinExp* is significantly negative in the pre announcement period, but positive and marginally significant in the post period (Coef = -0.024, p-value = 0.118; Coef = +0.016, p-value < .10, one-tailed). This suggests that the market holds a different attitude toward the unplanned financial expert departures between the pre and post periods. The results suggest that the unplanned departures still serve as a red flag for the market when the departures occur before the announcement. However, the market reacts positively to the unplanned departures of financial experts after the breakout of reporting failures. This could be explained by the market's distrust of the current financial experts serving on audit committees in the presence of the financial misstatements. In addition, the difference in

coefficients between two periods is greater and more significant compared with the main results (Diff = +0.040, p-value = 0.037, Panel B of Table 12; Diff = 0.019, p-value = 0.149, Table 8). The results suggest that the signaling effect (or, the market's distrust of the departing directors) is stronger for the unplanned departures of financial expert audit committee directors.

VI. CONCLUSIONS

This study investigates if the characteristics of audit committee directors are associated with the likelihood of departures *before* and *after* the announcement of financial restatements. In addition, I explore how these characteristics are associated with other directorship loss following restatements. Finally, I also examine if the characteristics of departing audit committee directors are associated with market reactions in the *pre* and *post* announcement periods. Before the announcement, the departures of audit committee directors might raise a red flag about misreporting risk for the market. On the other hand, market reactions to the departures in the post-announcement period could indicate the market's attitude toward current directors under whose watch the restatements occurred. The characteristics examined in this study include financial expertise, busyness, tenure, and gender.

In the first part of my study, using a sample of 11,511 director-year observations from 2004 to 2015, I provide evidence that financial experts are less likely than non-financial expert directors to leave the boards before and after the announcement of financial restatements. Further, the departure likelihood for financial experts is higher in the post-announcement period than in the *pre* one. In addition, directors with long tenure are more likely to leave the boards after the announcement. I also find that female directors are less likely to depart in the pre-announcement period than male directors.

In the second part of my study, I find that financial experts who leave the boards experience a higher likelihood of losing other directorships following a restatement announcement. In addition, busy and female directors are more likely to lose other

directorships. Further evidence shows that the likelihood of loss of other directorships for financial experts who leave boards increases when the restatements are severe. The likelihood of other directorship loss for busy directors also increases in the presence of severe restatements.

In the third part of my study, my results show that financial expert director departures, before the restatement announcement, signal misreporting risk to the market and hence lead to lower cumulative abnormal returns than non-financial expert departures. The signaling effect of financial expert departures is stronger when the financial restatements involve audit committees. In addition, female audit committee director departures also serve as a warning signal when the misstatements are severe. I find that the difference in busyness and the length of tenure does not affect market reactions when the directors depart before the restatement announcement. On the other hand, the results for departures in the post-announcement period show that the market does not price the departures of financial experts differently. However, I find higher cumulative abnormal returns for financial expert departures when the departures are unplanned, suggesting that the market distrusts the current financial experts in the presence of the financial reporting failures.

This study can be extended in several ways. First, future studies can explore the association between more characteristics of audit committee directors and the departures of audit committee directors, before and after financial misstatements. In addition, future research can examine if the departure of audit committee directors can be informative about internal control weaknesses and other severe adverse events. Third, while this study

focused on U.S. evidence, issues related to audit committees have been of interest to regulators and professionals in many other countries. Hence, this study can be extended by examining the market reactions to different types of audit committee director departures in other countries. This issue is particularly salient since, following the enactment of SOX in the USA (and, especially after SOX was found to be effective in raising financial reporting quality), many countries followed the USA to enact similar laws. For example, China released "The Basic Standard for Enterprise Internal Control", also known as China SOX, in 2008. However, the effect of the adoption of similar set of regulations or standards may depend on the enforcement environment, which varies by the countries. Therefore, it would be worthwhile to investigate if the findings differ for other countries with different regulatory environments.

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APPENDIX

VARIABLE DEFINITIONS

Variable		**Definition**
ACDepart	=	1 if the audit committee director leaves the board in the *pre-* or *post-* restatement announcement period, and 0 otherwise;
OtherDtrLoss	=	loss in the number of other directorships held by the audit committee director in three years following the restatement announcement;
CAR	=	a [-2,+2] window of cumulative abnormal return estimated by the market adjusted model;
FinExp	=	1 if the audit committee director has financial expertise, and 0 otherwise;
Busy	=	1 if the number of directorships held by the audit committee director is greater than the median value, and 0 otherwise;
Tenure	=	1 if the number of the audit committee director's tenure is greater than the median value, and 0 otherwise;
Female	=	1 if the audit committee director is a female director, and 0 otherwise;
CEOTURNOVER	=	1 if there is a CEO turnover in the period, and 0 otherwise;
CFOTURNOVER	=	1 if there is a CFO turnover in the period, and 0 otherwise;
LNMV	=	the natural log of the firm's market value;
ROA	=	return on total assets;
LOSS	=	1 if the firm reports a net loss, and 0 otherwise;
CHNI	=	cumulative amount of net income restated scaled by the total assets;
DURATION	=	number of quarters for the restating period;
OTHERCEO	=	1 if the director is a CEO of another public company, and 0 otherwise;
ACSIZE	=	the number of directors on the audit committee;

