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Audit Committees and Audit Fees: An Empirical Study in Large French Listed Companies

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Abstract

This study examines, in a French setting, the impact of the presence and two attributes associated with effectiveness of the audit committee on the magnitude of audit fees. The sample used to test the impact of the presence of an audit committee was a panel of 106 SBF 250 French firms over a period of 6 years (2002-2007). The sample was reduced by focusing on only those firms with an audit committee. That sub-sample was used to test the impact of the level of independence of the audit and the frequency of its meetings on the level of audit fees. The random effects regression results show that the existence and independence of an audit committee and the frequency of its meetings have a positive and significant effect on the audit fees. Theoretically, the results show a complementary relationship between these variables, which means the more detailed work of an external auditor, complements the work of an effective audit committee.

Keywords: audit committee, audit fees, effectiveness, France, independence, meetings.

I. INTRODUCTION

Based primarily on the model of Simunic (1980), the first empirical study that identified the size of the audited company, its complexity and its risk level as explanatory factors of the amount of audit fees. Subsequently, other studies have examined the impact of the governance mechanisms (e.g. ownership structure, board of directors and audit committee) on the amount of the audit fees (O'Sullivan, 2000; Nikkinen & Sahlström, 2004; Fan & Wong, 2005; Niemi, 2005; Mitra et al., 2007), and the results have been mixed. Indeed, some studies (e.g. Felix et al., 2001) showed that the presence of effective internal control mechanisms within the company can limit the effort of the external auditor which leads to lower audit fees. Other research (Mitra et al., 2007; Vafeas & Waegelein, 2007) showed that the presence of governance mechanisms leads to demands for more external control which results in larger audit fees. Nevertheless, studies in the French context have been few[2]. The majority of previous studies have been carried out in an Anglo-Saxon context where the appointment and functioning of the audit committee are subject to detailed regulatory requirements (Prat Dit Hauret & Komarev, 2005). So, the study of the impact of the presence and effectiveness of the audit committee on the magnitude of audit fees in France seems to be relevant. The main motivation to study the French context is a "liberal approach" on the functioning of audit committees. Another characteristic of the background of the audit environment in France is that the

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[2] Only Audousset-Coulier (2008) and Broye (2009) attempted to study the link between the audit committee and audit fees. Their results have shown that the existence and independence of an audit committee and the frequency of its meetings have a positive and significant effect on the audit fees.

communication from external auditors to the audit committee is limited by the professional secrecy rule. External auditors must communicate directly with a company's legal representative (e.g. the president) (Piot, 2004). Also, the use of panel data in this study allows consideration of the time dimension neglected in previous French studies (Audousset-Coulier, 2008; Broye, 2009) especially as the chosen period (2002-2007) is characterized by a dynamic of the statutory audit regulations in France. In fact, the Commission of Financial Market Operations (COB) introduced in 2002 an obligation requiring the disclosure of the amounts of the auditing fees in all documents and/or prospectus filed or registered from 1st January 2003. The Financial Security Law (Loi de Sécurité Financière n°, 2003) required that all companies make information about the amount of each auditor fees available for stockholders.

The research question to be examined in this paper is as follows: "Does the amount of audit fees depend on the presence and effectiveness of audit committees in the listed French firms?"

The sample used in model 1 is a panel of 106 French firms over a period of 6 years (2002-2007) and it is 338 firm year observations in model 2. Data was gathered from the SBF 250 index. The random effects regression results show that the presence and independence of an audit committee and the frequency of its meetings have a positive and significant effect on the amount of audit fees. These results corroborate the results of Knechel and Willekens (2006) in the Belgian context as well as those of Audousset-Coulier (2008) and Broye (2009) in the French context. The use of panel data in this study allows consideration of the time dimension neglected in previous French studies. The introduction of the variable (AN05) eliminates the bias related to the probability that the fees are considered affected by the transition to IFRS in 2005[3].

In the following, section 2 presents the characteristics of audit committees in France. Section 3 reviews the literature and develops the hypotheses. Section 4 discusses the research design. Section 5 presents the empirical results and section 6 concludes the paper.

II. CHARACTERISTICS OF AUDIT COMMITTEES IN FRANCE

French law defines the audit committee as a "simple advisory body" derived from the board of directors. It says nothing about the working, composition and roles of the committee leaving the choice to the firms. However, some reports propose some rules in referring to U.S. standards. Indeed, the 1967 Decree stated that the Board can create and organise sub-committees. It determines the composition and powers of committees that would fall within its responsibility (Piot, 2004). In 1982, the Aubin Report on the future of the accounting profession encouraged the use of audit committees in public companies but with little effect (Piot, 2004). Following the first Vienot report (July, 1995), audit committees have shown marked development in large French listed companies that composed the CAC 40 index (Piot, 2004). Other reports (Vienot, 1999; Bouton, 2002) reinforce the recommendations concerning the establishment of audit committees. The Bouton Report (2002) has issued a number of recommendations to ensure the proper functioning of the Audit Committee. It is actually a derivation of the board, which should facilitate its work. It consists of a minimum of three members appointed by the board

[3] The Broye's study addressed a cross-sectional sample of 150 listed companies for the fiscal year 2005. Or this year is characterised by the adoption of IFRS, which can bias the results reported by Broye (2009).

from among its directors. In addition, the committee may appoint external experts if necessary. Its main role is to control the transparency and reliability of financial information produced by the company.

III. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

3.1. Assumptions Related to the Presence and Effectiveness of the Audit Committee

Several authors (Collier & Gregory, 1996; Simunic & Stein, 1996; Goodwin-Stewart & Kent, 2006; Broye, 2009) were interested in testing the link between the presence and/or effectiveness of audit committees and audit fees. There are different measures used in the literature to date to proxy for audit committee effectiveness. Indeed, the independence of the members of the audit committee, the number of meetings and sometimes the members' expertise are variables that have been incorporated in previous research. But the development of the relationship between audit committee and audit fees is complex and depends on the perspective (supply or demand) adopted (Collier & Gregory, 1996).

According to a demand perspective, the presence of an audit committee in a company is likely to make sure that a thorough audit is conducted and that there are regular meetings with the auditor. So, to ensure better quality of financial statements through a high quality audit, the audit committee will ask external auditors to conduct more controls and to devote sufficient time to the audit which will result in higher fees (Simunic & Stein, 1996; Broye, 2009).

In the United States, the audit committee is directly responsible for supervising the work of the auditor (Broye, 2009). In France, this formalism does not exist, but the existing recommendations (Vienot and Bouton reports) encourage the committees to give their opinion on the quality of the work of auditors and to monitor them regularly. The "Institut Français des administrateurs" (French Institute of Directors, 2004) indicates that one of the missions of the audit committee is to review the work programs of the external auditors and to discuss with them the results of their work.

The Anglo-Saxon studies' results suggest a positive relationship between the effectiveness of the audit committee and audit fees, implying that external audit is seen as a complementary control mechanism to the audit committee. In the UK, Collier and Gregory (1996) found a positive impact of the presence of an audit committee on audit fees due to the size of the firm (reflecting the audit effort) and a reducing effect of fees related to the complexity measured by the number of subsidiaries. The interpretation advanced by the authors is as follows: these results are attempting to demonstrate the effectiveness of the committee to avoid reductions in fees in which audit quality may be compromised. But by replicating the study by Goddard and Masters (2000) after a transitional period following implementation of the recommendations of the Cadbury Report, the authors found that the presence of an audit committee has a positive impact on fees in 1994, this impact disappears in 1995. These results were explained as follows: the development of the environment of the audit in the UK has resulted in improvement in the quality of external auditing during this period and therefore has limited the ability of audit committees to improve this quality, and thus to affect the audit fees. But another explanation can be advanced. Indeed, an effective audit committee will lower the risk of an internal control failure, and a reliable internal control system can motivate the external auditor to set a lower risk of non-control. Thus, a limited audit risk may lead to less audit work and therefore to lower fees.

In the United States, Carcello et al. (2002) found a positive and significant relationship between the characteristics of the board of directors (proportion of independent directors and meeting frequency) and the amount of the audit fees, their sample covered the years 1992 and 1993. By replacing the characteristics of the board by the characteristics of the audit committee, the authors verified that the independence and financial expertise of committee members are positively and significantly related to the amount of audit fees. On the contrary, the meeting frequency of committee (audit committees that meet more frequently are often expected to be able to better perform their tasks, and therefore to be more effective) does not appear to be significantly related to the level of audit fees. However, working with data for the year 2000, Abbott et al. (2003) showed that firms with audit committees that met at least four times during the year and which are fully independent pay higher fees, even after controlling for the independence of boards. Compared to results found in the period 1992-1993, these results can be explained by the increasing pressure from regulatory and professional bodies, which results in a greater involvement of audit committees and additional work performed by external auditors (Piot, 2005). Mitra et al. (2007) and Vafeas and Waegelein (2007) have also verified the existence of a positive and significant relationship between the independence of the audit committee and the amount of audit fees in the Anglo-Saxon context. Similarly, Lee and Mande (2005) found a positive relationship between the effectiveness of the audit committee (measured by the independence and activity of the audit committee) and the amount of audit fees. However, in other studies (Mitra et al., 2007; Vafeas & Waegelein, 2007), the activity of the audit committee (as measured by the number of meetings during the year) does not seem to influence audit fees.

Regarding the expertise of members of the audit committee, the results are mixed. Some authors (e.g. Abbott et al., 2003; Vafeas & Waegelein, 2007) found it as an explanatory factor of the audit fees, while others (e.g. Goodwin-Stewart & Kent, 2006) haven't found any significant results. This can be explained by the difficulty and variety of measures of the level of audit committee activity.

However, studies in the European context are less numerous. Working in the Belgian context, Knechel and Willekens (2006) found that the existence of an audit committee has a positive and significant effect on the amount of audit fees. Working on a sample of 150 French listed companies in 2005, Broye (2009) verified that the existence of an audit committee is positively and significantly related to the amount of audit fees. Still in the French context, this positive relationship was also found by Audousset-Coulier (2008). In addition, Broye (2009) showed that the independence and activity of the audit committee are positively and significantly related to the amount of audit fees. These results confirm the existence of a complementary relationship between the apparent control exercised by the audit committee and the presumed effort that was exerted by the external auditors.

