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The right person at the right time: Audit committee members and the quality of financial information¹



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La persona adecuada en el momento adecuado: Los miembros del comité de auditoría y la calidad de la información financiera

I. INTRODUCTION

Recent high profile corporate scandals such as *Parmalat*, *Société Générale*, *Lehman Brother* or *Bankia* have eroded the public trust in corporate financial information, and called for legal improvements in the audit process (Palazuelos Cobo, Herrero Crespo, & Montoya del Corte, 2017). The role of the audit committee is particularly debated as an enhancer of more reliable financial statements. Most of the new legal rules have in common two basic characteristics of the audit committee: the members' independence and professional competence. But, whereas the literature has provided abundant evidence on the positive effect of the audit committee independence, the qualification calls for further analyses (Monterrey & Sánchez, 2008; Tepalagul & Lin, 2015).

The European Union regulatory framework on statutory audit (mainly Recommendation 2005/162/EC and Directive 2014/56/EU) is an example of this new framework. The Directive 2014/56/EU of the European Parliament on statutory audits acknowledges that audit committees play a decisive role in contributing to high-quality statutory audits, and stresses the technical competence of the members as one of the most important requirements for the committee membership. The European Commission has not issued an explicit definition of audit committee member competence, but the legal framework mandates that directors on the audit committee



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EXECUTIVE SUMMARY

We analyze some personal characteristics of the members of the audit committee of the Spanish listed firms and the relation between these characteristics and earnings management. We find a non-linear relation with tenure, so that long tenures can initially compromise the directors' independence but, after a given threshold, longer tenures improve the expertise of the members. Serving in too many boards has a negative influence on the ability of directors to detect earnings management, and higher academic background and more diverse professional background improve the directors' abilities.

RESUMEN DEL ARTÍCULO

En el presente trabajo analizamos la relación entre algunas características personales de los miembros del comité de auditoría de las empresas cotizadas españolas y la gestión del resultado. Nuestros resultados muestran una relación no lineal con la antigüedad en el consejo: mientras que en los primeros estadios una mayor duración puede comprometer la independencia de los consejeros, llega un punto en el que la mayor antigüedad en el comité incrementa su experiencia. Formar parte de un número excesivo de consejos redundante en una menor capacidad de los consejeros para detectar la gestión del resultado. Una formación académica más elevada y una experiencia profesional más diversa contribuyen a mejorar la calidad de la información financiera.

should possess expertise, and their dedication to the committee must be sufficient to develop their functions. In turn, the qualification of audit committee members seems to be related to two traits: their dedication and expertise.

Regarding their dedication, the members of the audit committee are required to dedicate the time and attention necessary to fulfill their function. Recommendation 2005/162/CE states that members should limit the number of their other professional commitments, particularly directorships held in other companies, to assure the proper performance of their duties. This approach runs parallel to the concern of the European policy makers about the corporate governance framework (European Commission, 2011).

Indeed, following the issuance of the Green Paper on corporate governance, in April 2011 the European Commission launched a public consultation and one of the questions dealt with a possible measure at EU level limiting the number of mandates a non-executive director may hold. As a proof of this concern, the European financial sector has been the first to incorporate some measures on the limitation of mandates (European Banking Authority & European Securities and Markets Authority, 2017; European Central Bank, 2017).

As far as the expertise of the audit committee is concerned, both the EU laws and the Spanish national regulation have paid special attention to this issue. First, the Directive 2014/56/EU of the European Parliament attempts to reinforce the technical competence of audit committees by requiring that at least one member of the committee is competent in auditing and/or accounting. Similarly, EU Recommendation 2005/162/EC mandates that the members of the audit committee should, collectively, have a recent and relevant background and experience in finance and accounting for listed companies appropriate to the company's activities.

The final disposition of the Law 22/2015 of Auditing has transposed these mandates into the Spanish regulation. In the same vein, the 25th Recommendation of the Good Governance Code of Listed Companies (CNMV, 2015) and subsequently the Technical Guide on audit committees at public-interest entities (CNMV, 2017) demands that all members of the audit committee should be appointed with regard to their knowledge and experience in accounting or auditing.