CEOT_BACT	=	1 if there is a CEO turnover in one year before the director departure, and 0 otherwise;
CFOT_BACT	=	1 if there is a CFO turnover in one year before the director departure, and 0 otherwise;
DA	=	the total debts divided by the total assets;
MB	=	the market to book ratio;
RECINV	=	the sum of receivables and inventory divided by the total assets;
CASH	=	the sum of cash and cash equivalents divided by the total assets;
GC	=	1 if the firm receives a going concern opinion from the auditor, and 0 otherwise;
SMBD	=	1 if the board is less than the median value, and 0 otherwise;
INDEP	=	1 if the proportion of outside directors is greater than 60 percent, and 0 otherwise;
ACCFILER	=	1 if the firm is a large accelerated or accelerated filer, and 0 otherwise.

Table 1

Sample Selection

Panel A: Sample Selection for RQ_{as}, RQ_{bs}, and RQ_{cs}

Selection process	Number of observations
Total number of audit committee directors during 2004 and 2015	15,805
Less: Financial firms	-3,234
Less: Foreign firms	-591
Less: Missing director data in *BoardEx*	-174
Less: Missing financial and audit data in *Compustat* and *Audit Analytics*	-295
Total sample observations	11,511

Panel B: Sample Distribution by Year for RQ_{as}, RQ_{bs}, and RQ_{cs}

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Obs.	1,162	1,900	1,364	901	740	683	628	768	1,009	1,031	863	462	11,511
%	10.09%	16.51%	11.85%	7.83%	6.43%	5.93%	5.46%	6.67%	8.77%	8.96%	7.50%	4.01%	

Panel C: Sample Distribution by Industry for RQ_{as}, RQ_{bs}, and RQ_{cs}

Industry	Number of observations	%
Agriculture, mining & construction (SIC < 2000)	886	7.70%
Manufacturing (SIC between 2000 and 4000, except 3570 to 3579)	4,794	41.65%
Technology (SIC between 3570 and 3579, and 7370 and 7379)	1,497	13.00%
Transportation (SIC between 4000 and 4799)	309	2.68%
Communications (SIC between 4800 and 4899)	332	2.88%
Utilities (SIC between 4900 and 4999)	617	5.36%
Wholesale & retail (SIC between 5000 and 5999)	1,699	14.76%
Services (SIC between 7000 and 8999, except 7370 to 7379)	1,279	11.11%
Public administration (SIC between 9000 and 9999)	98	0.85%
	11,511	

Panel D: Sample Selection Process for RQ_{ds} and RQ_{es}

Selection process	Pre	Post
Audit committee director departures around restatements during 2004–2015	553	646
Less: gap between the 8K effective date and the filing date is greater than 45	-30	-36
Less: missing data in *BoardEx*	-12	-46
Less: missing data in *Compustat*	-7	-14
Less: missing data in *Eventus*	-23	-38
Total sample observations	481	512

Table 2

Descriptive Statistics

Panel A: Descriptive Statistics for RQ_{as} and RQ_{bs}

N = 11,511

Variable	Mean	Std. Dev.	Q1	Median	Q3
ACDepart	0.137	0.344	0	0	0
FinExp	0.457	0.498	0	0	1
Busy (raw)	1.786	1.093	1	1	2
Busy	0.455	0.498	0	0	1
Tenure (raw)	7.134	5.898	2.700	5.600	9.800
Tenure	0.493	0.500	0	0	1
Female	0.103	0.305	0	0	0
CEOTURNOVER	0.087	0.281	0	0	0
CFOTURNOVER	0.061	0.239	0	0	0
LNMV	20.064	1.862	18.783	20.116	21.376
ROA	-0.036	0.226	-0.040	0.024	0.062
LOSS	0.352	0.478	0	0	1
CHNI	-0.012	0.041	-0.005	0	0
DURATION	6.051	8.538	0	2	10
OTHERCEO	0.045	0.206	0	0	0
ACSIZE	3.122	1.069	3	3	4

Panel B: Descriptive Statistics for RQ_{cs}

N = 4,412

Variable	Mean	Std. Dev.	Q1	Median	Q3
OtherDtrLoss	0.391	0.746	0	0	1
FinExp	0.450	0.498	0	0	1
Busy	0.444	0.497	0	0	1
Tenure	0.486	0.500	0	0	1
Female	0.094	0.292	0	0	0
CEOTURNOVER	0.109	0.312	0	0	0
CFOTURNOVER	0.061	0.238	0	0	0
LNMV	19.854	1.866	18.595	19.877	21.140
ROA	-0.043	0.231	-0.057	0.022	0.062
LOSS	0.378	0.485	0	0	1
CHNI	-0.010	0.039	0	0	0
DURATION	3.953	8.068	0	0	5
OTHERCEO	0.040	0.196	0	0	0
ACSIZE	3.119	1.062	3	3	4

