

Audit Committee Financial Expertise and Restatements: The Moderating Effect of CEO Power*

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Abstract

Prior research suggests that financial expertise improves the effectiveness of audit committees. We argue that CEO power moderates this effect. We construct a summary index for CEO power by combining various CEO characteristics: compensation, board chairman duality, beneficial ownership, founder status, tenure, executive experience before becoming the CEO, other board positions and education background. We employ incidence of earnings restatements as a proxy for audit committee monitoring quality. We find that the negative association between audit committee financial expertise and incidence of restatements is moderated by CEO power. Moreover, we find that audit committee financial expertise is negatively associated with incidence of restatements when our proxy for CEO power is low. However, as CEO power becomes sufficiently high, these negative associations vanish. Our paper suggests that having a financial expert on the audit committee does not automatically translate into more effective monitoring. Rather, the substantive monitoring effectiveness of audit committee financial expertise is contingent on the power of the top management.

Keywords: CEO power, audit committee, financial expertise, restatement

JEL Classifications: M41, M42

1. Introduction

In this paper, we investigate audit committee financial expertise in substance vs. in form by examining the impact of CEO power on the effectiveness of audit committee financial expertise in reducing earnings restatement. Prior research (e.g. Agrawal and Chadha 2005, Abbott et al 2004) predominantly focuses on the agency perspective of the role of audit committee financial expertise as an integral part of corporate governance mechanism. They posit that financial expertise improves audit committee effectiveness, as evidenced by fewer incidences of financial restatements. However, the managerial hegemony perspective presumes that the audit committee is under management control and therefore may provide weak monitoring in the governance process (Beasley et al. 2009; Cohen et al. 2007b). This view asserts that the audit committee is established for symbolic rather than substantive oversight of financial reporting. Using an interview method, Beasley et al. (2009) indicate that top management ultimately determines whether the audit committee is effective. Given prior findings that CEO power in general brings about negative economic consequences (Shivdasani and Yermack 1999, Ashbaugh-Skaife et al. 2006), we examine whether CEO power moderates the negative associations between audit committee financial expertise and incidence of financial restatements. We argue that, when CEO power is sufficiently strong, even an audit committee with a financial expert might not be able to effectively perform its monitoring duty in substance. In this case, financial expertise might not translate into higher monitoring quality. In this paper, we seek to shed light on the issue of form vs. substance of audit committee financial expertise.

We construct a summary measure of CEO power following the theoretical structure and empirical suggestions in Finkelstein (1992). Specifically, we examine the following ten CEO characteristics: the compensation of the CEO relative to the highest paid other executive in the

same company, whether the CEO is also a chairman of the board, the CEO's beneficial ownership, whether the CEO is the founder of the company, CEO tenure, the number of executive positions the CEO held in the company before he became the CEO, the number of years the CEO held those positions, the number of other corporate board memberships the CEO holds, the number of non-profit board memberships the CEO holds, and the CEO's educational background.¹ We construct dichotomous variables on the eight continuous variables such that a value of 1 indicates that the observation is above the sample median, and 0 otherwise. We then sum all the eight dichotomous variables and the other two indicator variables we originally have to construct a composite proxy for CEO power. High values of the composite index indicate higher CEO power.

We use incidence of financial restatements as a proxy for audit committee monitoring quality following prior studies (Abbott et al. 2004). For a sample of 1,916 firm-year observations during fiscal years 2004 and 2005, we find that the negative association between the presence of at least one financial expert on the audit committee and incidence of financial restatements is moderated by our proxy for CEO power. Moreover, our findings suggest that when CEO power is low, audit committee financial expertise is negatively associated with incidence of financial restatements. However, as CEO power gets sufficiently high, the negative associations no longer exist. Our findings suggest that the appearance of having a financial expert on the audit committees does not automatically translate into substantive effective monitoring. Rather, CEO power determines the substance of audit committee effectiveness.

To provide further insight on the issue of substantive monitoring vs. symbolic action of audit committee financial expertise, we also investigate whether the effect of audit committee

¹ We do not examine CEO's involvement in selecting board members as a dimension of CEO power due to SOX's requirement that the nominating committee has to be 100 percent independent.

financial expertise on the market reaction to earnings restatement varies with CEO power. Extant research documents that restatements destroy shareholder value (Palmrose et al. 2004). To the extent that audit committees with financial experts are perceived to have better governance in place and vigilantly monitor the accounting process, we expect that they are more likely to fix the financial reporting problems in a timely manner. We therefore posit that audit committee financial expertise can potentially alleviate the adverse market reaction to the announcement of restatement. However, powerful CEOs may weaken audit committee financial expertise in substance by controlling the audit committee and eroding its oversight role. We thus expect that the monitoring benefits associated with financial expertise decrease with CEO power, and investors value at a discount the ceremonial efforts of audit committee financial experts.

For a sample of 335 initial announcements of earnings restatements, we find that the presence of at least one financial expert mitigates the negative market reaction to restatement announcement when the CEO power is low. More importantly, our results suggest that the advantage of audit committee financial expertise decreases as CEO power increases. When the CEO becomes very powerful, financial expertise no longer alleviates the adverse market reaction to restatement announcements. This evidence further supports our conjecture that having a financial expert sitting on the audit committee simply to meet regulatory requirements does not necessarily result in substantive oversight of management. CEO power plays an important role in affecting the substance of audit committee financial expertise.

We contribute to both audit committee and CEO power literature along four dimensions. First, we develop a comprehensive empirical proxy for CEO power and take a first look at the overall impact of CEO power on the effectiveness of audit committee financial expertise. Specifically, we combine a broad set of ten CEO characteristics to construct an extensive

measure for CEO power. No prior research has measured CEO power in such a comprehensive fashion. Prior studies either ignore CEO power by limiting their analysis to the form of audit committee characteristics or examine it in a piece-meal manner by focusing on only one facet of CEO power. In an important related paper, Carcello et al. (2010) use primarily pre-SOX data to provide evidence on the substance of audit committee characteristics by documenting that CEO's involvement in selecting board members affects the impact of audit committee independence and financial expertise on restatements². However, since SOX requires nominating committee members to be 100 percent independent, some may argue that the CEO's influence on the effectiveness of the audit committee is limited post-SOX. We take a broader view by investigating the overall CEO power as a key factor in determining the substance of audit committee financial expertise using post-SOX data.