In this paper we use public sources of information to analyze the

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qualification and competence of the audit committee members of the Spanish listed firms. Our sample consists of 102 non-financial firms (293 firm-year-observations and 1,228 director-year observations) listed in the *Mercado Continuo* of the Spanish Stock Exchange between 2009 and 2013. Our research has two complementary aims. First, we report a descriptive analysis about the evolution of the committees' qualification between 2009 and 2013 in Spain. We consider four dimensions of directors' personal characteristics: tenure, directorships, academic studies, and, professional profile. Second, we study the relevance of these features to improve the quality of financial information. Thus, we examine whether there is an association between earnings management and some specific characteristics of audit committee members.

The remainder of this study is structured as follows. Section 2 discusses the theoretical arguments and develops our research questions. Section 3 sets out the empirical design and introduces the data and the empirical method. Section 4 presents the results. Finally, Section 5 concludes by summarizing the most important implications and suggesting some implications for managers and future research.

2. FINANCIAL INFORMATION QUALITY AND AUDIT COMMITTEE MEMBERS' CHARACTERISTICS

To carry out their duties, the audit committee members are supposed to act independently and to have technical competence on accounting and auditing. Whereas directors' independence can be quite clearly defined, the competence or qualification on accounting issues is not easily measured. Following the above mentioned European new framework on statutory audit and the recent Spanish legal reforms to adopt this framework, we posit that the qualification of audit committee members depends on three characteristics: their experience, dedication and expertise.

2.1. Committee members experience and earnings management

Tenure within a firm enables directors to acquire a greater expertise, and develop important knowledge about the firm and its business environment. Effective monitoring is potentially an acquired skill, which suggests audit committees with long tenure can provide good moni-

KEY WORDS

Audit committee, auditing, corporate governance, earnings management, expertise.

PALABRAS CLAVE

Auditoría, comité de auditoría, gobierno corporativo, gestión del resultado, expertise.

toring. Furthermore, seniority makes the directors more independent and less susceptible to top management pressures. Thus, committee members with longer tenure are likely to be more able to perform their tasks, which include the review of financial statements³.

Nevertheless, audit is an activity especially sensitive to the tenure, and too long tenures could be detrimental for audit quality (Ruiz Barbadillo, Gómez Aguilar, & Carrera Pena, 2009a, 2009b). In fact, both the European law (Regulation EU 537/2014 art. 17) and the Spanish Law 22/2015 of Auditing (art. 40) have placed a time limit for the external audit firm. Similarly, directors serving on the audit committee for too long periods could lose some independence. Vafeas (2003) proves this management-friendliness hypothesis and suggests that extended board service time makes committee members too close to managers at the expense of shareholders. Extended tenure can also reduce intragroup communications and thus lower the quality of monitoring decisions (Ben-Amar, Francoeur, Hafsi, & Labelle, 2013). Furthermore, committee members with very long tenures could be influenced by their own beliefs and schemes; in turn, their knowledge could eventually become a less valuable resource in the monitoring process. Consequently, the independent directors' monitoring role is especially valuable when they have served long enough to learn about the firm but not too long to compromise their ability to monitor. According to these theoretical arguments we raise the question about the relation between audit committee members' tenure and the quality of financial statements. Furthermore, we wonder our first research question: Can there be a non-linear relation between members' tenure and earnings management?

2.2. Dedication and earnings management

As previously stated, the number of directorships that a given director can hold is a matter of debate both from the policy-makers, the practitioners, and the academia point of view (Habbash, Sindezingue, & Salama, 2013). Nevertheless, the answers have focused on the members of the board, and we still lack of enough evidence for the audit committee. On the one hand, directors with multiple appointments may have richer experiences and connections, and provide access to more valuable resources (Sharma & Kuang, 2014). Moreover, an increase in the number of directorships enhances the reputation of directors. Nevertheless, the quality of directors with multiple appointments can be compromised when the number of their directorships is too high.



Serving on many boards can diminish the directors' dedication as it can limit directors' time, attention and preparation for board meetings, thus narrowing these directors' ability to monitor (Baccouche, Hadri-che, & Omri, 2013; Tanyi & Smith, 2015).

In line with previous arguments, we consider a non-linear relation between the qualification of audit committee members and multiple directorships. Consequently, in a first stage the reputation effect has a high influence but there is a threshold after which committee members can be over-committed, so that the dedication effect prevails at too high level of directorships. In this sense, we propose the following research question: Is there any relation between multiple directorships and financial information quality?