Table 2 (cont'd)

Descriptive Statistics

Panel C: Descriptive Statistics for RQ_{ds} and RQ_{es}

	Pre-Announcement Period Day [t-365, t-1]			Post-Announcement Period Day [t, t+365]		
Variables	N	Mean	Median	N	Mean	Median
CAR [-2,+2]	481	0	-0.004	512	0.004	0
FinExp	481	0.318	0	512	0.324	0
Busy	481	0.385	0	512	0.375	0
Tenure	481	0.491	0	512	0.51	1
Female	481	0.081	0	512	0.096	0
CEOT_BACT	481	0.164	0	512	0.193	0
CFOT_BACT	481	0.077	0	512	0.105	0
OtherCEO	481	0.073	0	512	0.057	0
LNMV	481	19.462	19.517	512	19.589	19.571
LEVERAGE	481	0.594	0.569	512	0.627	0.583
MB	481	2.768	1.739	512	2.013	1.651
ROA	481	-0.137	0.001	512	-0.125	0
RECINV	481	0.274	0.216	512	0.263	0.205
CASH	481	0.24	0.091	512	0.23	0.106
GC	481	0.104	0	512	0.076	0
LOSS	481	0.495	0	512	0.498	0
SMBD	481	0.401	0	512	0.434	0
INDEP	481	0.967	1	512	0.945	1
ACCFILER	481	0.709	1	512	0.66	1

Table 3

Univariate Statistics

Panel A: The Departure Likelihood of Audit Committee Directors Around the Announcement of Restatements

AC Departure	Pre-Announcement Period		Post-Announcement Period	
Yes	850	15.04%	731	12.48%
No	4,803	84.96%	5,127	87.52%
	5,653		5,858	

Panel B: The Departure Likelihood Around the Announcement of Restatements by Director Characteristics

Financial Expert	AC Departure	Pre- Period		Post- Period	
Yes	Yes	242	9.62%	265	9.68%
	No	2,274	90.38%	2,474	90.32%
		2,516		2,739	
No	Yes	608	19.38%	466	14.94%
	No	2,529	80.62%	2,653	85.06%
		3,137		3,119	

Busyness	AC Departure	Pre- Period		Post- Period	
Yes	Yes	367	14.30%	327	12.24%
	No	2,200	85.70%	2,345	87.76%
		2,567		2,672	
No	Yes	483	15.65%	404	12.68%
	No	2,603	84.35%	2,782	87.32%
		3,086		3,186	

Long Tenure	AC Departure	Pre- Period		Post- Period	
Yes	Yes	394	14.25%	363	12.46%
	No	2,371	85.75%	2,550	87.54%
		2,765		2,913	
No	Yes	456	15.79%	368	12.50%
	No	2,432	84.21%	2,577	87.50%
		2,888		2,945	

Female	AC Departure	Pre- Period		Post- Period	
Yes	Yes	67	11.41%	63	10.13%
	No	520	88.59%	559	89.87%
		587		622	
No	Yes	783	15.40%	668	12.76%
	No	4,301	84.60%	4,568	87.24%
		5,084		5,236	

Table 3 (cont'd)

Univariate Statistics

Panel C: Market Reactions to Audit Committee Director Departures by Director Characteristics

CAR[-2,+2]	**Pre-Announcement Period**			**Post-Announcement Period**		
FinExp	Mean	t stat.	p-value	Mean	t stat.	p-value
Yes	-0.014	-1.69	***0.094***	0.002	0.27	*0.784*
No	0.007	1.25	*0.210*	0.005	0.98	*0.329*
Diff.	-0.020	-2.13	***0.034***	-0.003	-0.33	*0.744*
Busy	Mean	t stat.	p-value	Mean	t stat.	p-value
Yes	0.002	0.25	*0.803*	0.003	0.51	*0.612*
No	-0.001	-0.12	*0.906*	0.005	0.81	*0.417*
Diff.	0.002	0.27	*0.791*	-0.002	-0.2	*0.840*
Long Tenure	Mean	t stat.	p-value	Mean	t stat.	p-value
Yes	-0.001	-0.18	*0.861*	0.009	1.87	***0.063***
No	0.001	0.19	*0.846*	-0.002	-0.26	*0.795*
Diff.	-0.002	-0.26	*0.794*	0.011	1.34	*0.180*
Female	Mean	t stat.	p-value	Mean	t stat.	p-value
Yes	-0.008	-0.82	*0.416*	0.007	0.59	*0.556*
No	0.001	0.20	*0.839*	0.004	0.83	*0.405*
Diff.	-0.009	-0.83	*0.410*	0.003	0.21	*0.830*