An inverse relationship can be advanced if the problem is addressed from the audit supply perspective. Indeed, an effective audit committee will lower the risk of an internal control failure, and a reliable internal control system can motivate the external auditor to set a lower risk of non-control, and thus to limit the extent of his corroborating audit at year-end (Piot, 2008). Thus, a limited audit risk may lead to less audit work and therefore to lower fees since they depend on the level of risk. In this sense, Elliott and Korpi (1978) found a negative relationship between the contribution of internal control in the audit of financial statements and audit fees. This same relationship was also found by Felix et al. (2001). Wallace (1984) also found a negative and significant relationship

between spending on internal audit and audit fees by working on a sample of American firms.

Recent studies (e.g. Piot, 2008) used the presence of an audit committee as a measure of the reliability of the internal control system. This assurance of the quality of internal control system should be even more important in deciding the committee will be deemed effective (Broye, 2009). Indeed, the presence of independent members with financial expertise and the activism of the committee (as measured by the number of meetings) may lead the auditor to be more confidence in the quality and reliability of the accounting information and thus set a lower audit risk, which implies a substitution effect between the audit committee effectiveness and extent of the external audit.

However, this reasoning can be nuanced as in the presence of an audit committee, the auditor will need a partner who will coordinate the work of external audit teams and the audit committee, who will deal with meetings, and who will prepare reports to the audit committee which will result in an increase in audit effort and therefore in audit fees (Goodwin-Stewart & Kent, 2006).

To conclude, results vary widely from one study to another and from one variable to another. For independence and meeting frequency, results are not consistent. This could be due to specific sample characteristics. The influence of audit committee member expertise is not directly studied in this research, due to the difficulty of reliably measuring this variable. So, the research hypotheses are:

Hypothesis 1: the presence of an audit committee has a positive impact on the audit fees.

Hypothesis 2: the effectiveness of the audit committee has a positive impact on the audit fees.

3.2. Control Variables

In addition to the explanatory variables, several control variables are introduced. According to the previous relevant research, the main factors that affect audit fees include firm size, the complexity of the audit, the audit risk, the characteristics of the audit firm and other characteristics of the audited firm. Indeed, much research (Simunic, 1980; Taylor & Baker, 1981; Francis, 1984; Firth, 1985; Palmrose, 1986; Anderson & Zeghal, 1994; Gonthier-Besacier & Schatt, 2007; Audousset-Coulier, 2008) indicates that firm size is the main determinant of audit fees since large companies are engaged in a greater number of transactions and they have higher agency costs. In addition, auditor should always adjust his audit procedures and so his audit fees to reflect the complexity of the audited firm. Several measures (the level of growth of the auditee, the number of foreign subsidiaries, trading on a second market, the number of industries…) are usually considered to control this complexity (Simunic, 1980; Chan et al., 1993; Anderson & Zeghal, 1994; O'Keefe et al., 1994; Gonthier-Besacier & Schatt, 2007; Audousset-Coulier, 2008). Also, the ratio of inventory and/or receivables to total assets is used to proxy for the inherent risk which is considered as a determinant of audit fees (Simunic, 1980; Anderson & Zeghal, 1994; Cobbin, 2002; Gonthier-Besacier & Schatt, 2007; Audousset-Coulier, 2008). Indeed, companies whose assets are composed of a high proportion of inventory and/or receivables require greater control (physical observation) and specific audit procedures and hence higher audit fees due to the manipulation character of these elements. Moreover, according to the previous results of Audousset-Coulier (2008) in the French context, a positive relationship between the debt levels and the amount of audit fees is expected. Indeed, Simunic (1980) has reported that by increasing debt, the risk of bankruptcy of the auditee may increase, which can expose the auditor to losses due to possible legal action in case of bankruptcy of the auditee. To protect itself, the auditor will

then increase the control effort and the litigation risk premium. Furthermore, the presence of a majority shareholder may have contradictory effects on the amount of audit fees. On the one hand, it will improve the direct control of leaders. So, if the auditor believes that the presence of dominant shareholders is a sign of good governance, his assessment of audit risk would be smaller and he will require lower fees. On the other hand and if the auditor considers their presence as a sign of bad governance (make decisions that go against the interests of minority shareholders by neutralizing the control mechanisms), his assessment of risk would be higher implying a higher additional audit effort and higher fees (Fan & Wong, 2005). The results of prior research are mixed. Therefore, the sign of the possible relationship between the presence of majority shareholders and the amount of audit fees cannot be provided. Several studies have also predicted higher audit fees in case of existence of indicators of financial distress (Anderson & Zeghal, 1994; Pong & Whittington, 1994) because the auditor should maintain a high audit risk when the financial situation of the firm is serious. Additionally, previous research conducted in the French context (Gonthier-Besacier & Schatt, 2007; Audousset-Coulier, 2008) showed that large audit firms (belonging to the Big 4) receive consistently higher fees due to their strong reputation and to the differentiation of provided services. Moreover, according to the theoretical analysis, the use over a long period of the same auditor in the same client can gradually affect the rigorous application of his working methods and enhance complacency with auditee. The risk of collusion can affect the level of fees on the rise as an auditor, by compromising his independence, will attempt to remove additional income from management. But the learning effect can affect the level of audit fees down. Then, the sign of the relationship between this duration and audit fees cannot be provided. For non-audit fees, clients requesting these services have more problems in general and therefore more risks which increase audit fees. In the French context, Gonthier-Besacier and Schatt (2007) and Audousset-Coulier (2008) found a positive and significant relationship between the amount of non-audit fees and audit fees. Finally, a long duration between the end of the fiscal year and the date of signing the audit report is probably synonymous with problems encountered during the audit process which can lead to higher audit fees.