Second, we focus on an important issue of substance vs. form of a key audit committee characteristic, financial expertise. Most prior research implicitly assumes the monitoring role of audit committee financial expertise in overseeing the financial reporting process and protecting shareholder rights. However, the empirical proxy for audit committee financial expertise may capture only the form but not the underlying substance of financial expertise. As Cohen et al. (2008) suggest, management itself is a part of the governance framework. Thus, we expect that top management plays a pivotal role in determining the effectiveness of governance mechanisms. We show that the effectiveness of financial experts sitting on the audit committees in enhancing earnings quality is in fact contingent on CEO power.

Third, we provide new evidence of the impact of CEO power on the effectiveness of audit committee financial expertise in the post-SOX period. Given the significant changes in the corporate governance environment post-SOX and SOX's emphasis on audit committee financial

² They extend their sample to 2003 (post-SOX) for audit committee independence but not financial expertise.

expertise, it is especially important to gain insights into the influence of CEOs on the effectiveness of audit committee financial expertise in the post-SOX period. Fourth, regulators advocating governance reforms should find our research informative because our evidence suggests that the emphasis on audit committee financial expertise in form alone is not sufficient to enhance the monitoring mechanism. Rather, audit committee financial expertise in substance is crucial in improving the financial reporting quality.

The remainder of this paper is organized as follows: Section 2 reviews the literature and develops the hypotheses. Section 3 presents the research design. Section 4 describes the sample and discusses the empirical results. Section 5 presents sensitivity analyses and Section 6 concludes.

2. Literature Review and Hypothesis Development

In response to recent major accounting scandals and corporate frauds, regulators have been increasingly concerned with the effectiveness of audit committees in monitoring corporate financial reporting. One of the significant reforms to improve audit committee quality focuses on the financial expertise of the audit committee members. In 1999, the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC) recommended that each audit committee should have at least one financial expert. Following the BRC's suggestion, SOX further recognizes the importance of audit committee financial expertise in monitoring financial reporting by specifically requiring a company to disclose whether there is at least one financial expert on the audit committee and, if not, to explain why not.

In the academic circle, there is a growing body of literature on audit committee financial expertise. Kalbers and Fogarty (1993) argue that financial expertise improves individuals' ability

to understand financial statements, and thus helps improve their monitoring quality. Consistent with this, empirical studies find that financial expertise is associated with an increase in audit fees (Abbott et al. 2003) and accounting conservatism (Krishnan and Visvanathan 2008), and a reduction in earnings restatements (Abbott et al. 2004, Agrawal and Chadha 2005), accounting frauds (Farber 2005), internal control problems (Krishnan 2005, Hoitash et al. 2009), accruals (Bédard et al. 2004), and the cost of debt financing (Anderson et al. 2004).

Yet, most of these prior studies exclusively focus on the form of audit committee financial expertise. They measure audit committee financial expertise as the proportion (or number) of financial experts on the audit committee or as an indicator variable for whether there is at least one financial expert on the audit committee. They then associate these financial expertise measures with various proxies for financial reporting quality to infer whether financial expertise improves audit committee effectiveness. However, these papers largely ignore the substance of audit committee financial expertise. Beasley et al. (2009) provide survey evidence suggesting that it is the top management that ultimately determines the effectiveness of audit committees. If the CEO is powerful and does not want to be monitored, financial experts on the audit committees are unlikely to effectively perform the monitoring function because the information sources they rely on are likely distorted by the CEO. Our paper fills this research gap by examining the substance of audit committee financial expertise. Specifically, we investigate whether CEO power moderates the substantive effectiveness of audit committee financial expertise.

A notable exception in the literature that also explores the substance of audit committee characteristics is Carcello et al. (2010). They primarily use pre-SOX data to examine how the CEO's involvement in selecting board members affects the association between audit committee

independence and financial expertise and restatements. They find that independent audit committees and the presence of financial experts are only associated with fewer restatements when the CEO is not involved in the director selection process. When the CEO is involved, the associations are insignificant. They conclude that the appearance of independence and financial expertise does not necessarily translate into substance of independence and financial expertise depending on whether CEO is involved in selecting the board members. Their independence result still holds for 2003 (post-SOX). However, they do not examine whether their financial expertise results hold post-SOX.

Our study is distinguished from Carcello et al. (2010), which focuses only on the CEO's involvement in the director selection process, by examining whether financial expertise in form translates into substance depending on the overall CEO power in the post-SOX period. Our investigation is especially important because although the SOX requirement that nominating committees be 100 percent independent has limited the CEO's ability to directly impact the director selection process, nonetheless, CEOs can still utilize their power to affect the monitoring effectiveness of audit committees without direct involvement in the director selection process. The audit committee has to rely on management to provide all necessary information in order to perform its monitoring role effectively. If CEOs fail to provide critical information or distort information sources, audit committees are less likely to perform a vigilant monitoring function. Our new evidence on the impact of the overall CEO power on the substantive oversight role of audit committee financial expertise sheds further light on the form vs. substance of financial expertise of audit committees. Since SOX emphasizes the importance of audit committee financial expertise and has significantly changed the corporate governance environment, we

argue that it is particularly intriguing to provide evidence on the influence of CEOs on the effectiveness of audit committee financial expertise in the post-SOX period.

In a growing literature, researchers examine CEO power in a piecemeal fashion and in general conclude that higher CEO power is associated with negative economic consequences. For example, Ashbaugh-Skaife et al. (2006) find that CEO power (measured by CEO-Chairman duality and compensation, nominating, and audit committee memberships) is negatively associated with firms' credit ratings. Bebchuk et al. (2008) find that CEO power (measured by the fraction of aggregate compensation of the top-five executive team captured by the CEO) is associated with lower firm value (measured by industry-adjusted Tobin's Q). Adams et al. (2005) document that stock returns are more variable for firms run by powerful CEOs (measured by CEO's concentration of job titles, status as a founder, and status as the board's sole insider). Shivdasani and Yermack (1999) report that when the CEO serves on the nominating committee or no nominating committee exists, firms appoint fewer independent directors onto the board. In addition, stock price reactions to independent director appointments are significantly lower when the CEO is involved in director selection. Coles et al. (2007) find that the CEO's influence on the board (measured by the proportion of directors who joined the board after the CEO assumes office) is negatively associated with the sensitivity of CEO turnover to performance. Combs et al. (2007) argue that CEO power moderates the relation between board independence and firm performance. Specifically, they argue that while a more independent board is needed to check a powerful CEO, monitoring by other executives provides sufficient constraints on CEOs with low power. They study unexpected CEO deaths and find that the stock market reacts positively at the deaths of powerful CEOs with low board independence and low-power CEOs who are over-controlled by independent boards. In contrast, the stock market reacts negatively at the deaths of

powerful CEOs with high board independence and low-powered CEOs with low board independence.

