

Hey! What's New? 2024-133

Audit Fee Trends: A 20-year review

Ideagen Audit Analytics recently released its *Audit Fee Trends: A 20-year Review*, noting that, over the past two decades, public company audit fees have experienced a consistent upward trend, reflecting the increasing complexity and regulatory demands of the auditing landscape. Although the report analyzes US data, its findings would be mirrored in many other countries.

In its Introduction, the publication noted that its research found that regulatory changes contribute to this rise with new or amended PCAOB Auditing Standards, FASB Accounting standards and SEC regulations. "Increasing business complexity including mergers and acquisitions and international operations create additional regulatory oversight. Investments in technology have introduced new risks. Inflation with rising costs for labor and technology contribute to increasing audit fees."

In the past few years, the publication says, "we've seen consolidation in the industry with a wave of mergers and now private equity investment. This will likely start to impact audit fee trends."

The number of initial public offering (IPO) audits can also have an impact on fees, "as they are generally higher risk and require additional hours."

Notably, the research found that the years 2020 and 2021 "saw a temporary decline in audit fees, primarily due to the surge in Special Purpose Acquisition Company (SPAC) audits, which typically require less extensive auditing procedures."

According to the report, some of the key impacts over the years include:

- 2002: The Sarbanes-Oxley Act (SOX) was enacted, significantly increasing audit requirements and leading to higher audit fees due to the need for more rigorous internal control assessments.
- 2007: PCAOB Auditing Standard No. 5 (now AS 2201) replaced AS 2, streamlining the audit of internal control over financial reporting but still requiring substantial auditor effort.
- 2010, 2015, 2016, 2018: The adoption of FASB's Accounting Standards Codification (ASC) 810, Consolidation, and amendments introduced new complexities in evaluating variable interest entities, increasing audit hours.
- 2013: FASB's ASC 606, Revenue from Contracts with Customers, required significant changes in revenue recognition practices, leading to more detailed audits.
- 2017: PCAOB Auditing Standard No. 3101, The Auditor's Report on an Audit of Financial Statements, introduced critical audit matters (CAMs), necessitating additional auditor analysis and documentation.
- 2019: ASC 842, Leases: This standard requires lessees to recognize most leases on their balance sheets, significantly increasing the complexity and scope of audits.
- 2020: ASC 326, Credit Losses (2020): Introduced the current expected credit loss (CECL) model, which required more detailed and forward-looking estimates, adding to audit hours.

- 2022: The implementation of PCAOB’s new standards on audit evidence and risk assessment (AS 1105 and AS 2301) further increased audit hours by requiring more detailed procedures and documentation.

The intro concludes that “non-audit fees can also provide relevant information to financial statement users. Worldwide, much discussion has centered around the effect that significant nonaudit services have on external auditors' level of independence. In response, the US and many European countries have enacted regulations to restrict the type of non-audit services allowed and, in many cases, the amount auditors can be paid for allowable non-audit services.”

For the details, get the report at go.ideagen.com/audit-fee-trends-report.