IV. RESEARCH DESIGN

4.1. Presentation of Models and Definitions of Variables

To test the hypotheses, two linear regression models for panel data covering the period 2002-2007 are developed. The dependent variable is the logarithm of audit fees. The general forms of the models tested are the following:

First model (model 1): the existence of an audit committee.

$$\textbf{\textit{AUDIT FEES}} = \beta_0+\beta_1 AUDITCOM+\beta_2 SIZE+\beta_3 DIVERSITY+\beta_4 IT+\beta_5 DUALLIST+\beta_6 INHRISQ+\beta_7 NCLIAB+\beta_8 MAJSHARE+\beta_9 LOSS+\beta_{10} 1BIG4+\beta_{11} 2BIG4+\beta_{12} DURREL+\beta_{13} NAUDFEES+\beta_{14} SIGNDEL+\beta_{15} AN05+\varepsilon \quad (1)$$

Second model (model 2): audit committee effectiveness.

$$\textbf{\textit{AUDIT FEES}} = \beta_0+\beta_1 ACINDEP+\beta_2 ACACTIV+\beta_3 SIZE+\beta_4 DIVERSITY+\beta_5 IT+\beta_6 DUALLIST+\beta_7 INHRIS+\beta_8 NCLIAB+\beta_9 MAJSHARE+\beta_{10} LOSS+\beta_{11} 1BIG4+\beta_{12} 2BIG4+\beta_{13} DURREL+\beta_{14} NAUDFEES+\beta_{15} SIGNDEL+\beta_{16} AN05+\varepsilon \quad (2)$$

The specification of the variables and the expected signs are shown in table 1.

Table 1
Definition of the Variables and Expected Signs

Name	Expected Sign	Definition
Dependant variable		
AUDIT FEES		The natural log of external audit fees
Explanatory variables		
AUDITCOM	+	A dummy variable taking the value 1 for the existence of an audit committee, and 0 otherwise.
ACINDEP	+	The percentage of independent audit committee members
ACACTIV	+	The natural log of the annual number of meetings of the audit committee
Control variables		
1BIG4	+	A dummy variable taking the value 1 if the company has a one BIG 4 auditor among its auditors, and 0 otherwise.
2BIG4	+	A dummy variable taking the value 1 if the company has two BIG 4 auditors and 0 otherwise.
SIZE	+	The natural log of total assets
DIVERSITY	+	The natural log of a number of sectors in which the firm operates
IT	+	A dummy variable taking the value 1 if the firm operates in the IT sector and 0 otherwise
DUALLIST	+	A dummy variable taking the value 1 if the firm is listed in London (LSE) or New York (NYSE, NASDAQ) and 0 otherwise
INHRISQ	+	The ratio of inventory and receivables to total assets
NCLIAB	+	The ratio of non-current liabilities to total assets
MAJSHARE	+/-	A dummy variable taking the value 1 in the presence of a majority shareholder, and 0 otherwise.
LOSS	+	A dummy variable taking the value 1 if the company net result is negative and 0 otherwise.
DURREL	+/-	The root of the average length of relationship between the company and the two auditors.
NAUDFFES	+	The natural log of non-audit fees
SIGNDEL	+	The number of days between the inventory date and the date of signing the audit report.
AN05	+/-	A dummy variable taking the value 1 if year of study is 2005 and 0 otherwise[4]

To correct normality, the logarithmic transformations to the variables audit fees, size, and naudfees are chosen, which is consistent with current practices in the literature. The same transformation is applied to the variables acactiv and diversity. Finally, the square root formula for the variable durrel is applied to correct best the asymmetry.

4.2. Sample Selection

The sample used in model 1 is a panel of 106 non-financial listed French firms belonging to the SBF 250 index (Société des Bourses Françaises 250 index) over a period of 6 years (2002-2007) and it is 338 firm year observations in model 2. The main sources used are the Thomson Financial data base for financial data collection and the annual reports available on the companies' websites for the remaining data collection.

[4] The introduction of this variable eliminates the bias related to the probability that the fees are considered affected by the transition to IFRS.

