
Does audit committee independence and expertise affect earnings quality? Evidence on the role of audit committee in New Zealand

Umapathy Ananthanarayanan
New York Institute of Technology, New York, USA

Key words

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Abstract

This study investigates the association between growth in fees paid to the auditor and earnings management in New Zealand listed firms. Using 765 firm-year observations from the New Zealand Stock Exchange in fiscal year 2004 to 2012, the results show that growth in audit fee is negatively and significantly associated with earnings management. This association is stronger for both discretionary and current accruals that diminish the quality of earnings when audit committee accounting expertise is higher. Moreover, the significant associations hold for both current and total discretionary accruals. The results show that growth in non-audit fee is not related to earnings management. The adverse effects of growth in total fees generated by a client on earnings management is, therefore, attributed to the growth in audit services fees. The study has potential implications for relevant regulatory bodies in New Zealand and may assist them develop sound corporate governing practices and prudent financial reporting practices.
