

Audit Fees and Non-Audit Fees

A Seven Year Trend

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Seven Year Review of Audit Fee and Non-Audit Fee Trends (Experienced by Accelerated Filers)

Database Overview:

The Audit Analytics auditor fee database contains all fee data disclosed by SEC registrants in electronic filings since January 1, 2001. The data has been extracted primarily from the following form types: DEF 14A, DEF 14C, DEFM 14A, PRE 14A, 10-K, 10KSB, 20-F, 40-F and N-CSRs. In cases where two disclosures filed by the same registrant within the same year provide inconsistent fee information (i.e., the PRE 14A discloses different numbers than the DEF 14A), the DEF 14A is given precedence over other forms. The definitions of the audit fee categories contained in the database are provided at the end of the report. For further information regarding the auditor fee categories, see SEC Final Rule 33-8183, with an effective date of May 6, 2003 (corrected March 31, 2003), and its predecessor rule, SEC Final Rule 33-7919.

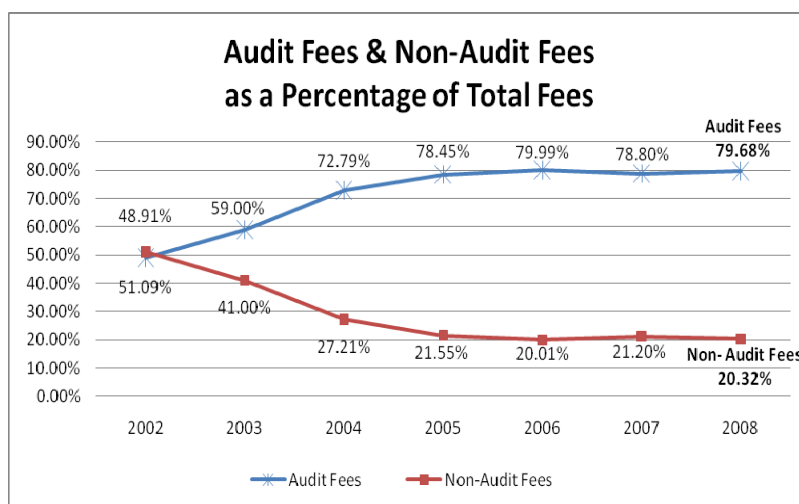
Research Population:

The audit fee and non-audit fee analysis herein concentrates on those fees paid and disclosed by accelerated filers. The initial population comprised of all accelerated filers as identified on March 3, 2010.¹ Audit Analytics reviewed this initial population of 4,018 registrants to determine which of those disclosed auditor fees for each and every year from 2002 to 2008, inclusive.² This historical data requirement distilled the population to a total of 2,924 accelerated filers.

Executive Summary – Audit Fee and Non-Audit Fee Trends from 2002 to 2008

1. In 2002, non-audit fees were 51% of the total fees paid by accelerated filers, but after three years of steady decline non-audit fees appear to have leveled off at about 20% of total fees.

During calendar year 2002, non-audit fees represented 51.09% of the total fees paid to independent auditors by the 2,924 accelerated filers that comprise the research population of this analysis. Non-audit fees continued to decline as a percentage of total fees through the year 2006, reaching a low of 20.01%. This decline seems to have leveled off the following two years. In 2008, the audit fees equaled about 20.32% of total fees. (See graph at right and the table on Page 7: *Audit Fees and Non-Audit Fees Over Revenue*).