Table 4

Departures of Audit Committee Directors Around the Announcement of Financial Restatements

		Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.		*ACDepart*		*ACDepart*	
Parameter	Expected Sign	Coef.	*p-value*	Coef.	*p-value*
Intercept	?	-0.949	*0.002*	-0.738	*0.038*
FinExp	?	-0.470	***<0.001***	-0.349	***<0.001***
Busy	?	-0.034	*0.485*	-0.012	*0.810*
Tenure	?	+0.051	*0.272*	+0.125	***0.012***
Female	?	-0.133	***0.104***	-0.109	*0.206*
CEOTURNOVER	+	-0.164	*0.056*	+0.244	*0.001*
CFOTURNOVER	+	-0.348	*0.004*	-0.053	*0.586*
LNMV	+	+0.072	*<0.001*	+0.074	*<0.001*
ROA	-	-0.425	*0.001*	-0.360	*0.002*
LOSS	+	+0.209	*0.001*	+0.101	*0.117*
CHNI	+	+1.093	*0.055*	+0.637	*0.367*
DURATION	+	-0.010	*0.001*	+0.002	*0.615*
OTHERCEO	+	+0.516	*<0.001*	+0.166	*0.162*
ACSIZE	-	-0.497	*<0.001*	-0.727	*<0.001*
YEARD		*controlled*		*controlled*	
INDUSTRYD		*controlled*		*controlled*	
N		5,653		5,858	
Pseudo R^2		14.91%		17.49%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.121	***0.084***
Busy (pre vs. post)	+0.021	*0.764*
Tenure (pre vs. post)	+0.074	*0.277*
Female (pre vs. post)	+0.025	*0.835*

Table 5

Departures Around the Announcement of SEC Investigated Restatements

Panel A: Restatements Subject to SEC Investigation

		Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.		*ACDepart*		*ACDepart*	
Parameter	Expected Sign	Coef.	*p-value*	Coef.	*p-value*
Intercept	?	+0.683	*0.606*	-1.021	*0.527*
FinExp	?	-0.344	***0.084***	-0.355	***0.089***
Busy	?	-0.038	*0.857*	-0.079	*0.725*
Tenure	?	+0.185	*0.361*	-0.258	*0.224*
Female	?	+0.258	*0.463*	+0.278	*0.499*
CEOTURNOVER	+	-0.005	*0.989*	-0.106	*0.804*
CFOTURNOVER	+	-0.638	*0.409*	+0.404	*0.337*
LNMV	+	+0.020	*0.772*	+0.146	*0.072*
ROA	-	-0.255	*0.708*	-0.489	*0.338*
LOSS	+	-0.127	*0.655*	-0.170	*0.618*
CHNI	+	+3.040	*0.126*	-0.359	*0.871*
DURATION	+	-0.013	*0.300*	-0.001	*0.949*
OTHERCEO	+	+1.199	*0.009*	+1.316	*0.031*
ACSIZE	-	-0.700	*<0.001*	-0.913	*<0.001*
YEARD		*controlled*		*controlled*	
INDUSTRYD		*controlled*		*controlled*	
N		395		431	
Pseudo R^2		22.12%		26.00%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	-0.011	*0.970*
Busy (pre vs. post)	-0.041	*0.894*
Tenure (pre vs. post)	-0.444	*0.132*
Female (pre vs. post)	+0.020	*0.971*

Table 5 (cont'd)

Departures Around the Announcement of SEC Investigated Restatements

Panel B: Restatements not Subject to SEC Investigation

		Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.		*ACDepart*		*ACDepart*	
Parameter	Expected Sign	Coef.	*p-value*	Coef.	*p-value*
Intercept	?	-0.953	*0.002*	-0.810	*0.029*
FinExp	?	-0.480	***<0.001***	-0.357	***<0.001***
Busy	?	-0.035	*0.478*	-0.002	*0.969*
Tenure	?	+0.043	*0.367*	+0.150	***0.004***
Female	?	-0.161	***0.060***	-0.116	***0.190***
CEOTURNOVER	+	-0.162	*0.071*	+0.229	*0.004*
CFOTURNOVER	+	-0.328	*0.007*	-0.123	*0.242*
LNMV	+	+0.072	*<0.001*	+0.076	*<0.001*
ROA	-	-0.418	*0.001*	-0.282	*0.023*
LOSS	+	+0.214	*0.001*	+0.133	*0.047*
CHNI	+	+0.635	*0.305*	+0.513	*0.511*
DURATION	+	-0.011	*0.001*	+0.001	*0.755*
OTHERCEO	+	+0.487	*<0.001*	+0.129	*0.287*
ACSIZE	-	-0.488	*<0.001*	-0.734	*<0.001*
YEARD		*controlled*		*controlled*	
INDUSTRYD		*controlled*		*controlled*	
N		5,258		5,427	
Pseudo R^2		14.86%		17.44%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.123	***0.093***
Busy (pre vs. post)	+0.033	*0.650*
Tenure (pre vs. post)	+0.106	*0.135*
Female (pre vs. post)	+0.044	*0.721*