2.3. Expertise and financial information quality

The abilities of the members of the audit committee to perform their duties can be a determinant of the quality of the audit process and, in turn, of the quality of the financial information (Badolato, Donelson, & Ege, 2014; Lee & Fargher, 2017). In this sense, the directors' expertise and knowledge are two key issues (Sultana & Mitchell Van der Zahn, 2015).

Most of the definitions of a financial expert in the literature have in common the assumption that financial expertise can be gained through education or experience. Consequently, we focus on these two traits of the directors' professional career, and analyze whether the members of the audit committee with wider professional experience or higher academic education can improve the quality of the financial information (Wang, Su, Wang, & Chen, 2017). Some authors have underlined the convenience of combining several sources of expertise (Dhaliwal, Naiker, & Navissi, 2010; Kusnadi, Leong, Suwardy, & Wang, 2016). From this point of view, our research question would be: Is there any relationship between directors' professional or educational background and the quality of the financial information?



3. EMPIRICAL DESIGN

3.1. Sample

Our sample is made up of all the non-financial firms listed in the Spanish Stock Exchange (*Mercado Continuo*) between 2009 and 2013. Then, we identify the audit committee members of these companies

and we look for information about their personal characteristics such as tenure as director, number of other directorships, age, etc. We drop out the firms that do not report enough information about the audit committee, which reduces the sample to 357 firm-year observations. The information about directors was mainly hand-collected from the Report of Corporate Governance that each firm must post on the firm's website and submit to the Spanish Securities Exchange Commission (*Comisión Nacional del Mercado de Valores*). If necessary, this information was complemented by looking at other public sources such as *Bloomberg Business Week* and the official websites of other companies where these directors served. We complete the director-level information with firm-level financial information from Thomson ONE database. At the end of this process our sample consists of 102 firms, 293 firm-year-observations and 1,228 director-year observations.

3.2. Method

The dependent variable of our study is the financial reporting quality. Since all of the proxies for earnings quality have at their core the reported accrual-based earnings number, it makes sense to focus on earnings management (Parte Esteban & Gonzalo Angulo, 2008; Parte Esteban & Gonzalo Angulo, 2009).

The literature has developed a number of accruals models with the aim of detecting the discretionary component of earnings management. To determine which model has the smallest margin of error, we calculate discretionary accruals based on four different models: the Jones model, the Jones modified model, the Jones model adjusted to ROA, and the cash-flow model. The choice of the most suitable model is based on the tests of specification and power of each model. These tests inform about the ability of each model to avoid the so-called type I and type II errors. The specification test refers to the type I error, i.e., to consider as discretionary accruals some accruals which are not actually discretionary. On the contrary, the power test has to do with the ability of the models to avoid type II errors, namely not to detect some abnormal accruals⁴. According to these results, the Jones model adjusted to ROA performs better than the Jones model, and this latter better than the other models.

Accordingly, we based on the Jones model adjusted to ROA to calculate the variable DACC, which is the discretionary accruals. The abnormal or discretionary accruals have been calculated by estimating



cross-section regressions by year and sector, requiring at least six observations by year and industry⁵.

3.3. Variables

To answer the research questions we consider three sets of directors' characteristics: experience, dedication and expertise. Regarding the experience, directors' tenure (TENURE) is calculated as the average number of years that members spend on a particular audit committee. To operationalize the dedication, in line with other studies, we consider busy members those who hold three or more board appointments. Thus, multiple directorships (BUSY) is calculated as the average number of busy members (Andres, van den Bongard, & Lehmann, 2013). As far as the expertise is concerned, we define four variables: first, the educational level of committee members (STUDIES) is measured as the proportion of members with postgraduate (either master or PhD) studies. Second, we compute the proportion of members with studies abroad (ABROAD). Third, after analyzing the professional experience of each director, we define four main profiles: politics, economics/business, public administration, and university. Then, we define a dummy variable (PROFILE) which equals one when a director has simultaneously more than one category, and zero otherwise. This variable is a qualitative metric of the professional background, and complements the quantitative approach of the years of experience (TENURE). Finally, we also consider the proportion of foreign members (FOREIGN).

We introduce a set of variables due to their potential influence on financial reporting quality. First, two committee-related variables are included: audit committee size and audit committee independence. Audit committee size (ACSIZE) is measured by the total number of members on the committee. Audit committee independence (INDEP) is measured as the proportion of independent directors on the committee. In addition, two financial variables were added: firm size and leverage. Firm size (ASSET) is calculated as the log of total assets; and leverage (LEV) is measured by the ratio of total debt to total equity. Finally, we also use year and industry dummies to control both for time and industry effects.



