

**Audit Committee Oversight of Fraud Risk:
The Role of Social Ties and Governance Characteristics***

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WORKING PAPER
February 2015

* This paper is based on the first author's dissertation at Kennesaw State University. We thank John Abernathy, Carol Bishop, Joe Carcello, Marcus Caylor, Todd DeZoort, Terry Neal, Anne Wilkins, and workshop participants at Kennesaw State University and Tennessee Technological University for their helpful comments on the paper.

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ABSTRACT

This study examines audit committee (AC) oversight of fraudulent financial reporting (FFR) risk and how such oversight varies with social ties and governance characteristics. Specifically, based on a survey of 134 U.S. public company AC members, we investigate how personal and professional ties between the AC member participant and the CEO and CFO, as well as other directors, influence the AC's efforts to address FFR risk and assess management integrity. We find that AC participants with personal ties to the CEO are negatively associated with AC actions to assess FFR risk and management integrity. However, AC participants with professional ties to other independent directors and those with professional experience as corporate controllers are positively related to such actions. We find no evidence that participants' professional ties to the CEO or CFO affect AC actions to assess FFR risk and management integrity. Further, we find that AC size is positively related to FFR risk assessment, while female AC participants and those serving on boards with greater independence are more likely to report engaging in AC activities to assess management integrity. Collectively, these results suggest that personal ties to the CEO can be corrosive to corporate governance, while professional ties to other directors are associated with enhanced AC oversight processes.

Keywords: Audit Committee, Corporate Governance, Fraudulent Financial Reporting, Social Ties, Personal Ties, Professional Ties.