Since extant research documents negative consequences of CEO power, we expect that higher CEO power moderates the effective monitoring of audit committee financial experts. SOX specifies that audit committees are directly responsible for monitoring the financial reporting process. Prior research also finds that more audit committee financial expertise is negatively associated with incidence of restatements (Abbott et al. 2004, Agrawal and Chadha 2005). Therefore, we hypothesize that the negative association between audit committee financial expertise and incidence of restatements is moderated by CEO power. The hypothesis is formally stated below in the alternative form:

H1: CEO power moderates the negative association between audit committee financial expertise and incidence of restatements.

3. Research Design

3.1. Audit Committee Financial Expertise

Following Carcello et al. (2010), we use an indicator variable for the presence of at least one financial expert on the audit committee as a measure of audit committee financial expertise (1 = at least one financial expert sits on the audit committee, 0 = no financial experts sit on the audit committee). The SEC debated whether it should define financial experts narrowly as those who have direct accounting experience (accounting experts) or broadly to also include individuals with supervising experience over accounting personnel (supervisory experts). The literature suggests that the narrower definition is associated with higher accounting conservatism but not the broad definition (Krishnan and Visvanathan 2008), and the market only reacts

positively to new appointments of accounting experts but not supervisory experts (DeFond et al. 2005). Thus, we define a financial expert as an individual with experience as a public accountant, auditor, principal or chief financial officer, controller, principal or chief accounting officer following DeFond et al. (2005).

3.2. CEO Power Measures

Motivated by both theoretical framework and empirical evidence presented in Finkelstein (1992), we construct a summary index of CEO power based on ten CEO characteristics. Part of CEO power originates from the formal positions CEOs hold within a company, which Finkelstein (1992) argues can be captured by examining formal titles and relative compensation. Thus, we adopt two proxies for this dimension of CEO power. Relative compensation (*Relcomp*) is the CEO's cash compensation (salary+bonus) divided by the company's highest executive's cash compensation excluding the CEO. We also examine the CEO's title and check whether he is also the chairman of the board (*Dual*). Higher relative compensation and CEO board chairman duality indicate that the CEO has more power.

Higher stock ownership by the CEO reduces the influence of the board and thus increases CEO power. We adopt two proxies for this dimension of CEO power: the CEO's beneficial ownership (*Shareown*) and whether the CEO is also the founder of the firm (*Founder*). Higher beneficial ownership and the CEO's founder status provide CEOs with greater power.

Since the CEO's major responsibility is to make strategic decisions, the CEO could also originate from his/her ability to deal with environmental dependencies. We expect the CEO's experience to be helpful in this dimension. Finkelstein (1992) argues that the number of different

executive positions the CEO has held in the firm gives the CEO a wider range of interactions with environmental factors and provides the CEO valuable knowledge of the firm and its environment. Thus, the number of executive positions the CEO has held and the number of years he/she has held those positions should improve the CEO's power. We therefore adopt three additional proxies for CEO power: CEO tenure (*Tenure*), the number of executive positions (*NumExec*) the CEO held in the company prior to becoming the CEO, and the number of years (*YearExec*) the CEO held those positions. We consider executive positions as president, CFO, COO, Vice President, Vice Chairman with administration duties, or General Manager.

Finkelstein (1992) argues that the CEO's ability to absorb uncertainty from the institutional environment also gives rise to CEO power. We adopt three proxies for this dimension of CEO power: the number of other corporate board memberships (*CorpBD*), the number of non-profit board memberships (*NonprftBD*), and education background (*EliteEd*). Finkelstein (1992) argues that the CEO uses corporate board memberships to manage inter-organizational relationships or to establish and maintain contact with other important people in the business elite. He also argues that service to the community is an important aspect of a CEO's membership in the elite. Non-profit boards provide social contact for members. In addition, they often bring together many influential people in a forum that facilitates information exchange. Finally, CEO power may also derive from a manager's educational background. Graduation from certain elite schools provides CEOs with prominence and generates prestige in the business circle. Thus, larger number of other corporate board memberships and non-profit memberships and the CEO's elite educational background provide CEOs with higher prestige, therefore, higher power. Following Finkelstein (1992), we measure the CEO's education background as a variable taking the value 0 if the CEO did not receive any formal higher

education, 1 if the CEO's undergraduate and graduate institutions are both nonelite, 2 if the CEO's undergraduate or graduate institution (but not both) is elite, and 3 if the CEO's undergraduate and graduate institutions are both elite, where elite institutions are as listed in Finkelstein (1992) and re-produced in Table 1.

We create dichotomous measures of the continuous variables among the above discussed ten proxies for CEO power by partitioning by the sample medians such that a value above the sample median receives a value of 1, and 0 otherwise. We then sum the values of all the dichotomous variables to create an index, *CEOpower*, to measure overall CEO power. By construction, *CEOpower* ranges from 0 (the lowest CEO power) to 9 (the highest CEO power).

3.3. CEO Power, Audit Committee Financial Expertise, and Earnings Restatement

We perform a logit analysis to examine whether CEO power affects the impact of audit committee financial expertise on incidence of financial restatements. Specifically, we model the probability of restating a financial statement for a specific year as a function of that year's CEO power, audit committee financial expertise, the interaction between CEO power and financial expertise of the audit committee, and a set of control variables adapted from Carcello et al. (2010) and Larcker et al. (2007). To mitigate the effect of potential outliers, we winsorize continuous variables at the 1st and 99th percentiles. Equation (1) summarizes our model specifications:

$$\begin{aligned}
 Restate = & \beta_0 + \beta_1 ACfin + \beta_2 CEOpower + \beta_3 ACfin * CEOpower + \beta_4 MB + \beta_5 \Delta NI + \beta_6 Logfirmage \\
 & + \beta_7 Acquis + \beta_8 Logaudtenure + \beta_9 BigN + \beta_{10} LogAT \\
 & + \beta_{11} NYSE + \beta_{12} ICW + \beta_{13} ACsize + \beta_{14} ACmtg + \varepsilon
 \end{aligned} \tag{1}$$

The dependent variable, *Restate*, is an indicator variable representing incidence of earnings restatement, defined as one if that fiscal year's financial statements are restated, and zero otherwise. *ACfin* is an indicator variable for the presence of at least one financial expert sitting on the audit committee, where a financial expert is defined as an individual with experience as a public accountant, auditor, principal or chief financial officer, controller, or principal or chief accounting officer. As Abbott et al. (2004) highlight the role of financial expertise of audit committee members in reducing the instances of restatement, we anticipate a negative coefficient on *ACfin*. The variable of particular interest is the interaction term between CEO power and audit committee financial expertise (*ACfin*CEOpower*). To the extent that CEO power shields top management from being monitored, financial experts on the audit committee are less likely to constrain earnings restatements. Therefore, we expect the coefficient on *ACfin*CEOpower* to be positive.