Table 2
Steps in the Constitution of Sample

	Number of Companies Deleted	Model 1 Number of Companies/ Observations Remaining	Model 2 Number of Companies/ Observations Remaining
Listed companies belonging to SBF 250 in 2002		250	250
- Financial and Real estate companies	34	216	216
- Foreign companies	11	205	205
- Companies not belonging to the SBF 250 index during the period 2002-2007	36	169	169
- Companies with missing data	63	106	106
Number of observations for six years (106 firms*6 years)		636	636
- Companies do not have an audit committee	136		500
- Companies with missing data on the independence and / or activity of their audit committees	162		338
Final sample		636	338

V. EMPIRICAL RESULTS AND ANALYSIS

5.1. Descriptive Statistics

5.1.1. Description of the Auditors' Fees

The following table 3 provides descriptive statistics on auditors' fees per year from 2002 to 2007. The mean of audit fees for companies in the sample is 5192.832 thousand Euros, with a wide dispersion in the amounts paid. Indeed, for some companies, audit fees paid reach 62300 thousand Euros while this amount is less than 25 thousand Euros for others. The mean of non-audit fees is 507.667 thousands Euros (which represent 9.776 percent of audit fees), with a very wide dispersion. They reach 13600 thousand Euros for some companies while other companies do not pay any amount of non-audit fees.

Insert table 3 here.

5.1.2. Description of the Explanatory Variables

Regarding the existence of an audit committee, a steady increase in the number of companies with an audit committee is noted (from 69 companies in 2002, which represent 65.094 percent of the sample firms to 90 companies in 2006 and 2007, which represent 84.905 percent of the sample firms). Therefore, on average, 78.616 percent of the sample firms have an audit committee during the entire study period. This percentage is close to that obtained by Broye (2009) who found that 73 percent of the companies forming her sample have already established an audit committee. Her sample examined 150 French firms listed on compartment A (capitalization is in excess of 1 billion Euros) and compartment B (capitalization is between 150 million and 1 million Euros) of Eurolist in December 31, 2005.

Using samples of companies that belong to the SBF 120 index, the previous studies (Thiery-Dubuisson, 2002; Pochet & Yeo, 2004; Godard & Schatt, 2005) have revealed the presence of audit committees in 59 percent of firms in 1998, 72 percent in 2000 and 85 percent in 2002.

On average, 69% of the members of audit committees are independent under the criteria of the Bouton report. While adherence to recommendations from the Vienot and Bouton reports is voluntary, the French listed companies show a willingness to follow stricter rules regarding the composition of the audit committees.

Audit committees meet from 1 to 18 times a year. The median is 4 annual meetings. It is stable for the period 2003-2007 (it is equal to 3 in 2002).

Table 3
Descriptive Statistics of the Auditors' Fees

Auditors' Fees	Year	N	Mean	Median	Standard Deviation	Minimum	Maximum
Audit fees (KEUR)	2002	106	4420.113	1246.500	8317.697	25.000	62300.000
	2003	106	4571.943	1355.000	7521.443	30.000	47400.000
	2004	106	5056.208	1760.500	7611.653	31.000	42600.000
	2005	106	5604.160	1865.000	8232.205	32.000	48100.000
	2006	106	5992.217	1998.000	9332.443	35.000	52400.000
	2007	106	5512.349	2288.500	7665.689	33.000	39000.000
	Panel	**636**	**5192.832**	**1658.500**	**8125.126**	**25.000**	**62300.000**
Non-audit Fees (KEUR)	2002	106	877.226	149.000	1934.409	0.000	13600.000
	2003	106	672.386	170.500	1061.010	0.000	5841.000
	2004	106	484.584	136.500	797.710	0.000	3499.000
	2005	106	338.009	129.500	548.052	0.000	2957.000
	2006	106	348.386	67.000	823.528	0.000	6200.000
	2007	106	325.405	67.000	687.721	0.000	3764.000
	Panel	**636**	**507.667**	**114.000**	**1091.848**	**0.000**	**13600.000**

Table 4
Descriptive Statistics of the Discrete Explanatory Variable (Presence of the Committee)

Discrete Variable	Year	Variable= 0		Variable= 1	
		Observations	Percentage	Observations	Percentage
AUDITCOM	2002	37	34.905	69	65.094
	2003	28	26.415	78	73.584
	2004	21	19.811	85	80.188
	2005	18	16.981	88	83.018
	2006	16	15.094	90	84.905
	2007	16	15.094	90	84.905
	Panel	**136**	**21.383**	**500**	**78.616**

Table 5
Descriptive Statistics of Continuous Explanatory Variables (Independence and Activity of the Audit Committee)

Variable	Year	N	Mean	Median	Standard Deviation	Minimum	Maximum
ACINDEP	2002	38	0.651	0.667	0.258	0.000	1.000
	2003	56	0.695	0.667	0.262	0.000	1.000
	2004	68	0.692	0.667	0.287	0.000	1.000
	2005	72	0.709	0.667	0.297	0.000	1.000
	2006	75	0.687	0.667	0.298	0.000	1.000
	2007	69	0.689	0.750	0.299	0.000	1.000
	Panel	**378**	**0.690**	**0.667**	**0.286**	**0.000**	**1.000**
ACACTIV	2002	44	3.545	3.000	2.697	1.000	18.000
	2003	60	4.050	4.000	1.995	1.000	10.000
	2004	66	4.409	4.000	2.075	1.000	15.000
	2005	73	4.493	4.000	2.180	1.000	14.000
	2006	75	4.493	4.000	2.189	1.000	13.000
	2007	69	4.463	4.000	1.778	1.000	9.000
	Panel	**387**	**4.297**	**4.000**	**2.145**	**1.000**	**18.000**

Where: ACINDEP= the percentage of independent audit committee members; ACACTIV= natural log of audit committee annual number of meetings.