Table 6

Other Directorship Loss of Audit Committee Directors Following Financial Restatements

Dependent Var.		*OtherDtrLoss*	
Parameter	Expected Sign	Coef.	*p-value*
Intercept1	?	-5.004	*<0.001*
Intercept2	?	-4.204	*<0.001*
Intercept3	?	-3.315	*<0.001*
FinExp	?	+0.030	*0.541*
Busy	?	+1.937	***<0.001***
Tenure	?	+0.035	*0.476*
Female	?	+0.251	***0.001***
ACDepart	?	-0.077	*0.690*
FinExp × ACDepart	?	+0.235	***0.106***
Busy × ACDepart	?	+0.188	*0.298*
Tenure × ACDepart	?	-0.103	*0.471*
Female × ACDepart	?	-0.079	*0.740*
CEOTURNOVER	+	-0.047	*0.529*
CFOTURNOVER	+	+0.088	*0.353*
LNMV	-	+0.066	*<0.001*
ROA	-	-0.198	*0.146*
LOSS	+	+0.011	*0.861*
CHNI	+	-0.782	*0.244*
DURATION	+	-0.002	*0.540*
OTHERCEO	+	-0.499	*<0.001*
ACSIZE	-	+0.029	*0.217*
YEARD		*controlled*	
INDUSTRYD		*controlled*	
N		4,412	
Pseudo R^2		33.59%	

Table 7

Other Directorship Loss Following SEC Investigated Restatements

Panel A: Restatements Subject to SEC Investigation

Dependent Var.		*OtherDtrLoss*	
Parameter	Expected Sign	Coef.	*p-value*
Intercept1	?	-8.461	*<0.001*
Intercept2	?	-7.399	*<0.001*
Intercept3	?	-6.293	*<0.001*
FinExp	?	-0.178	*0.360*
Busy	?	+2.887	***<0.001***
Tenure	?	-0.015	*0.938*
Female	?	+0.126	*0.690*
ACDepart	?	-5.160	*0.976*
FinExp × ACDepart	?	+1.872	***0.020***
Busy × ACDepart	?	+4.401	*0.980*
Tenure × ACDepart	?	+0.834	*0.195*
Female × ACDepart	?	+0.556	*0.478*
CEOTURNOVER	+	-0.579	*0.130*
CFOTURNOVER	+	-0.221	*0.802*
LNMV	-	+0.081	*0.257*
ROA	-	+0.261	*0.689*
LOSS	+	-0.309	*0.306*
CHNI	+	-4.156	*0.063*
DURATION	+	+0.005	*0.681*
OTHERCEO	+	+0.908	*0.022*
ACSIZE	-	+0.211	*0.087*
YEARD		*controlled*	
INDUSTRYD		*controlled*	
N		377	
Pseudo R^2		50.20%	

Table 7 (cont'd)

Other Directorship Loss Following SEC Investigated Restatements

Panel B: Restatements not Subject to SEC Investigation

Dependent Var.		*OtherDtrLoss*	
Parameter	Expected Sign	Coef.	*p-value*
Intercept1	?	-4.781	*<0.001*
Intercept2	?	-3.992	*<0.001*
Intercept3	?	-3.103	*<0.001*
FinExp	?	+0.030	*0.559*
Busy	?	+1.910	***<0.001***
Tenure	?	+0.029	*0.565*
Female	?	+0.267	***0.001***
ACDepart	?	-0.038	*0.847*
FinExp × ACDepart	?	+0.221	***0.144***
Busy × ACDepart	?	+0.167	*0.365*
Tenure × ACDepart	?	-0.152	*0.306*
Female × ACDepart	?	-0.125	*0.628*
CEOTURNOVER	+	-0.039	*0.608*
CFOTURNOVER	+	+0.076	*0.436*
LNMV	-	+0.063	*<0.001*
ROA	-	-0.250	*0.079*
LOSS	+	+0.013	*0.837*
CHNI	+	-0.212	*0.776*
DURATION	+	-0.001	*0.719*
OTHERCEO	+	-0.621	*<0.001*
ACSIZE	-	+0.021	*0.404*
YEARD		*controlled*	
INDUSTRYD		*controlled*	
N		4,035	
Pseudo R^2		32.89%	