The control variables in Equation (1) consist of firm specific factors pertaining to earnings restatements proposed in Carcello et al. (2010). Prior research suggests that new public companies may have difficulties complying with the SEC's financial reporting requirements (e.g. Beasley 1996 and Abbott et al. 2004). We therefore include firm age (*Logfirmage*), defined as the natural logarithm of the number of years the firm has been on Compustat, and anticipate its coefficient to be negative. Geiger and Raghunandan (2002), Johnson et al. (2002), and Carcello and Nagy (2004) posit that auditor knowledge and expertise with the client may affect a firm's financial reporting quality. Thus, we also control for auditor tenure (*Logaudtenure*), measured as the natural logarithm of auditor tenure, and a Big N indicator variable (*BigN*). Consistent with Carcello et al. (2010), we also control for change in the firm's financial condition by including

ΔNI defined as the difference between net income in the prior year and net income two years ago scaled by net income two years ago.

To address the possibility that growth firms are associated with higher incidences of financial restatements (Ashbaugh-Skaife et al. 2007), we include book-to-market ratio (MB) and predict its coefficient to be positive. We control for acquisitions because firms recently engaged in mergers and acquisitions may be more likely to restate their earnings due to the increased complexity of the financial reporting process (Kinney et al. 2004). In particular, acquisition ($Acquis$) is an indicator variable whose value is set to one if cash spent on acquisitions is positive, and zero otherwise. Consistent with Carcello et al. (2010), we include an indicator variable for firms traded on the New York Stock Exchange ($NYSE$). We also include firm size measured as the natural logarithm of the firm's total assets ($LogAT$) in our model. Ashbaugh-Skaife et al. (2007) find that firms with internal control weaknesses are more likely to restate their earnings. We therefore include an indicator variable for internal control weakness (ICW), whose value is set to one if the auditor issues an adverse internal control opinion, and zero otherwise. Moreover, we follow Carcello et al. (2010) and control for other audit committee characteristics such as audit committee size ($ACsize$) and annual meeting frequency ($ACmtg$).

4. Sample Selection and Empirical Results

4.1. Sample Selection

We start with the intersection of three databases: Compustat, ExecuComp, and Corporate Library Directors. We then collect most CEO characteristics and audit committee information from proxy statements. Since the proxy statements provide limited information regarding CEO

educational background, we supplement this data from Forbes or www.zoominfo.com. To make the data collection manageable, we constrain the sample to be fiscal years 2004 and 2005. We obtain the restatement data from AuditAnalytics. AuditAnalytics includes restatements made by public companies to correct accounting that does not conform to GAAP. Thus, it excludes restatements due to changes in accounting principles, GAAP-to-GAAP changes, and changes in estimates. If multiple filings correct the same underlying misstatement, AuditAnalytics classifies them as a single restatement observation. We classify a firm as a restatement firm if its restatement period covers any period in fiscal years 2004 or 2005. We collect corresponding CEO and audit committee information for fiscal years 2004 and 2005. We obtain executive compensation data from ExecuComp and other financial variables from Compustat.

We begin with 3,236 firm-year observations in Compustat, ExecuComp, and Corporate Library Directors Databases for fiscal years 2004 and 2005. We then exclude 677 financial institutions and utility firms. We further drop 179 firm-year observations with missing audit committee information and 192 firm-year observations with missing CEO profile information. We also drop 244 firm-year observations with missing information to calculate the independent variables for regression model (1). Finally, we exclude 28 CEO changes. Our final sample consists of 1,916 firm-year observations.

4.2. Empirical Results

4.2.1. Descriptive Statistics

Table 3 presents descriptive statistics on variables included in our empirical analyses. Almost 20 percent of our sample restated their 2004 or 2005 financial statements. On average,

60.1 percent of audit committees in our sample have at least one financial expert. CEOs receive cash compensation that is 1.811 times greater than the compensation received by the second highest paid executive. Sixty-three percent of CEOs are also chairman of the board and 56.4 percent of the CEOs have longer tenure than other board members. Average CEO beneficial ownership is 3.1 percent and 7.4 percent of CEOs are also founders of the firms. The average CEO tenure is 8.322 years. Before they become CEOs, they on average hold 1.429 other executive positions in the same company for 5.094 years. On average, they concurrently sit on 0.172 other corporate boards and 0.581 non-profit boards. The mean *EliteEd* is 1.355, suggesting that CEOs on average have received higher education.

The mean the market-to-book ratio is 3.323. The mean increase in net income is 4.7 percent. A typical firm has been on Compustat for 26.55 years. Fifty-two percent of our sample has acquisition related expenditures. The mean auditor tenure is 12.252 years. Ninety-six percent of our sample is audited by Big N audit firms. The average total assets for our sample is 6.589 billion. Sixty-two percent of our sample is traded on NYSE. Twelve percent of our sample has internal control weaknesses. The average audit committee size is 4.007 and they meet about 9.145 times a year.

4.2.2. Correlation Matrix

Table 4 presents the Pearson correlation matrix. Consistent with Carcello et al. (2010), *LogAT* and *NYSE* are negatively associated with *Restate* while *ICW* is positively associated with *Restate*. However, we acknowledge that these are merely univariate correlations and we should rely on multiple regressions to draw more valid inferences.