5.2. Results and Analysis of the Results of Multivariate Analysis

5.2.1. Tests for the Presence of Individual Effects

The tests (Fisher in the case of a fixed effects model and Lagrange multipliers in the case of a random effects model) permit verification of the presence of individual effects. The null hypothesis (H0: an= 0) of these tests is the absence of individual effects.

Table 6
Test for the Presence of Individual Effects

	Model 1	Model 2
Test of Chi (2)	601.910*	169.330*

* Correlations are significant at the 0.01 level

Table 6 shows that the p-value associated with the Lagrange multiplier test is less than the 1%. Then, the null hypothesis of the absence of specific effects is rejected and it is necessary to introduce individual effects. After the validity assumption of the random effects model is met, the next decision is to either rely on the random effects model or the fixed effects model results. The decision to choose an appropriate model is based on the Hausman specification test by Hausman (1978).

5.2.2. Hausman Test

A significant value for the chi-square statistic of the Hausman test indicates the existence of correlation between the composite error term and the independent variables in the model. In this study, the probability of the Hausman test in Model 1 is equal to 0.268>5%, and it is 0.052>5% in Model 2. Then, the Hausman test cannot choose between the two models and it is important to choose the appropriate model. One argument for choosing the random effects model is the existence of invariant explanatory variables over time. In this study, the IT variable is invariant over time. For this reason, the random-effects models are adopted.

5.2.3. Tests of Multicollinearity

Table 7 demonstrates that the VIF don't show problems of multicollinearity for all variables included (in models 1 and 2) as they are well below the prudent level of 5 (the maximum VIF is 3.39) suggested by Montgomery and Peck (1982).

For tolerance, it is equal to 1 minus the coefficient of determination R^2 (1 - R^2). Thus, the more tolerance is high (close to 1), the more the absence of collinearity seems obvious. The lower limit is between 0.2 and 0.25. In this study, all the variables have tolerances higher than 0.290.

Table 7
General Diagnosis of Multicollinearity

Explanatory Variables	Model 1		Model 2	
	VIF	**Tolerance**	**VIF**	**Tolerance**
AUDITCOM	1.300	0.768		
ACINDEP			1.310	0.763
ACACTIV			1.420	0.702
SIZE	3.030	0.330	2.560	0.390
DIVERSITY	1.050	0.953	1.080	0.929
IT	1.590	0.630	1.620	0.615
DUALLIST	1.350	0.740	1.590	0.630
INHRISQ	1.260	0.791	1.430	0.701
NCLIAB	1.290	0.775	1.390	0.720
MAJSHARE	1.180	0.844	1.300	0.766
LOSS	1.120	0.893	1.180	0.849
1BIG4	2.100	0.475	3.340	0.299
2BIG4	2.520	0.396	3.390	0.295
DURREL	1.100	0.905	1.110	0.903
NAUDFEES	1.810	0.553	1.560	0.640
SIGNDEL	1.510	0.661	1.270	0.786
AN05	1.020	0.981	1.040	0.960
Average VIF	1.550		1.660	

Where: AUDITCOM= a dummy variable given the value 1 for the existence of an audit committee and 0 otherwise ; ACINDEP= the percentage of independent audit committee members ; ACACTIV= natural log of audit committee annual number of meetings ; SIZE= natural log of total assets ; DIVERSITY= natural log of a number of sectors in which the firm operates ; IT= a dummy variable given the value 1 if the firm operates in the IT sector and 0 otherwise DUALLIST= a dummy variable given the value 1 if the firm is listed in London (LSE) or New York (NYSE. NASDAQ) and 0 otherwise; INHRISQ= ratio of inventory and receivables to total assets; NCLIAB= ratio of non-current liabilities to total assets; MAJSHARE= dummy variable given the value 1 in the presence of a majority shareholder and 0 otherwise; LOSS= dummy variable given the value 1 if the company net result is negative and 0 otherwise; 1BIG4= dummy variable given the value 1 if the company has a one BIG 4 auditor among its auditors. and 0 otherwise; 2BIG4= dummy variable given the value 1 if the company has two BIG 4 auditors and 0 otherwise; DURREL= the root of the average length of relationship between company and the two auditors; NAUDFFES= natural log of non-audit fees; SIGNDEL= number of days between the inventory date and the date of signing the audit report; AN05= dummy variable given the value 1 if year of study is 2005 and 0 otherwise.

5.2.4. Linear Regressions

The following table 8 provides the results of multivariate analysis of the two study models.