4. RESULTS

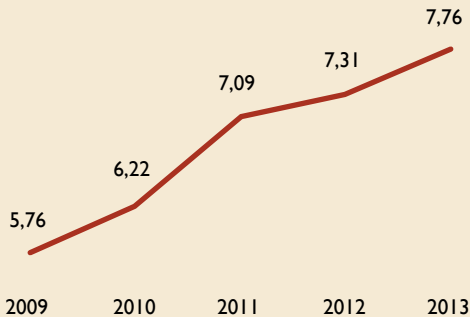
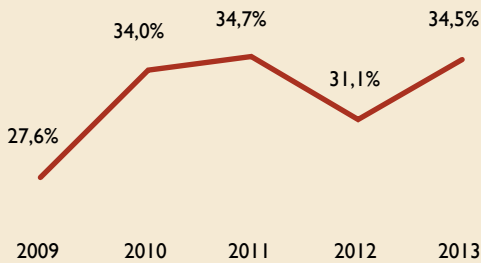
4.1. Descriptive analysis

Table 1 displays the definition of the variables and some descriptive statistics for the main variables. On average, the directors' tenure in a given committee is close to seven years (6.84) and the average proportion of busy members is around 33%. It means that one out of three members of the audit committees sits, on average, at two additional boards. The average of members with postgraduate education (master or PhD) is 44%, and the mean of committee members with more the one profile is 11%.

Table 1. Definition and descriptive statistics of the main variables

	DESCRIPTION OF THE VARIABLES	NO. OBS.	MEAN	STD. DEV.	MEDIAN
DACC	Discretionary accruals using the model of Jones adjusted to ROA	293	0.011	0.014	0.008
TENURE	Average number of years on the board	293	6.848	4.217	6.200
BUSY	Proportion of members with more than two outside directorships	293	0.332	0.279	0.333
STUDIES	Proportion of members with postgraduate studies	293	0.437	0.273	0.400
ABROAD	Proportion of directors with studies abroad	293	0.075	0.163	0.000
PROFILE	Proportion of members with more than one professional profile	293	0.111	0.097	0.123
FOREIGN	Proportion of foreign members	293	0.180	0.209	0.166
ACSIZE	Total number of members on the audit committee	293	3.734	1.039	3
INDEP	Proportion of independent members on the audit committee	293	0.959	0.106	1
ASSET	Logarithm of total sales	293	21.188	1.927	21.200
LEV	Ratio of total debt to total equity	293	3.228	3.249	2.143

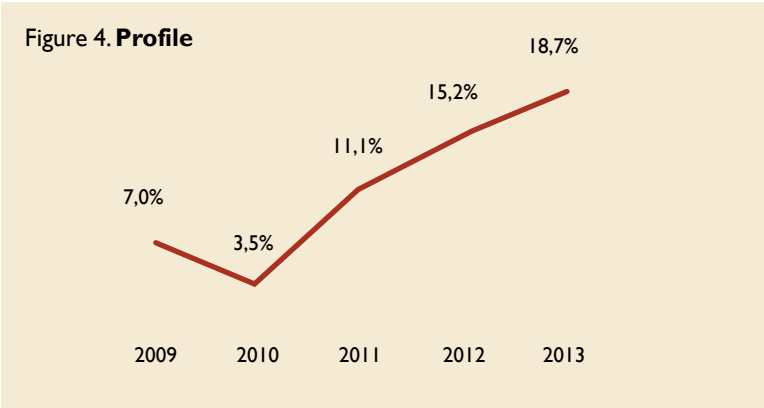
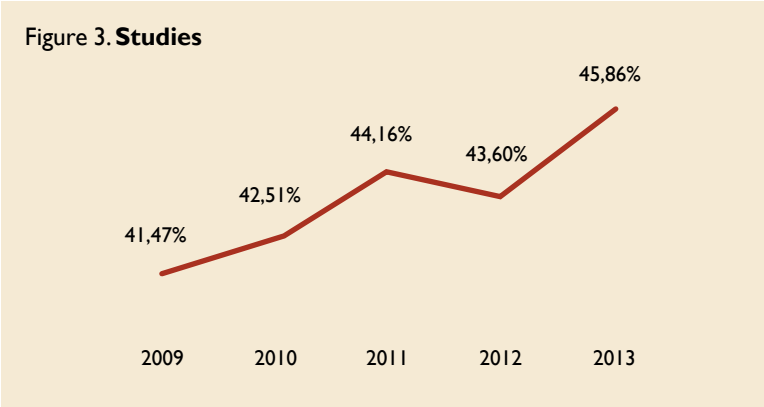
Figure 1 displays the evolution of the members' characteristics between 2009 and 2013 in order to provide a view of the recent evolution. Whereas in 2009 the average tenure was 5.76 years, it has increased steadily until 7.76 year in 2013. Thus, the members of the audit committee have longer and longer experience within the board. Whether it can have a positive or a negative influence on earnings management is an empirical issue that we will address.