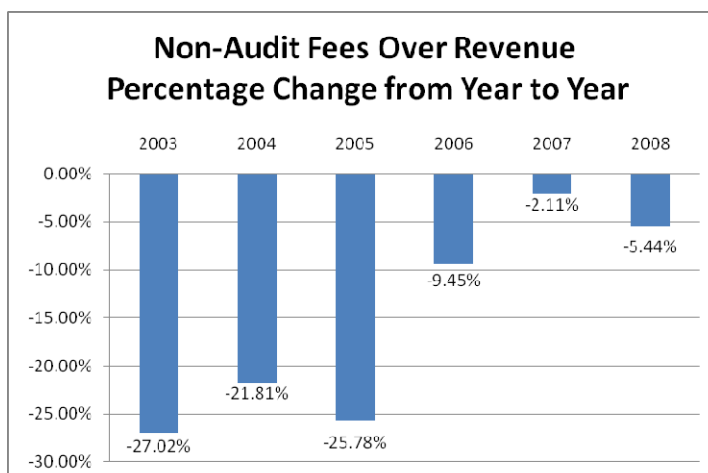
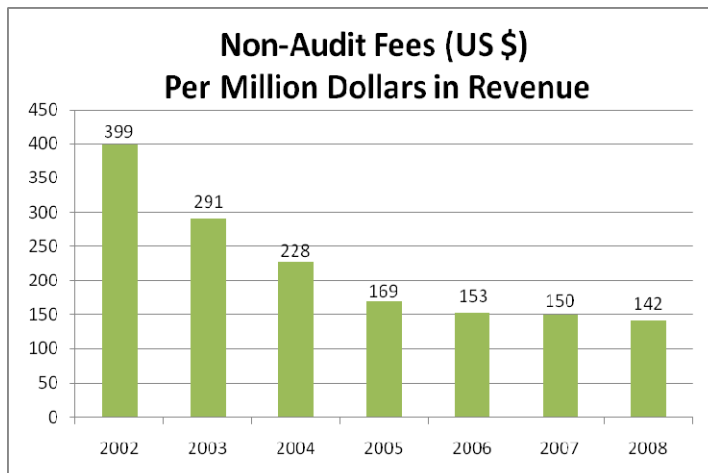
¹ An accelerated filer is a company whose public Float (as opposed to Market Capitalization) exceeds \$75 million as of the last day of their second quarter. Once a registrant becomes an accelerated filer, it will not lose this status unless its float drops below \$50 million. See Rule 12b-2 of the Securities Exchange Act of 1934. In this research a large accelerated filer is included in the accelerated filer population. Notwithstanding the definition, the Audit Analytics database maintains the filing status as disclosed by the registrant to the SEC in its last periodic report.

² As of the date of this research, the SEC forms containing calendar year 2009 fees were not yet filed by most accelerated filers under review. Therefore, calendar year 2009 is not presented in this analysis.

2. For each year since 2002, accelerated filers have experienced a drop in the cost of non-audit fees as a percentage of their revenue.

In order to adjust for inflation and corporate growth from year to year, Audit Analytics calculated the total non-audit fees paid by the population of accelerated filers and divided the fee amount by the total revenue of the same registrants. The results of this analysis are shown in the graph on the right by displaying the average amount of non-audit fees paid per \$1 million in revenue. In 2002, the average amount of non-audit fees paid per \$1 million of revenue equaled \$399. (See graph on right.) Since 2002, this figure declined for six years in a row to an amount of \$142 for every million dollars in revenue in 2008. Therefore, in 2008 the accelerated filer population studied in this analysis paid less than half the amount of non-audit fees that they paid in 2002. (See also, table on Page 8: *Non-Audit Fees Over Revenue, Percentage from Year to Year*).³

The graph on the right provides the yearly percentage decline of the numbers displayed in the prior graph. This graph shows that the dramatic cuts of over 20% experienced in calendar year 2003, 2004, and 2005 could not continue indefinitely. Nevertheless, notable declines continued. Calendar year 2006 showed a substantial drop of 9.45%. Calendar year 2007 experienced a drop of 2.11% followed by a drop of 5.44% in 2008.