Table 8

Regression Results of Models 1 and 2

Explanatory Variables	Predicted Sign	Ref. Model 1 (with xtgls)[5]		Ref. Model 2 (with xtregar)[6]	
		Coef. B	Z	Coef. B	Z
Constant		2.031	14.900***	1.780	5.070***
AUDITCOM	+	0.228	5.760***		
ACINDEP	+			0.228	1.890*
ACACTIV	+			0.112	2.100**
SIZE	+	0.636	48.340***	0.634	19.910***
DIVERSITY	+	0.185	4.060***	0.146	1.100
IT	+	0.125	2.430**	0.158	1.110
DUALLIST	+	0.382	6.890***	0.316	2.600***
INHRISQ	+	0.138	1.190	0.257	0.890
NCLIAB	+	-0.018	-0.200	-0.074	-0.390
MAJSHARE	+/-	-0.096	-2.640***	-0.140	-1.780*
LOSS	+	0.016	0.560	0.021	0.360
1BIG4	+	0.097	2.990***	0.136	2.140**
2BIG4	+	0.155	3.810***	0.201	2.590***
DURREL	+/-	-0.040	-2.230**	0.011	0.280
NAUDFEES	+	0.025	5.020***	0.021	2.340**
SIGNDEL	+	0.001	3.450***	0.002	2.570***
AN05	+	0.036	1.930*	0.041	1.170
N		636		338	
R2 (between)		0.912		0.887	
Chi2		6325.940***		818.200***	

Where: *. **. ***: coefficients are significant at the level of 0.1, 0.05 and 0.01.

AUDIT FEES= natural log of external audit fees ; AUDITCOM= a dummy variable given the value 1 for the existence of an audit committee and 0 otherwise ; ACINDEP= the percentage of independent audit committee members ; ACACTIV= natural log of audit committee annual number of meetings ; SIZE= natural log of total assets ; DIVERSITY= natural log of a number of sectors in which the firm operates ; IT= a dummy variable given the value 1 if the firm operates in the IT sector and 0 otherwise DUALLIST= a dummy variable given the value 1 if the firm is listed in London (LSE) or New York (NYSE. NASDAQ) and 0 otherwise; INHRISQ= ratio of inventory and receivables to total assets; NCLIAB = ratio of non-current liabilities to total assets; MAJSHARE= dummy variable given the value 1 in the presence of a majority shareholder and 0 otherwise; LOSS= dummy variable given the value 1 if the company net result is negative and 0 otherwise; 1BIG4= dummy variable given the value 1 if the company has a one BIG 4 auditor among its auditors. and 0 otherwise; 2BIG4= dummy variable given the value 1 if the company has two BIG 4 auditors and 0 otherwise; DURREL= the root of the average length of relationship between company and the two auditors; NAUDFFES= natural log of non-audit fees; SIGNDEL= number of days between the inventory date and the date of signing the audit report; AN05= dummy variable given the value 1 if year of study is 2005 and 0 otherwise.

[5] This syntax corrects the problems of heteroscedasticity and autocorrelation of errors in the first model.

[6] This syntax corrects the auto-correlation of the errors found in our second model.

According to regression results, Chi-square statistic testing the joint significance of explanatory variables is significant at 1% in both models. It permits rejection of the null hypothesis that the regression coefficients β are zero.

Consistent with the first hypothesis, results of the first model reported in table 8 show that the presence of an audit committee has a positive and significant effect on the amount of audit fees. This result validates the hypothesis of a complementary relationship between the internal control exercised by the audit committee and the external audit effort provided by the external auditors. So, to ensure a better quality of financial statements through a good audit quality, the audit committee will require external auditors to conduct more inspections and to devote sufficient time to audit which will result in higher fees. These results corroborate those of Knechel and Willekens (2006) in the Belgian context as well as those of Audousset-Coulier (2008) and Broye (2009) in the French context.

For the control variables, results show that the company size has a positive and significant effect on the amount of audit fees at a level of 1%, which means that the largest firms pay more fees to their auditors. This result corroborates those reported by Broye (2009), Audousset-Coulier (2008) and Gonthier-Besacier and Schatt (2007) in the French context, Anderson and Zeghal (1994) in the Canadian context, Palmrose (1986) and Simunic (1980) in the American context, Firth (1985) in New Zealand, Francis (1984) in the Australian context and Taylor and Baker (1981) in the British context. Diversity, information technology and dual listing also appear to have a positive and significant effect on the amount of audit fees. So, according to previous studies (Gonthier-Besacier & Schatt, 2007; Audousset-Coulier, 2008; Broye, 2009), the most complex French firms pay higher audit fees. The coefficients of BIG4 (1BIG4 and 2BIG4) are significantly positive at a level of 1%, which means that the audit fees paid to the largest four audit firms are significantly greater than those paid to other audit firms. These results corroborate those reported by Audousset-Coulier (2008) in the French context but contradict those reported by Gonthier-Besacier and Schatt (2007) who have found a premium only in the presence of one auditor Big 4 among the college of auditors. The relationship between the amount of non-audit fees and audit fees is positive and significant. One explanation about this result is that clients requesting these services could have more problems in general and therefore more risks which increase audit fees. This finding corroborates those of Gonthier-Besacier and Schatt (2007) and Audousset-Coulier (2008).

The presence of a majority shareholder appears to have a negative and significant effect on the amount of audit fees. One explanation about this result is that the control exercised by the majority shareholder could substitute that exercised by the external auditor. The coefficient of DURREL is negative and significant at a level of 1 percent, which means that in the French context, it is the learning effect that allows an increase in audit quality after a certain period and a decrease in the cost of audit. This finding contradicts that of Audousset-Coulier (2008) who found no significant association between this variable and the audit fees.