Figure 1. **Tenure**Figure 2. **% Busy**

The proportion of busy members (i.e., the ones with three or more directorships), displayed in **Figure 2**, has also followed an upwards trend. This trend can be partially explained by the recent prominence of the financial experts, so that directors with this expertise are more solicited whereas the availability of such directors is not unlimited. This result is coherent with Jaafar, Wan-Hussin, and Bamahros (2016), who find that financial experts in the audit committee have more directorships than non-experts.

Figure 3 reports the proportion of members with postgraduate education. According to this graph, the proportion of committee members with master or PhD degrees has increased significantly between 2009 and 2013. A similar evolution can be found in **Figure 4**, concerning the proportion of members with more than one professional profile.

In **figures 5 and 6** we report the proportion of foreign members and the proportion of Spanish members who have obtained an academic

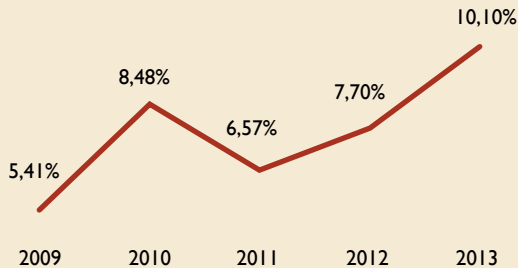
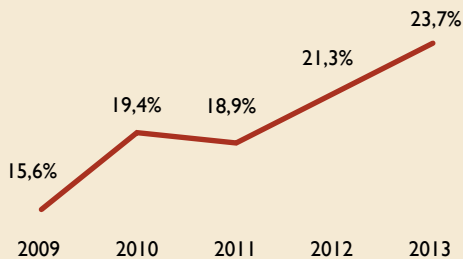


degree abroad. It can be seen an upwards trend towards more internationalization of the audit committees.

Taken together, the picture that emerges from illustrations 1 to 6 is that the audit committees of the Spanish listed firms have become more qualified in the recent years. Their members are credited as more experienced, with longer tenure in the board, more diverse professional background, and have higher academic education. In addition, an unneglectable proportion of them serve in several boards and there is an increasing internationalization trend, both in terms of foreign members and of Spaniards who have obtained their degrees abroad. The extent to which these characteristics can influence the tasks of the committee, i.e., the quality of the financial information will be analyzed in the next paragraphs.

4.2. Explanatory analysis

In **Table 2** we report the panel data estimates of the regression between earnings management (DACC) and the characteristics of

Figure 5. **Foreign members**Figure 6. : **Studies abroad**

the members of audit committees. We run four different models, and a joint model including all the independent variables. Model 1 concerns the impact of committee members' tenure on earnings management. Our results suggest a curvilinear inverted U-shaped relationship, according to which, for low levels of members' tenure, discretionary accruals increase with tenure. On the contrary, after a given threshold, the relation turns into negative, so that longer-tenured members reduce earnings management. As such, these results confirm both the friendliness and the experience hypotheses suggested by Vafeas (2003). Initially, members of the audit committee may become close to the managers and, thus, less independent and worse supervisors. This happens until a given point, after which seniority and long experience prevail over the acquaintance.