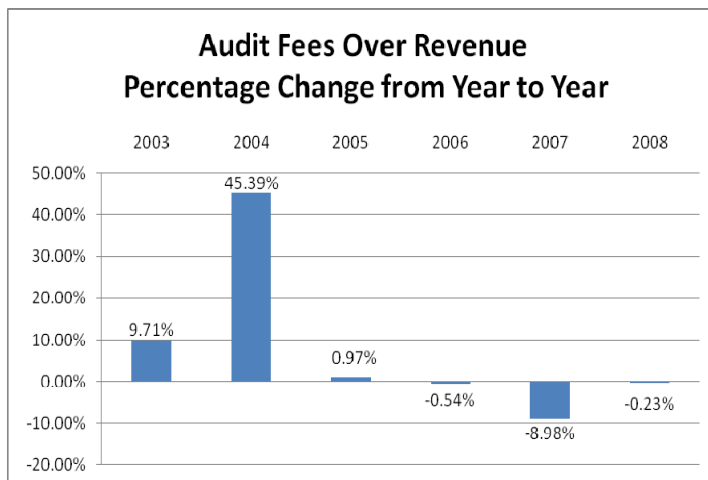
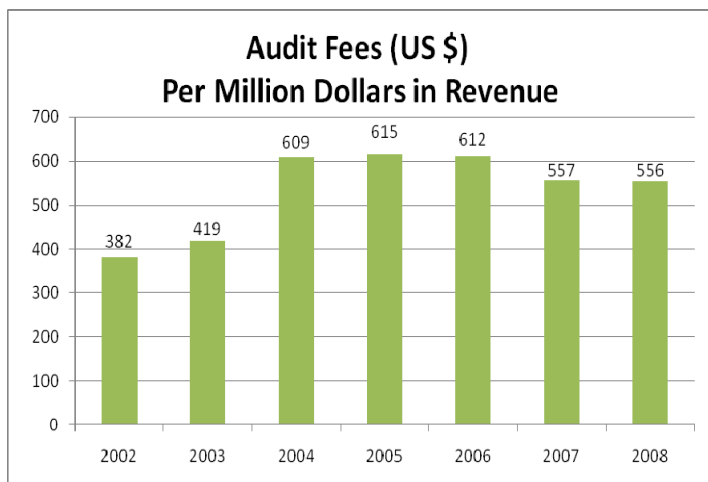
³ To some extent, the drop in non-audit fees may be attributable to Auditor Independence Rules adopted by the SEC to implement Section 208(a) of the Sarbanes-Oxley Act. The rules adopted in 2001 (SEC Release No. 33-7919, <http://www.sec.gov/rules/final/33-7919.htm>) and strengthened in 2003 (SEC Release No. 33-8183, <http://www.sec.gov/rules/final/33-8183.htm>) preclude the audit firm that performs the audit of a registrant's financial statements to concurrently perform non-audit services. A list of nine categories of precluded services identified by the SEC follows (abbreviated titles provided): (1) bookkeeping; (2) financial information systems design and implementation; (3) appraisals; (4) actuarial services; (5) internal audit outsourcing services; (6) management functions; (7) investment adviser services; (8) legal services; (9) expert services. For full titles of the precluded services and short definitions, see SEC News Release 2003-9 of January 22, 2003 (<http://www.sec.gov/news/press/2003-9.htm>) and also see SEC's 2007 FAQs regarding the auditor independence rules (<http://www.sec.gov/info/accountants/ocafaqauidind080607.htm>).

3. After the initial increase in audit fees due to the requirements of SOX 404, accelerated filers have experienced a downward trend in audit fees.

To present the audit fees in the same manner as the non-audit fees, the total amount of audit fees paid by the population of accelerated filers is divided by the total revenue of the same registrants. The results of this analysis are shown in the graph on the right by displaying the average amount of audit fees paid per \$1 million in revenue. In 2004, the average amount of audit fees paid per \$1 million of revenue increased from \$419 to \$609. (See graph at right.) This increase was due, in large part, to the requirements of Section 404 of the Sarbanes Oxley Act of 2002 ("SOX 404"), which required management to evaluate the effectiveness of the company's internal controls over financial reporting ("ICFRs").

United States accelerated filers were first required to provide SOX 404 certifications in annual reports for fiscal years ending on or after November 15, 2004. In addition to the management's certification, SOX 404 required the registered public accountant to attest to and report on the management's assessment. This new requirement and expansion of scope caused an increase in fees. Since the initial increase, audit fees have trended downward (See graph at right.) As

explained in the next section, this downward trend has occurred despite the fact that the percentage of registrants that fell under the purview of SOX 404 increased over the years. In addition, fees dropped during a period when audit firms lost the supplemental fees earned from non-audit services.⁴ (See also, table on Page 9: *Audit Fees Over Revenue, Percentage Change from Year to Year*.)