4.2.3. Multivariate Analysis

Table 5 presents our main results regarding financial restatements. In Panel A, we find a negative coefficient of -0.414 on $ACfin$ ($t=-2.14$), suggesting that having at least one financial expert on the audit committee reduces the incidence of restatements when CEO power is very low (i.e., when $CEOpower=0$). More importantly, we find a positive coefficient of 0.094 on the interaction term $ACfin*CEOpower$ ($t=3.27$), suggesting that the benefits of having a financial expert on the audit committee diminish as CEO power increases. This result is consistent with our hypothesis, suggesting that CEO power moderates the negative association between audit committee financial expertise and incidents of restatements. Furthermore, Panel B shows the results of the F-tests that test the total effects of $ACfin$ (i.e., $-0.414 + 0.094*CEOpower$) as the level of CEO power varies from 0 to 9. Our results show that the total effects of $ACfin$ are significantly negative when $CEOpower$ is 0 or 1. However, they become insignificant as $CEOpower$ increases. When $CEOpower$ reaches 7 or above, the total effects become significantly positive. These results suggest that when CEO power is low, having at least one financial expert on the audit committee improves monitoring quality and thus, is associated with lower incidence of restatements. As CEO power increases, the benefit of financial expertise is moderated. When CEO power gets very high, audit committee financial expertise is even positively associated with incidence of financial restatements, suggesting that having more financial experts on the audit committee could be the formality game powerful CEOs play just to improve the appearance of the effectiveness of audit committees.³

In an untabulated analysis, we partition CEO power into three groups: Minimal CEO power (where $CEOpower=0, 1, \text{ or } 2$), Moderate CEO power (where $CEOpower=3, 4, \text{ or } 5$), and

³ This result is consistent with the results presented in Footnote 20 of Carcello et al. (2010). They find that restatements are more likely when the audit committee has the most effective profile (i.e., when the audit committee is completely independent and has at least one financial expert) but the CEO is involved in the director selection process.

Extreme CEO power (where $CEOpower=6, 7, 8, \text{ or } 9$). We find that there is a significant, negative relation between having at least one financial expert on the audit committee and incidence of restatements ($z=-1.91$) for those companies with minimal CEO power, and a significant but positive relation for firms with extreme CEO power ($z=3.20$). There is not a significant relation for firms with moderate CEO power ($z=-0.68$). These results are consistent with those reported in Table 5.

5. Additional Analyses and Robustness Checks

5.1. Controlling for Endogeneity of CEO Power

CEO power is likely endogenous. If some common factor determines both CEO power and the effectiveness of audit committee financial expertise and this factor is omitted from our analysis, our prior results could be spurious. We follow Carcello et al. (2010) and Nikolaev (2010) and use two different approaches to address the endogeneity of CEO power.⁴ Both approaches employ a two-step procedure. In the first stage, we construct a model for the determinants of CEO power. We predict $CEOpower$ by the control variables in model (1), plus two additional variables - leverage (Lev) and ROA. We present the first stage results in Panel A of Table 6.

We obtain the residuals from this first stage model as $Abn_CEOpower$. In the second stage, the Carcello et al. (2010) approach adds $Abn_CEOpower$ as an additional control variable in model (1). We present this result in Panel B of Table 6. The residual is insignificant ($t=0.68$)

⁴ We acknowledge that there is no econometrically sound way to correctly address the endogeneity issue when the endogenously determined variable ($CEOpower$) also appears in an interactions term (i.e., $ACfin*CEOpower$). We make our best efforts by following the literature (Carcello et al. 2010 and Nikolaev 2010). In addition to the tests we discuss in the text, we also follow Footnote 24 of Carcello et al. (2010) and conduct an additional analysis to address the endogeneity of $CEOpower$. We use Stata's SUEST command to simultaneously estimate Model (1) and our first-stage model. Again, we continue to find significant coefficients on $ACfin*CEOpower$ (coefficient=0.094, $t=1.31$, one-tail significant). We do not tabulate this additional endogeneity analysis result for brevity.

and the overall model significance does not improve (pseudo- R^2 is only higher by 0.003), suggesting that *CEOpower* is not endogenously determined. More importantly, we continue to find a significantly positive coefficient on *ACfin*CEOpower* (coefficient=0.096, $t=3.80$), suggesting that our results are robust to controlling for the endogeneity of CEO power.

We also adopt the Nikolaev (2010) approach to address the endogeneity of CEO power. Similar to the Carcello et al. (2010) approach, we obtain the residuals from the first stage model as *Abn_CEOpower*. In the second stage, we replace *CEOpower* with *Abn_CEOpower* and *ACfin*CEOpower* with *ACfin*Abn_CEOpower* in our regression model (1). Intuitively, one can think of *Abn_CEOpower* as an instrumental variable for *CEOpower*; while it is correlated with *CEOpower*, by construction, it is uncorrelated with other variables that endogenously determine *CEOpower*. We present this second stage result in Panel C of Table 6. Again, we continue to find a significantly positive coefficient on *ACfin*Abn_CEOpower* (coefficient=0.081, $t=3.35$), suggesting that our results are robust to controlling for the endogeneity of CEO power.

5.2. Market Reaction to Restatement Announcements

Similar to Carcello et al. (2010), we posit that the financial expertise of the audit committee mitigates the negative stock price reaction to the restatement announcements. However, this mitigation might be colored by CEO power. We follow Carcello et al. (2010) and run the following regression model (2):

$$CAR = \gamma_0 + \gamma_1 ACfin + \gamma_2 CEOpower + \gamma_3 ACfin * CEOpower + \gamma_4 Fraud + \gamma_5 Revrest + \gamma_6 Resinc + \gamma_7 Noyrs + \gamma_8 Logrev + \varepsilon \quad (2)$$

We obtain 335 first restatement announcements that restate 2004 or 2005 financial statements with available CRSP data and control variable data. We calculate cumulative

abnormal returns (CAR) over a two-day window beginning on the announcement date. We report the regression results in Table 7. In Panel A, we find a positive coefficient of 0.037 on $ACfin$ ($t=2.40$), suggesting that having at least one financial expert on the audit committee mitigates the negative stock market reaction for restatement announcements when CEO power is very low (i.e., when $CEOpower=0$). More importantly, we find a negative coefficient of -0.004 on the interaction term $ACfin*CEOpower$ ($t=-1.72$), suggesting that the benefits of having a financial expert on the audit committee diminishes as CEO power increases. Furthermore, Panel B shows the results of the F-tests that test the total effects of $ACfin$ (i.e., $0.037 - 0.004*CEOpower$) as the level of CEO power varies from 0 to 9. Our results show that the total effects of $ACfin$ are significantly positive when $CEOpower$ is below 5. However, they become insignificant as $CEOpower$ increases. These results suggest that when CEO power is low, having at least one financial expert on the audit committee moderates the negative stock market reaction of restatement announcements. As CEO power increases, the benefit of financial expertise is reduced so having at least one financial expert on the audit committee no longer moderates the negative stock market reaction of restatement announcements.