In model 2 we study the effect of multiple directorships, i.e., whether busy members in the audit committee affect the earnings management. It can be seen that busy members have a positive effect on the discretionary accruals. In other words, our results

suggest that committee members holding too many mandates can have a negative influence on the quality of firm financial information. Consequently, these results support the dedication approach and refute the reputation approach. It means that members of the audit committee must have enough time to prepare for the task in order to give the governance the attention it deserves. This result is in line with the Recommendation 25 of the Spanish Good Governance Code of Listed Companies and the paragraph 24 of the Technical Guide on Audit Committees. Although the code recognizes that it is very difficult to specify directors' dedication standards which can be recommended on a general basis, the firm should ensure that

Table 2. Regression of directors' expertise and financial reporting quality

VARIABLES	MODEL 1	MODEL 2	MODEL 3	MODEL 4	MODEL 5
TENURE	0.0021*** (2.7524)				0.0017** (2.3970)
TENURE ²	-0.0001** (-2.4339)				-0.0001* (-1.8627)
BUSY		0.0036* (1.7149)			0.0035* (1.6583)
PROFILE			-0.0366* (-1.8347)		0.0055 (0.7724)
FOREIGN			-0.0075 (-1.0682)		0.0032 (0.4612)
STUDIES				-0.0098** (-2.2736)	-0.0074* (-1.7385)
ABROAD				0.0053 (1.0670)	0.0024 (0.4776)
ACSIZE	-0.0011 (-1.0579)	0.0010 (1.0464)	0.0006 (0.5677)	0.0001 (0.0982)	0.0005 (0.5203)
INDEP	-0.0005 (-0.0437)	-0.0175* (-1.6527)	-0.0095 (-0.7992)	-0.0028 (-0.2523)	-0.0102 (-0.9878)
LEVERAGE	0.0008** (2.5570)	0.0001 (0.1739)	0.0010*** (2.8563)	-0.0000 (-0.0238)	-0.0000 (-0.0985)
ASSET	-0.0008 (-0.9828)	-0.0003 (-0.3172)	-0.0004 (-0.3233)	-0.0004 (-0.4722)	-0.0005 (-0.6303)
Sector dummies	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes
No. observations	258	272	241	262	260
Adj.-R ²	0.042	0.047	0.021	0.028	0.081

Estimated coefficients and (t-statistics). The dependent variable is the discretionary accruals (DACC) from the Jones model adjusted to ROA. * p<0.10, ** p<0.05, *** p<0.01

non-executive directors have sufficient time available to discharge their responsibilities effectively. In turn, the boards of directors are required to lay down the maximum number of company boards on which directors can serve.

In Model 3 we study the influence of the professional background. More specifically, we analyze whether having more than one professional profile (politics, economics/business, public administration, or university) or being a foreigner can be helpful skills in the audit committee. Although the foreign citizenship is not relevant, the coefficient of the PROFILE variable is statistically significant and negative, which means that members with a diversified professional experience can improve the quality of the financial information. This result is coherent with the Recommendation 14 of the above cited Spanish Good Governance Code of Listed Companies and paragraph 14 of the Technical Guide on Audit Committees, which mandate that the director selection policy should favor the diversity of knowledge and experience. The result is also consistent with Dhaliwal et al. (2010) and Kusnadi et al. (2016) who show the importance of board members having mixed expertise in several areas.

Finally, we test the effect of the members' academic background (STUDIES and ABROAD) in Model 4. Although ABROAD is not significant, we find a negative effect of the level of studies on earnings management, so that directors with higher educational level (either master or PhD degrees) in the audit committee have a significant influence in decreasing discretionary accruals. Consequently, the educational level of directors seems to be a relevant means to gain supervisory skills and to improve their role in the boardroom.

As far as the control variables are concerned, the most significant result is the positive relation between financial leverage and earnings management. This result corroborates previous research and can be due to the relevance of financial information in the debt contracts covenants. In Model 5 we check the joint effect of all the variables. Results are coherent with the above explained ones.

As a robustness test, in **Table 3** we report the results of similar analyses when abnormal accruals are calculated using the Jones model. Broadly speaking the results are in the same line than those previously explained.