Table 8

Market Reactions to Departures Around the Restatement Announcement

	Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.	*CAR[-2,+2]*		*CAR[-2,+2]*	
Parameter	Coef.	*p-value*	Coef.	*p-value*
Intercept	+0.042	*0.574*	-0.160	*0.014*
FinExp	-0.018	***0.063***	+0.001	*0.928*
Busy	-0.001	*0.915*	+0.000	*0.992*
Tenure	+0.000	*0.997*	+0.009	*0.266*
Female	-0.009	*0.603*	+0.007	*0.629*
CEOT_BACT	+0.014	*0.292*	-0.007	*0.513*
CFOT_BACT	+0.027	*0.110*	-0.008	*0.548*
OTHERCEO	+0.015	*0.395*	-0.006	*0.736*
LNMV	+0.000	*0.956*	+0.005	*0.120*
LEVERAGE	-0.015	*0.384*	-0.005	*0.739*
MB	+0.000	*0.933*	+0.002	*0.093*
ROA	-0.009	*0.575*	+0.028	*0.037*
RECINV	-0.011	*0.622*	+0.005	*0.811*
CASH	-0.004	*0.696*	+0.008	*0.464*
GC	-0.004	*0.801*	+0.015	*0.427*
LOSS	-0.009	*0.455*	+0.027	*0.008*
SMBD	-0.002	*0.852*	+0.009	*0.315*
INDEP	-0.021	*0.416*	+0.054	*0.005*
ACCFILER	-0.003	*0.798*	-0.013	*0.265*
FRGN	*controlled*		*controlled*	
FIND	*controlled*		*controlled*	
N	481		512	
Adj. R^2	1.46%		2.49%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.019	*0.149*
Busy (pre vs. post)	+0.001	*0.931*
Tenure (pre vs. post)	+0.009	*0.461*
Female (pre vs. post)	+0.016	*0.476*

Table 9

Market Reactions to Departures by the Severity of Financial Misstatements

Panel A: Departures Around Severe Restatements

	Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.	*CAR[-2,+2]*		*CAR[-2,+2]*	
Parameter	Coef.	*p-value*	Coef.	*p-value*
Intercept	+0.239	*0.148*	-0.021	*0.931*
FinExp	-0.033	***0.131***	+0.008	*0.779*
Busy	+0.024	*0.207*	-0.011	*0.752*
Tenure	-0.014	*0.454*	+0.021	*0.488*
Female	-0.078	***0.016***	+0.000	*0.994*
CEOT_BACT	+0.018	*0.472*	-0.027	*0.467*
CFOT_BACT	+0.043	*0.204*	-0.004	*0.957*
OTHERCEO	-0.087	*0.011*	-0.023	*0.764*
LNMV	-0.004	*0.634*	+0.003	*0.819*
LEVERAGE	-0.165	*0.001*	-0.122	*0.056*
MB	+0.005	*0.011*	+0.002	*0.578*
ROA	-0.126	*0.035*	-0.018	*0.665*
RECINV	+0.035	*0.509*	+0.071	*0.298*
CASH	-0.021	*0.401*	-0.151	*0.202*
GC	-0.061	*0.115*	+0.138	*0.032*
LOSS	-0.109	*0.000*	+0.047	*0.110*
SMBD	+0.026	*0.239*	-0.030	*0.381*
INDEP	-0.004	*0.959*	0.000	.
ACCFILER	-0.089	*0.002*	+0.002	*0.958*
FRGN	*controlled*		*controlled*	
FIND	*controlled*		*controlled*	
N	75		72	
Adj. R^2	35.94%		1.26%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.041	*0.257*
Busy (pre vs. post)	-0.035	*0.350*
Tenure (pre vs. post)	+0.034	*0.312*
Female (pre vs. post)	+0.078	***0.183***

Table 9 (cont'd)

Market Reactions to Departures by the Severity of Financial Misstatements

Panel B: Departures Around Non-severe Restatements

	Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.	*CAR[-2,+2]*		*CAR[-2,+2]*	
Parameter	Coef.	*p-value*	Coef.	*p-value*
Intercept	-0.003	*0.968*	-0.131	*0.056*
FinExp	-0.021	***0.052***	-0.001	*0.938*
Busy	-0.004	*0.713*	+0.002	*0.793*
Tenure	+0.003	*0.768*	+0.012	***0.170***
Female	-0.004	*0.823*	+0.005	*0.748*
CEOT_BACT	+0.017	*0.253*	-0.002	*0.838*
CFOT_BACT	+0.023	*0.231*	-0.008	*0.550*
OTHERCEO	+0.039	*0.056*	-0.007	*0.716*
LNMV	+0.001	*0.749*	+0.003	*0.291*
LEVERAGE	-0.011	*0.576*	+0.003	*0.849*
MB	-0.000	*0.697*	+0.002	*0.120*
ROA	-0.002	*0.911*	+0.042	*0.004*
RECINV	-0.019	*0.429*	-0.015	*0.502*
CASH	-0.005	*0.685*	+0.011	*0.327*
GC	+0.005	*0.811*	-0.002	*0.916*
LOSS	+0.003	*0.826*	+0.026	*0.021*
SMBD	-0.002	*0.869*	+0.009	*0.390*
INDEP	-0.012	*0.671*	+0.050	*0.010*
ACCFILER	+0.008	*0.571*	-0.011	*0.385*
FRGN	*controlled*		*controlled*	
FIND	*controlled*		*controlled*	
N	406		440	
Adj. R^2	4.63%		5.47%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.020	***0.157***
Busy (pre vs. post)	+0.006	*0.651*
Tenure (pre vs. post)	+0.009	*0.506*
Female (pre vs. post)	+0.009	*0.705*