In an untabulated analysis, we again partition CEO power into three groups: Minimal CEO power (where $CEOpower=0, 1, \text{ or } 2$), Moderate CEO power (where $CEOpower=3, 4, \text{ or } 5$), and Extreme CEO power (where $CEOpower=6, 7, 8, \text{ or } 9$). We find that there is a significant, positive relation between having at least one financial expert on the audit committee and abnormal returns for those companies with minimal ($z=3.00$) and moderate ($z=1.97$) CEO power, and a significant but negative relation between ACFE and abnormal returns for firms with extreme CEO power ($z=-1.54$, one-tailed $p=0.062$). These results are largely consistent with those reported in Table 7.

5.3. Governance, CEO power and Audit Committee Financial Expertise

Thus far, we have provided evidence that the substantive monitoring effectiveness of audit committee financial expertise depends on CEO power. However, it is possible that the moderating effect of CEO power on the effectiveness of audit committee financial expertise is spuriously caused by the lack of control of variations of corporate governance mechanisms. Therefore, we include a corporate governance measure (*Gov_score*) and its interaction with the audit committee financial expert indicator variable (*ACfin*Gov_score*) as additional control variables in our regression model to test the robustness of the CEO power and audit committee financial expertise effectiveness relation.

We measure corporate governance with the governance score developed by Brown and Caylor (2006). This score is a composite measure of 51 factors related to audit, board of directors, charter/bylaws, director compensation, progress practices, state of incorporation etc. Our sample is reduced to 1,379 after merging the composite governance score. Our untabulated result shows that the coefficient on *ACfin*CEOpower* is 0.106 ($z=1.86$), suggesting that CEO power continues to mitigate the benefit of audit committee financial expertise on reducing incidence of restatements. The coefficient on *ACfin*Gov_score* is insignificant ($z=-0.38$). Our findings further confirm our conjecture that CEO power plays an independent role in affecting the effectiveness of audit committee financial expertise.

6. Conclusion

We extend prior research that largely focuses on the form of audit committee financial expertise by examining the substance. We hypothesize that the monitoring effectiveness of audit

committee financial experts depends on CEO power. We develop a summary index for CEO power by combining ten CEO characteristics: the compensation of the CEO relative to the highest paid other executive in the same company, whether the CEO is also chairman of the board, the CEO's beneficial ownership, whether the CEO is the founder of the company, CEO tenure, the number of executive positions the CEO held in the company before he/she became the CEO, the number of years he/she held those positions, the number of other corporate board memberships, the number of non-profit board memberships, and the CEO's educational background. We find that the negative association between the presence of a financial expert on the audit committee and incidences of financial restatements is moderated by our proxy for CEO power. Moreover, we find that, when CEO power is low, audit committee financial expertise is negatively associated with incidences of financial restatements. However, when CEO power reaches sufficiently high, the negative associations are no longer present. Our findings suggest that having a financial expert on the audit committee in form does not automatically translate into more effective monitoring by the audit committee. Rather, the substance of effective audit committee monitoring is contingent on CEO power.

The CEO is the most important executive in a firm. It is crucial to understand the role of CEO power on a firm's operational and financial performance. Our paper is the first to develop a comprehensive measure for CEO power. Future research could use our comprehensive measure to examine other important research questions such as the effect of CEO power on earnings quality.

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Table 1

Variable Definitions:

<i>Relcomp</i>	=	CEO cash compensation (salary+bonus) divided by the highest executive cash compensation excluding the CEO
<i>Dual</i>	=	if CEO is also Chairman of the board, and 0 otherwise
<i>Shareown</i>	=	CEO beneficial ownership
<i>Founder</i>	=	if CEO is the founder of the company, and 0 otherwise
<i>Tenure</i>	=	number of years the CEO has been in office
<i>NumExec</i>	=	number of executive positions held in the company prior to becoming the CEO, where executive positions are defined as president, CFO, COO, Vice President, Vice Chairman with administration duties, or General Manager
<i>YearExec</i>	=	number of years holding the executive positions in the company prior to becoming the CEO. Executive positions are defined as above
<i>CorpBD</i>	=	number of other corporate boards the CEO currently sits on
<i>NonprftBD</i>	=	number of other non-profit boards the CEO currently sits on
<i>EliteEd</i>	=	0 if the CEO did not receive any formal higher education, 1 if the CEO's undergraduate and graduate institutions are both nonelite, 2 if the CEO's undergraduate or graduate institutions (but not both) is elite, and 3 if the CEO's undergraduate and graduate institutions are both elite, where elite institutions are as listed in Appendix A of Finkelstein (Academy of Management Journal 1992) ⁵
<i>CEOpower</i>	=	$Relcomp_D + Dual + Shareown_D + Founder + Tenure_D + NumExec_D + YearExec_D + CorpBD_D + NonprftBD_D + EliteEd_D$, where $Relcomp_D = 1$ if CEO cash compensation (salary+bonus) divided by the highest executive cash compensation excluding the CEO is above sample

⁵ These elite educational institutions listed in Appendix A of Finkelstein (1992) are: Amherst College, Brown University, Carleton College, Columbia University, Cornell University, Dartmouth College, Harvard University, Haverford College, Johns Hopkins University, Massachusetts Institute of Technology, New York University, Northwestern University, Oberlin College, Princeton University, Stanford University, Swarthmore College, United States Military Academy, United States Naval Academy, University of California, Berkeley, University of California, Los Angeles, University of Chicago, University of Michigan, University of Pennsylvania, Wellesley College, Williams College, and Yale University.

median, and 0 otherwise; $Dual = 1$ if CEO is also Chairman of the board, and 0 otherwise; $Shareown_D = 1$ if CEO beneficial ownership is above sample median, and 0 otherwise; $Founder = 1$ if CEO is the founder of the company, and 0 otherwise; $Tenure_D = 1$ if number of years the CEO has been in office is above sample median, and 0 otherwise; $NumExec_D = 1$ if the number of executive positions held in the company prior to becoming the CEO (where executive positions are defined as president, CFO, COO, Vice President, Vice Chairman with administration duties, or General Manage) is above sample median, and 0 otherwise; $YearExec_D = 1$ if the number of years holding the executive positions in the company prior to becoming the CEO is above sample median, and 0 otherwise; $CorpBD_D = 1$ if the number of other corporate boards the CEO currently sits on is above sample median, and 0 otherwise; $NonprftBD_D = 1$ if the number of other non-profit boards the CEO currently sits on is above sample median, and 0 otherwise; and $EliteEd_D = 1$ if $EliteEd$ is above sample median, and 0 otherwise, where $EliteEd = 0$ if the CEO did not receive any formal higher education, 1 if the CEO's undergraduate and graduate institutions are both nonelite, 2 if the CEO's undergraduate or graduate institutions (but not both) is elite, and 3 if the CEO's undergraduate and graduate institutions are both elite, where elite institutions are as listed in Appendix A of Finkelstein (Academy of Management Journal 1992)