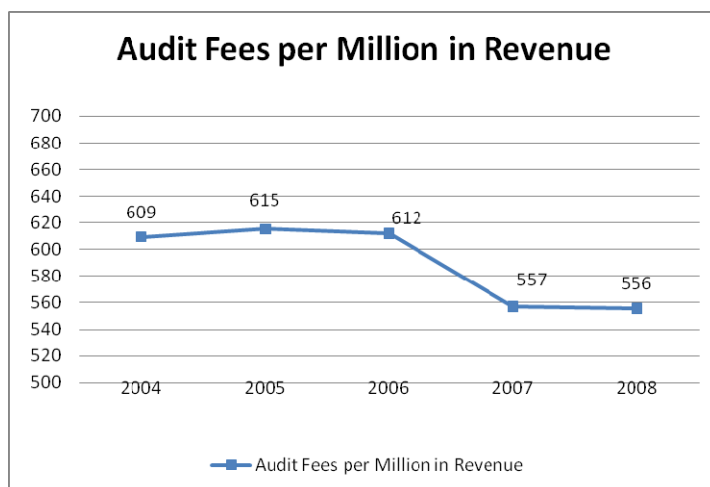
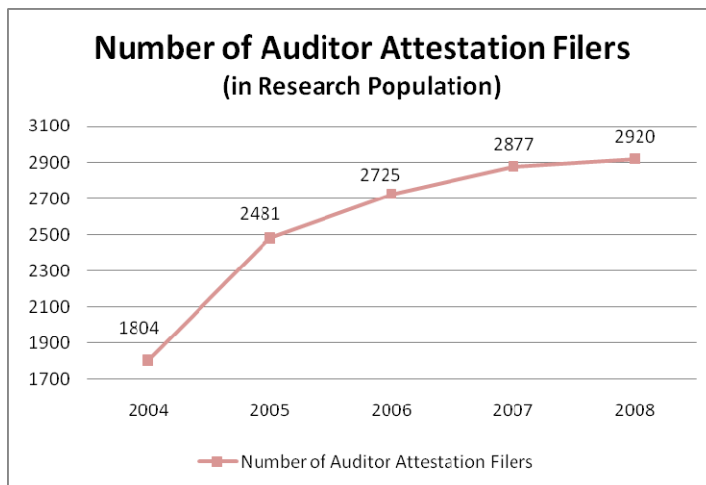


⁴ As explained in footnote 3, Auditor Independence Rules adopted by the SEC, preclude auditors from performing non-audit services that previously represented a substantial segment of fees. The loss of this income forced auditors to shift the cost of litigation risks and other costs absorbed by these fees over to audit fees.

4. In recent years, accelerated filers have experienced a downward trend in audit fees despite the fact that the percentage of companies that were required to adhere to SOX 404 increased during the same time period.

As noted above, United States accelerated filers were first required to provide SOX 404 certifications in annual reports for fiscal years ending on or after November 15, 2004. During its third year of application, the scope of SOX 404 expanded to include a new category of public registrant: accelerated foreign filers. For year 3, a large accelerated foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an accelerated foreign filer that is not a large accelerated foreign filer was only required, for its first year, to provide a management opinion for this period.⁵

Because SOX 404 requirements applied to different categories of accelerated filers at different dates, the number of companies that needed to file an auditor attestation increased from year to year. In 2004, out of a total of the 2,924 companies, 1,804 filed auditor attestations. (See graph at top right.) This number increased by 667 companies in 2005 to a total of 2,481 auditor attestation filers. In 2006, the number increased by 244 companies to a total of 2,725. An increase of 152 in 2007 and 43 in 2008 brought to total number of auditor attestation filers to 2,920. Therefore, in 2008 all but 4 of the 2,924 companies filed an auditor attestation.⁶ When comparing the graph on the top of the page with the second graph, which shows audit fees during the same time period, it becomes apparent that audit fees decreased while the number of auditor attestation filings increased. Therefore the average audit fee for the research population decreased during a period of increased workload for auditors. (See also, table on Page 10: *Audit Fees and SOX 404 Auditor Attestation Filer Growth, Change from Year to Year.*)



⁵ In general, Section 404 requires that each annual report contain an “internal control report” that (1) acknowledges the management’s responsibility to maintain adequate internal controls, (2) identifies the “framework” used to evaluate the effectiveness of the internal controls over financial reporting, and (3) provides an assessment of the effectiveness of these internal controls as of the end of the fiscal year.

⁶ If a company filed an auditor attestation for a particular year and then skips a subsequent year (for any reason) the company is still counted as an auditor attestation filer under this analysis because the auditor has become involved in the review of the ICFRs whether or not there is a gap in the SOX 404 filings. A company can legitimately skip a SOX 404 filing for one calendar year if its fiscal year was changed from a date prior to November 15 to a date on or after November 15.