Table 10

Departures in Sub Windows in the Pre-Announcement Period

	Pre-Announcement						**Post-Announcement**	
	Days [-365,-181]		**Days [-180,-91]**		**Days [-90,-1]**		**Days [0,+365]**	
Dependent Var.	*ACDepart*		*ACDepart*		*ACDepart*		*ACDepart*	
Parameter	Coef.	*p-value*	Coef.	*p-value*	Coef.	*p-value*	Coef.	*p-value*
Intercept	-0.945	*0.013*	-1.716	*<0.001*	-1.892	*<0.001*	-0.738	*0.038*
FinExp	-0.491	***<0.001***	-0.364	*<0.001*	-0.340	*<0.001*	-0.349	*<0.001*
Busy	-0.038	*0.528*	-0.046	*0.545*	+0.018	*0.814*	-0.012	*0.810*
Tenure	+0.048	*0.408*	-0.023	*0.752*	+0.089	*0.221*	+0.125	*0.012*
Female	+0.015	*0.878*	-0.175	*0.199*	-0.407	*0.011*	-0.109	*0.206*
CEOTURNOVER	+0.346	*0.004*	-0.134	*0.551*	-1.123	*0.020*	+0.244	*0.001*
CFOTURNOVER	-0.091	*0.631*	+0.067	*0.824*	-2.734	*0.706*	-0.053	*0.586*
LNMV	+0.070	*<0.001*	+0.067	*0.005*	+0.034	*0.152*	+0.074	*<0.001*
ROA	-0.160	*0.359*	-0.581	*0.001*	-0.314	*0.077*	-0.360	*0.002*
LOSS	+0.065	*0.408*	+0.122	*0.191*	+0.448	*<0.001*	+0.101	*0.117*
CHNI	+0.814	*0.285*	+0.521	*0.531*	+0.688	*0.410*	+0.637	*0.367*
DURATION	-0.006	*0.087*	-0.016	*0.002*	-0.011	*0.024*	+0.002	*0.615*
OTHERCEO	+0.330	*0.011*	+0.687	*<0.001*	+0.340	*0.030*	+0.166	*0.162*
ACSIZE	-0.560	*<0.001*	-0.403	*<0.001*	-0.346	*<0.001*	-0.727	*<0.001*
YEARD	*controlled*		*controlled*		*controlled*		*controlled*	
INDUSTRYD	*controlled*		*controlled*		*controlled*		*controlled*	
N	5,216		5,022		5,021		5,858	
Pseudo R^2	10.43%		6.90%		6.70%		17.49%	

Coefficients Test	Diff.	*p-value*	Diff.	*p-value*	Diff.	*p-value*
FinExp (pre vs. post)	+0.142	***0.077***	+0.015	*0.868*	-0.009	*0.916*
Busy (pre vs. post)	+0.026	*0.744*	+0.034	*0.712*	-0.030	*0.742*
Tenure (pre vs. post)	+0.077	*0.320*	+0.148	***0.092***	+0.036	*0.681*
Female (pre vs. post)	-0.123	*0.341*	+0.067	*0.682*	+0.299	***0.099***

Table 11

Market Reactions to Departures Around the Announcement of Audit Committee Involved Restatements

	Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.	*CAR[-2,+2]*		*CAR[-2,+2]*	
Parameter	Coef.	*p-value*	Coef.	*p-value*
Intercept	-0.136	*0.291*	-0.225	*0.031*
FinExp	-0.031	***0.053***	+0.008	*0.565*
Busy	-0.006	*0.693*	-0.015	*0.333*
Tenure	-0.011	*0.460*	+0.013	*0.359*
Female	-0.010	*0.680*	-0.004	*0.850*
CEOT_BACT	+0.027	*0.179*	-0.006	*0.734*
CFOT_BACT	+0.016	*0.522*	-0.023	*0.267*
OTHERCEO	-0.016	*0.586*	-0.025	*0.388*
LNMV	+0.004	*0.466*	+0.010	*0.058*
LEVERAGE	-0.026	*0.404*	+0.002	*0.921*
MB	+0.002	*0.212*	+0.002	*0.282*
ROA	-0.023	*0.455*	+0.029	*0.117*
RECINV	+0.053	*0.137*	-0.001	*0.987*
CASH	+0.033	*0.064*	+0.015	*0.572*
GC	-0.030	*0.329*	+0.017	*0.542*
LOSS	-0.004	*0.832*	+0.038	*0.018*
SMBD	+0.009	*0.610*	+0.010	*0.475*
INDEP	+0.068	*0.238*	+0.024	*0.516*
ACCFILER	-0.018	*0.384*	-0.037	*0.047*
FRGN	*controlled*		*controlled*	
FIND	*controlled*		*controlled*	
N	237		252	
Adj. R^2	0.51%		3.00%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.039	***0.067***
Busy (pre vs. post)	-0.008	*0.705*
Tenure (pre vs. post)	+0.024	*0.242*
Female (pre vs. post)	+0.006	*0.864*