<i>Restate</i>	=	1 if the firm's restatement period covers anytime in fiscal years 2004 and 2005, and 0 otherwise
<i>ACfin</i>	=	1 if there is at least one financial expert on the audit committee, and 0 otherwise, where a financial expert is defined as an individual with experience as a public accountant, auditor, principal or chief financial officer, controller, or principal or chief accounting officer
<i>MB</i>	=	Market value of common equity divided by book value of common equity, both measured at the beginning of the year
ΔNI	=	(Net income in prior year – net income two years ago) / net income two years ago
<i>Logfirmage</i>	=	Natural logarithm of the number of years the firm has been on Compustat
<i>Acquis</i>	=	1 cash spent on acquisitions is positive, and 0 otherwise
<i>Logaudtenure</i>	=	Natural logarithm of auditor tenure
<i>BigN</i>	=	1 if the firm is audited by a Big N auditor, and 0 otherwise

<i>LogAT</i>	=	Natural logarithm of total assets at the beginning of the year
<i>NYSE</i>	=	1 if the firm is traded on NYSE, and 0 otherwise
<i>ICW</i>	=	1 if the auditor issues an adverse internal control opinion, and 0 otherwise
<i>ACsize</i>	=	Number of directors on the audit committee
<i>ACmeet</i>	=	Number of audit committee meetings
<i>Fraud</i>	=	1 if the restatement is related to fraud, and 0 otherwise
<i>Revrest</i>	=	1 if the restatement is related to revenue, and 0 otherwise
<i>Resinc</i>	=	(Restated income – originally reported income)/prior year's revenue
<i>Noyrs</i>	=	Number of years restated
<i>Logrev</i>	=	Natural logarithm of prior year's revenue

Table 2

Sample Selection Procedure

	# of Obs.
Firm-year observations in Compustat, ExecuComp, and Corporate Library Directors Databases for fiscal years 2004 & 2005	3,236
Financial institutions and utility firms	(677)
Missing audit committee information	(179)
Missing CEO profile information	(192)
Missing data for independent variables	(244)
CEO changes	(28)
Final Sample	1,916

Table 3
Descriptive Statistics

This table summarizes descriptive statistics for the full sample of 1,916 firm-year observations.

	Mean	Std. Dev.	Q1	Median	Q3
Restate	0.197	0.398	0	0	0
ACfin	0.601	0.49	0	1	1
Relcomp	1.811	0.968	1.321	1.718	2.175
Dual	0.627	0.484	0	1	1
CEOoverBD	0.564	0.306	0.308	0.545	0.833
Shareown	0.031	0.074	0	0.012	0.029
Founder	0.074	0.262	0	0	0
Tenure	8.322	7.507	3	6	11
Numexec	1.429	1.608	0	1	2
Yearexec	5.094	6.16	0	3	8
CorpBD	0.172	0.584	0	0	0
NonprftBD	0.581	1.432	0	0	0
EliteEd	1.355	0.619	1	1	2
CEOpower	4.112	1.8	3	4	5
MB	3.323	3.468	1.793	2.53	3.893
Δ NI	0.047	2.76	-0.514	0.111	0.453
Firmage	26.55	16.192	13	21	41
Logfirmage	3.081	0.645	2.565	3.045	3.714
Acquis	0.516	0.5	0	1	1
Audtenure	12.252	9.303	4	9	17
Logaudtenure	2.175	0.878	1.386	2.197	2.833
BigN	0.962	0.19	1	1	1
AT	6858.809	31948.12	543.748	1329.021	3728.587
LogAT	7.355	1.466	6.298	7.192	8.224
NYSE	0.624	0.485	0	1	1
ICW	0.116	0.32	0	0	0
ACsize	4.007	1.117	3	4	5
ACmtg	9.145	3.797	7	9	11

Table 4
Correlation Matrix

This table summarizes the Pearson correlation matrix for the full sample of 1,916 firm-year observations. * $p < 10\%$.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Restate (1)	1													
ACfin (2)	0.018	1												
CEOpower (3)	0.001	-0.032	1											
MB (4)	-0.036	-0.006	0.007	1										
Δ NI (5)	-0.006	-0.020	0.053*	-0.002	1									
Logfirmage (6)	-0.037	-0.040*	-0.019	-0.010	-0.011	1								
Acquis (7)	-0.025	-0.022	0.040*	0.017	0.040*	-0.012	1							
Logaudtenure (8)	0.020	-0.049*	-0.015	0.009	-0.009	0.289*	0.002	1						
BigN (9)	0.015	0.069*	-0.009	0.040*	0.015	0.021	0.034	0.213*	1					
LogAT (10)	-0.072*	-0.035	0.102*	0.01	0.014	0.417*	0.057*	0.188*	0.150*	1				
NYSE (11)	-0.071*	-0.020	0.046*	-0.005	-0.002	0.392*	0.041*	0.102*	0.067*	0.423*	1			
ICW (12)	0.473*	0.035	-0.051*	-0.061*	-0.026	-0.032	-0.041*	-0.040*	-0.057*	-0.099*	-0.086*	1		
ACsize (13)	-0.039*	0.125*	0.005	0.013	-0.015	0.278*	0.0176	0.140*	0.085*	0.355*	0.256*	-0.070*	1	
ACmtg (14)	0.080*	0.106*	-0.061*	-0.063*	-0.071*	-0.063*	-0.006	-0.029	-0.034	0.038*	0.014	0.164*	0.017	1

Table 5

Logit Regression: Restatements

This table summarizes the logit regression results of incidence of restatements on audit committee financial expertise, CEO power, their interaction and associated control variables for the full sample of 1,916 firm-year observations. *Restate* is set to 1 if fiscal year 2004 or 2005 financial statements are restated, and 0 otherwise. Audit committee financial expertise is measured as an indicator variable for the presence of at least one financial expert (defined as individuals with experience as a public accountant, auditor, chief financial officer, controller, or chief accounting officer) on the audit committee. *t*- and *z*-statistics are based on the two-way cluster-robust standard errors (cluster by firm and by year), which adjust for both cross-sectional and time-series dependence in panel data. All continuous variables are winsorized at 1st and 99th percentiles. *, **, *** denote 1%, 5%, and 10% significance levels, respectively. All variables are defined in Table 1.