The time of signing of audit report appears to have a positive and significant effect on the amount of audit fees at a level of 1 percent. Indeed, a long duration is possibly synonymous with problems encountered during the audit mission[7]. This result corroborates the results reported by Chan et al. (1993) in the British Context.

[7] But a long duration could also be a function of the balance date because French companies haven't similar balance dates.

The variable 2005 is positively and significantly related to the amount of audit fees at a level of 10 percent which means that the transition to IFRS is associated with an increase in the amount of audit fees. This can be explained by the complexity of the operation of transition and the emergence of new diligences for auditors.

However, all of the other control variables (inherent risk, the ratio of non-current liabilities and loss) have no significant effect on the amount of audit fees. These results are already found by Audousset-Coulier (2008) in the French context.

Consistent with the second hypothesis, results of the second model obtained from the sub-sample formed by the only firms that have an audit committee show that the effectiveness of the audit committee has a positive and significant effect on the amount of audit fees. As was demonstrated in the Anglo-Saxon context (Carcello et al., 2002; Abbott et al., 2003; Mitra et al., 2007; Vafeas & Waegelein, 2007), the proportion of independent members of the audit committee has a positive and significant effect on the amount of audit fees in the French context at a level of 10 percent. Furthermore, results show that the frequency of meetings of the audit committee is positively related to audit fees at the 5 percent level in accordance with the results found in some Anglo-Saxon studies (Abbott et al. 2003; Lee & Mande, 2005).

The hypothesis of a positive relationship between the internal control exercised by the audit committee and the external audit effort is once again validated. So, results support those of Broye (2009) and reduce her concerns about the risk of bias in her results, due to the adoption of IFRS in 2005 which is the study year in her paper. For the control variables, results are identical to those reported previously (in the model 1).

VI. CONCLUSION

This study investigates the impact of the presence and effectiveness of audit committees on the amounts of audit fees. The first assumption supported is that the audit fees of companies that have audit committees are higher than those of firms without audit committees. The second assumption supported is that the more detailed work of an external auditor (measured via audit fees) complements the work of an effective audit committee.

Working on a sample consisting of 636 observations over the period 2002-2007 in model 1 (and 338 firm year observations in model 2), the results show that the audit committee presence, the independence of its members and the frequency of its meetings have a positive and significant effect on the amount of audit fees. These results seem to demonstrate "some utility" and therefore "a justification for" audit committees in France. The use of panel data allows consideration of the time dimension, usually neglected in most previous studies, especially as the chosen period (2002-2007) is characterized by a dynamic of the statutory audit regulations in France.

Theoretically, this research supports the perceived contribution of the internal control exercised by the audit committee to the external audit function. Specifically, results show that audit committees in France allow a more extensive certification work and consequently a better audit quality measured in this case by the amount of audit fees. These results reinforce then the focus of regulators on the utility of supporting links and exchange of information between the audit committee and the external auditor (IFA, 2004). In addition, results support the decisions of the European regulators who have mandated the appointment of an audit committee in late 2008 in "persons and entities whose securities are admitted to trading on a regulated market" (Directive 2006/43/EC of 17 May 2006 on statutory auditors). They also justify the dispositions of the 8th Directive, which require firms to appoint at least one independent member in the audit committee,

and the recommendations of the Bouton report, which consist of appointing at least two thirds of independent directors on this committee.

However, several limitations can be attributed to this study. A first limitation concerns the measurement of audit quality through the nature of the auditor (Big N versus non-Big N). The discovery of numerous cases of accounting and financial manipulation in firms audited by the largest audit firms has affected this quality. Moreover, some authors (Ireland & Lennox, 2002; Chaney et al., 2004; Audousset-Coulier, 2008) believe that the introduction of binary variables to reflect the choice of Big 4 auditors as determinants of the amount of audit fees can lead to a problem of endogeneity, and so, to limit the interpretation of the results. Indeed, this type of regression assumes that the cost of choosing a Big 4 auditor is constant regardless of the audited firm, which ignores the fact that this choice may reflect the specific characteristics and needs of the auditee. However, several studies (Francis & Wilson, 1988; Defond, 1992; Piot, 2001; Kane & Velury, 2004; Fan & Wang, 2005; Chan et al., 2007) have shown that firms choose their auditors according to their needs. Another limitation is the negligence of the variable "expertise of members of the audit committee" in addition to other more qualitative aspects (for example relationships between the members of the committee).

Finally, some avenues of research can be proposed. First, future researchers can use other measures of audit quality based primarily on the quality of the audit process. Second, they can use a two-stage estimation procedure proposed by Heckman (1979)[8] to take account of the selection bias. Also, they can conduct an international study. They can identify the instances when a committee is first formed (or where proxies for its effectiveness first change markedly) and then test to see if there is a significant shift in audit fees.

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[8] Heckman (1979) proposed a two-stage estimation procedure using the inverse Mills ratio (IMR) to take account of the selection bias. The IMR must be generated from the estimation of a probit model.

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