Table 12

Market Reactions to Planned and Unplanned Departures

Panel A: Planned Departures

	Pre-Announcement Period		**Post-Announcement Period**	
Dependent Var.	*CAR[-2,+2]*		*CAR[-2,+2]*	
Parameter	Coef.	*p-value*	Coef.	*p-value*
Intercept	-0.002	*0.981*	-0.195	*0.031*
FinExp	-0.024	***0.062***	-0.009	*0.472*
Busy	+0.001	*0.918*	+0.002	*0.899*
Tenure	+0.003	*0.816*	+0.008	*0.506*
Female	-0.011	*0.595*	+0.012	*0.523*
CEOT_BACT	+0.034	*0.041*	-0.016	*0.305*
CFOT_BACT	+0.026	*0.222*	-0.021	*0.247*
OTHERCEO	+0.017	*0.527*	-0.000	*0.996*
LNMV	+0.001	*0.765*	+0.006	*0.144*
LEVERAGE	-0.007	*0.754*	-0.017	*0.482*
MB	-0.000	*0.939*	+0.001	*0.691*
ROA	+0.005	*0.813*	+0.029	*0.094*
RECINV	-0.009	*0.748*	-0.011	*0.682*
CASH	-0.006	*0.635*	-0.007	*0.678*
GC	+0.000	*0.992*	+0.021	*0.371*
LOSS	-0.008	*0.608*	+0.030	*0.036*
SMBD	+0.006	*0.652*	+0.011	*0.389*
INDEP	-0.021	*0.557*	+0.087	*0.001*
ACCFILER	+0.005	*0.764*	-0.027	*0.075*
FRGN	*controlled*		*controlled*	
FIND	*controlled*		*controlled*	
N	330		349	
Adj. R^2	5.42%		4.99%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.015	*0.394*
Busy (pre vs. post)	+0.000	*0.990*
Tenure (pre vs. post)	+0.005	*0.782*
Female (pre vs. post)	+0.022	*0.409*

Table 12 (cont'd)

Market Reactions to Planned and Unplanned Departures

Panel B: Unplanned Departures

	Pre-Announcement		**Post-Announcement**	
Dependent Var.	*CAR[-2,+2]*		*CAR[-2,+2]*	
Parameter	Coef.	*p-value*	Coef.	*p-value*
Intercept	+0.101	*0.392*	-0.012	*0.883*
FinExp	-0.024	***0.118***	+0.016	***0.174***
Busy	+0.002	*0.884*	-0.013	*0.262*
Tenure	-0.006	*0.695*	-0.002	*0.856*
Female	+0.002	*0.944*	+0.018	*0.380*
CEOT_BACT	-0.046	*0.034*	-0.006	*0.606*
CFOT_BACT	+0.016	*0.565*	+0.049	*0.009*
OtherCEO	-0.004	*0.888*	-0.016	*0.418*
LNMV	-0.002	*0.780*	-0.003	*0.486*
LEVERAGE	-0.023	*0.406*	+0.026	*0.154*
MB	+0.001	*0.546*	+0.005	*0.000*
ROA	-0.068	*0.027*	+0.015	*0.556*
RECINV	+0.018	*0.646*	+0.051	*0.060*
CASH	-0.009	*0.626*	+0.025	*0.038*
GC	-0.019	*0.650*	+0.041	*0.408*
LOSS	-0.007	*0.717*	+0.015	*0.243*
SMBD	-0.009	*0.621*	+0.009	*0.498*
INDEP	-0.026	*0.487*	-0.008	*0.748*
ACCFILER	-0.012	*0.581*	+0.022	*0.177*
FRGN	*controlled*		*controlled*	
FIND	*controlled*		*controlled*	
N	151		163	
Adj. R^2	1.05%		11.40%	

Coefficients Test	Diff.	*p-value*
FinExp (pre vs. post)	+0.040	***0.037***
Busy (pre vs. post)	-0.016	*0.419*
Tenure (pre vs. post)	+0.004	*0.838*
Female (pre vs. post)	+0.015	*0.685*

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