Table 3. Regression of directors' expertise and financial reporting quality

VARIABLES	MODEL 1	MODEL 2	MODEL 3	MODEL 4	MODEL 5
TENURE	0.0020** (2.0115)				0.0018** (2.1310)
TENURE ²	-0.0001* (-1.7935)				-0.0001* (-1.9178)
BUSY		0.0065* (1.9042)			0.0056** (2.1964)
PROFILE			0.0171* (1.6880)		0.0048 (0.5442)
FOREIGN			0.0070 (0.9313)		-0.0031 (-0.3677)
STUDIES				-0.0054* (-1.7199)	-0.0081* (-1.6936)
ABROAD				0.0097* (2.4953)	-0.0035 (0.5750)
ACSIZE	0.0013 (1.0127)	0.0019* (1.7435)	0.0026** (2.2058)	0.0010 (1.1356)	-0.0002 (-0.1447)
INDEP	-0.0082 (-0.6510)	-0.0052 (-0.5636)	-0.0119 (-1.1956)	0.0023 (0.2896)	-0.0129 (-1.0200)
LEVERAGE	0.0000 (0.2411)	0.0000 (0.2311)	0.0000 (0.1138)	0.0000 (0.5569)	0.0000 (0.7674)
ASSET	-0.0005 (-0.6397)	0.0004 (0.8689)	0.0002 (0.3040)	-0.0004 (-0.8146)	-0.0007 (-0.7270)
Sector dummies	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes
No. observations	300	266	254	253	255
Adj.-R ²	0.062	0.062	0.079	0.112	0.057

Estimated coefficients and (t-statistics). The dependent variable is the discretionary accruals (DACC) from the Jones model.

5. CONCLUSIONS

The recent legal impulse of the audit committee both in Spain and at the European Union level highlights the prominence that the members of this committee have for business and economic stability. Whereas the effect of the independence of the audit committee has been largely analyzed, the influence of the members' qualification is a still relatively unexplored topic. In this paper we analyze the members' experience measured by their tenure as director, their dedication measured by the number of other directorships held, and their professional and academic background measured by the professional profile and formal academic studies.

We manually collect the curriculum vitae of the audit committee members of 102 listed Spanish firms between 2009 and 2013, which means an analysis of 1,228 director-year observations. We find that some of these characteristics are significantly related to the earnings management. Our estimates suggest a non-linear relation with tenure, so that long tenures can initially compromise the directors' independence but, after a given threshold, longer tenures improve the expertise of the members of the committee. We also find that serving in too many boards has a negative influence on the ability of directors to detect earnings management. Finally, higher academic and more diverse professional background improve the directors' abilities, reinforcing the recommendation of the Spanish regulator in this sense.

Our research can be interesting for a number of incumbents. First, for firms and practitioners, we provide some clues on the optimal design of the audit committee in order to reduce earnings management. Our results underline the relevance of the audit committee and confirms that the professional and academic characteristics of its members can affect the quality of the firm's financial information. We show that firms must trade-off the advantages and disadvantages of long tenure in the committee, so that an optimal policy would be combining new members with long tenured ones. This policy of diversity also applies to the professional background since we find that combining members with different professional profiles improves the performance of the committee. Another implication of our study is that counting on committee members with too many outside directorships can impact negatively on the quality of the financial statements.

For policy makers, our research joins the ongoing debate on the new regulatory framework of the corporate governance and the audit function. We show that the focus on the members' competence is a step in the right direction, but new measures could be taken. We also shed some light on the debate about harmonizing across industries the limitation of multiple directorships given the recent recommendation of the European authorities for banks. We also contribute to the academia and other researchers by proposing some metrics of the directors' expertise and extending our knowledge about the importance of committee members' personal qualification. Our study suggests some avenues for future research. It would be



interesting to check the validity of our results in other countries, especially the EU members that are under the same European legal framework. In addition, more specific components of the directors' expertise (for instance, accounting, audit, financial, or industry expertise) call for further attention. Finally, not all the directors play the same role within the committee (chairman, secretary, etc.). Forthcoming research could take into account these different roles.



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NOTES

1. Acknowledgement: We are grateful to two anonymous referees and to Philip Jaggs for their comments on previous versions. All the remaining errors are the authors' sole responsibility. We acknowledge the Spanish Ministry of Economy and Competitiveness for financial support (Projects ECO2014-56102-P, ECO2015-69637-R, and ECO2017-84864-P). This paper was also prepared within the framework of the Basic Research Program at the National Research University Higher School of Economics (HSE) and supported within the framework of funding awarded to the HSE by the Government of the Russian Federation for the implementation of the Global Competitiveness Program.
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3. The Spanish Law of Auditing corroborates this learning curve for auditing and mandates that external audit contract should be longer than three years.
4. The results of the specification and power tests are not tabulated but are available from the authors upon request.
5. We use the first-level (six sectors) industrial classification of the Bolsa de Madrid.