5. In addition to the increase in the scope of work created by the requirements of SOX 404, audit firms have experienced other market forces that imposed cost pressures on the industry.

Because the research population used in this analysis is comprised of current accelerated filers, this paper has discussed the auditor's increased scope of work due to the implementation of SOX 404. In addition to these extra work requirements, audit firms have experience other cost pressures over the years due to other market forces. As explained in prior research by Audit Analytics, these forces are more significant than the cost of SOX 404 compliance.⁷ A few of the potential reasons include the following:

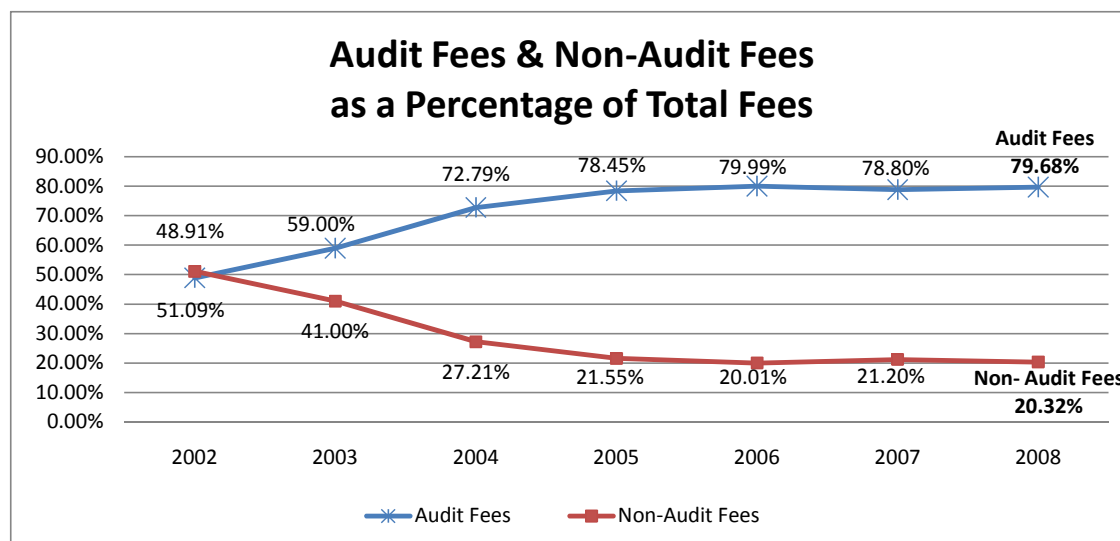
- **Salary Increases:** during 2006 and 2007, salaries for entry-level and lateral-hire auditors increased much more than in other industries. For example, while a 2% increase was typical in many industries in 2006, a survey by Robert Half International Inc. expected a 9% increase in starting salaries for large auditing firms and an 11% increase for Information Technology auditors. Auditing is a high labor task and such increases must be reflected in audit fees.
- **Litigation Risk Exposures:** since 2004, the audit industry was required to reassess the risks inherent in public company audits, including the astounding inventory of class action claims currently faced by auditing firms. The litigation inventory against the Big 4 firms is daunting. For example, while not admitting to any wrongdoing, an auditor settled the Parmalat securities class action matter, that was filed in January of 2004, for \$149 million. These types of payments and the ongoing exposure from outstanding litigation must be factored into the fees.
- **Fraud Detection and Valuation:** changes in auditing standards require additional work in the areas of fraud detection, understanding the business, and fair value considerations.
- **Reevaluation of Audit Processes:** a reevaluation of all external audit processes, including a decision to focus more on internal controls (independent of 404 requirements) has increased the scope of many audits.
- **Restatements and Financial Personnel Changes within Clients:** Prior to 2007, there were five consecutive years during which the number of financial restatements grew.⁸ In addition, the changes in financial personnel in companies created a more risky environment for auditors. The population under review jump from 125 CFO departures in 2004 to 333 departures in 2005 with continued increases thereafter: 357 in 2006; 406 in 2007; and 454 in 2008.
- **SEC Auditor Independence Rules:** Auditor Independence Rules adopted by the SEC to implement Section 208(a) of the Sarbanes-Oxley Act, rules not linked to the requirements of Section 404, preclude auditors from performing non-audit services that previously represented a substantial segment of fees. The loss of this income forced auditors to shift the cost of risks absorbed by these fees over to audit fees. For example, in 2003, Audit and Audit Related Fees for 404 Filers represented 74.56% of total fees with 25.44% of the fees outside this category.⁷ In 2005, the percentages shifted to 88.65% and 11.35%.⁷ Therefore, in 2003 about 25% of the litigation exposure and other risks were distributed over work that was not audit work or audit related work. Consequently, audit and audit related work carried about 75% of the risk burden. As the rules changed, audit firms were forced to be audit focused for independence reasons and only audit and audit related fees were available to carry the burden/cost of the risk.