Panel A: Regression Results			
	Predicted Sign	Coefficient	<i>t</i>
Intercept	?	-2.168***	-3.20
ACfin	-	-0.414**	-2.14
CEOpower	?	-0.007	-0.20
ACfin*CEOpower	+	0.094***	3.27
MB	+	-0.010	-0.37
ΔNI	?	0.003	0.24
Logfirmage	-	-0.076	-0.92
Acquis	+	-0.039	-0.37
Logaudtenure	?	0.157***	2.91
BigN	?	0.693**	2.14
LogAT	-	-0.063	-1.34
NYSE	-	-0.155	-1.61
ICW	+	2.874***	17.40
ACsize	-	0.017	0.55
ACmtg	-	0.006	0.81
<i>N</i>		1916	
Pseudo- <i>R</i> ²		0.1846	

Panel B: Total effect of <i>ACfin</i> by <i>CEOpower</i>			
CEOpower	<i>N</i>	Total effect of <i>ACfin</i>	<i>z</i>
0	44	-0.414**	-2.14
1	106	-0.319*	-1.89
2	233	-0.225	-1.53
3	305	-0.131	-1.02
4	410	-0.036	-0.32
5	371	0.058	0.57
6	276	0.153	1.52
7	136	0.247**	2.32
8	27	0.342***	2.86
9	8	0.436***	3.18

Table 6**Controlling for Endogeneity of CEO Power**

This table summarizes the logit regression results of incidence of restatements on audit committee financial expertise, CEO power, their interaction and associated control variables after controlling for the endogeneity of *CEOpower*. *Restate* is set to 1 if fiscal year 2004 or 2005 financial statements are restated, and 0 otherwise. Audit committee financial expertise is measured as an indicator variable for the presence of at least one financial expert (defined as individuals with experience as a public accountant, auditor, chief financial officer, controller, or chief accounting officer) on the audit committee. *t*- and *z*-statistics are based on the two-way cluster-robust standard errors (cluster by firm and by year), which adjust for both cross-sectional and time-series dependence in panel data. All continuous variables are winsorized at 1st and 99th percentiles. *, **, *** denote 1%, 5%, and 10% significance levels, respectively. All variables are defined in Table 1.

Panel A: First Stage Model: Predicting <i>CEOpower</i>		
	Coefficient	<i>t</i>
Intercept	4.190***	12.29
Lev	0.220	1.45
ROA	1.109***	7.00
MB	-0.006	-0.53
ΔNI	0.027***	17.02
Logfirmage	-0.212***	-3.46
Acquis	0.099	1.54
Logaudtenure	-0.025	-0.73
BigN	-0.314**	-2.26
LogAT	0.161***	5.65
NYSE	0.055	0.57
ICW	-0.110	-0.59
ACsize	-0.039	-1.14
ACmtg	-0.029***	-2.73
<i>N</i>	1910	
Adj. <i>R</i> ²	0.025	

Panel B: Second Stage Model (1) - Carcello et al. (2010) approach			
	Predicted Sign	Coefficient	<i>t</i>
Intercept	?	0.800	0.16
ACfin	-	-0.427***	-2.71
CEOpower	?	-0.723	-0.71
ACfin*CEOpower	+	0.096***	3.80
MB	+	-0.009	-0.36
ΔNI	?	0.021	0.55
Logfirmage	-	-0.227	-0.80
Acquis	+	0.043	0.73
Logaudtenure	?	0.139**	2.05
BigN	?	0.485	0.79
LogAT	-	0.063	0.43
NYSE	-	-0.088	-0.54
ICW	+	2.769***	9.61
ACsize	-	-0.012	-0.27
ACmtg	-	-0.016	-0.55
Abn_CEOpower	?	0.720	0.68
<i>N</i>		1910	
Pseudo- <i>R</i> ²		0.1849	

Panel C: Second Stage Model (1) - Nikolaev (2010) approach			
	Predicted Sign	Coefficient	<i>t</i>
Intercept	?	-2.236***	-2.94
ACfin	-	-0.029	-0.28
Abn_CEOpower	?	0.007	0.24
ACfin*Abn_CEOpower	+	0.081***	3.35
MB	+	-0.009	-0.34
ΔNI	?	0.003	0.24
Logfirmage	-	-0.080	-1.00
Acquis	+	-0.025	-0.27
Logaudtenure	?	0.155***	2.92
BigN	?	0.679**	2.06
LogAT	-	-0.052	-1.14
NYSE	-	-0.146	-1.49
ICW	+	2.864***	18.39
ACsize	-	0.015	0.48
ACmtg	-	0.004	0.51
<i>N</i>		1910	
Pseudo- <i>R</i> ²		0.1838	

Table 7

Market Reaction to Restatements

This table summarizes the OLS regression results of two-day CAR for the 335 first announcements of restatements (restated period: fiscal years 2004 or 2005) on audit committee financial expertise, CEO power, their interaction and associated control variables. Audit committee financial expertise is measured as an indicator variable for the presence of at least one financial expert (defined as individuals with experience as a public accountant, auditor, chief financial officer, controller, or chief accounting officer) on the audit committee. *t*- and *z*-statistics are based on the two-way cluster-robust standard errors (cluster by firm and by year), which adjust for both cross-sectional and time-series dependence in panel data. All continuous variables are winsorized at 1st and 99th percentiles. *, **, *** denote 1%, 5%, and 10% significance levels, respectively. All variables are defined in Table 1.

Panel A: CAR regression			
	Predicted Sign	Coefficient	<i>t</i>
Intercept	?	0.003	0.09
ACfin	+	0.037**	2.40
CEOpower	?	0.004	1.29
ACfin*CEOpower	-	-0.004*	-1.72
Fraud	-	0.001	0.04
Revrest	-	-0.044**	-2.48
Resinc	+	0.176**	2.14
Noyrs	+	-0.000	-0.24
Logrev	?	-0.004	-0.90
<i>N</i>		335	
Adj. <i>R</i> ²		0.026	

Panel B: Total effect of <i>ACfin</i> by <i>CEOpower</i>			
CEOpower	N	Total effect of <i>ACfin</i>	<i>z</i>
0	11	0.037**	2.40
1	21	0.033**	2.42
2	33	0.028**	2.40
3	51	0.024**	2.29
4	77	0.019**	2.02
5	62	0.015	1.58
6	43	0.010	1.05
7	32	0.006	0.53
8	4	0.001	0.11
9	1	-0.003	-0.21