⁷ In February 2007, Audit Analytics published a study that quantified the cost of SOX 404 implementation and adherence by comparing audit fee changes of 404 filers with non-404 filers. This analysis found that SOX 404 compliance represented about 15% of the audit fees paid. (See Audit Analytics, *Surprised by Audit Fees; A Comparison of Audit Fee Changes Experienced by SOX Section 404 Filers and Non-Filers*, Feb. 2007.)

⁸ See Audit Analytics; *2009 Financial Restatements, A Nine Year Comparison*, Feb. 2010.

- **Increased Educational Requirement:** To address the increased sophistication in business methods and accounting rules, professional organizations began recommending during the 1990s that CPAs receive 150 semester hours of education instead of the traditional 120 hours. As a result, states began enacting legislation that created a 150-hour requirement. Most of the new state requirements became effective during the 2000s. For example New York's legislation became effective on August 1, 2009. Over 40 states now require that a CPA have at least 150 semester hours of education. Therefore, in addition to other market forces, this more demanding educational requirement has increased market salaries for new hires.
- **The Global Market Place:** The trend towards increased globalization of business resulted in a significant expansion of company operations occurring in emerging markets. These emerging markets lack strong corporate governance and operate under different business practices and accounting policies, all of which create additional audit work to consolidate operations and to comply with local legal and regulatory requirements for statutory reporting.

Audit Fees & Non-Audit Fees Paid by Accelerated Filers Over Seven Years (2,924 Accelerated Filers)



Audit Fees & Non-Audit Fees Over Revenue

	Total Fees (\$ Million)	Total Revenue (\$ Million)	Total Fees as a % of Revenue	Audit Fees		Non-Audit Fees	
				\$ Million	% of Total	\$ Million	% of Total
2002	7,369	9,433,035	0.0781%	3,604	48.91%	3,765	51.09%
2003	7,446	10,480,662	0.0710%	4,393	59.00%	3,053	41.00%
2004	9,910	11,837,511	0.0837%	7,214	72.79%	2,696	27.21%
2005	10,309	13,142,619	0.0784%	8,087	78.45%	2,222	21.55%
2006	11,051	14,443,468	0.0765%	8,840	79.99%	2,211	20.01%
2007	11,473	16,230,800	0.0707%	9,041	78.80%	2,432	21.20%
2008	11,679	16,745,094	0.0697%	9,306	79.68%	2,373	20.32%

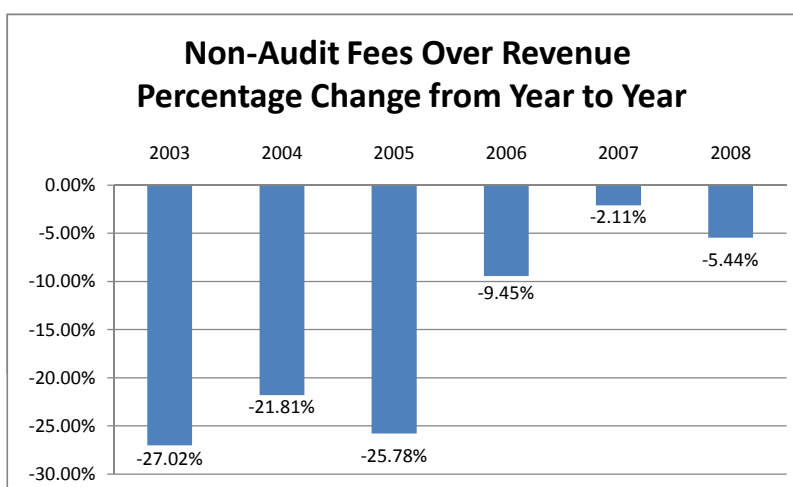
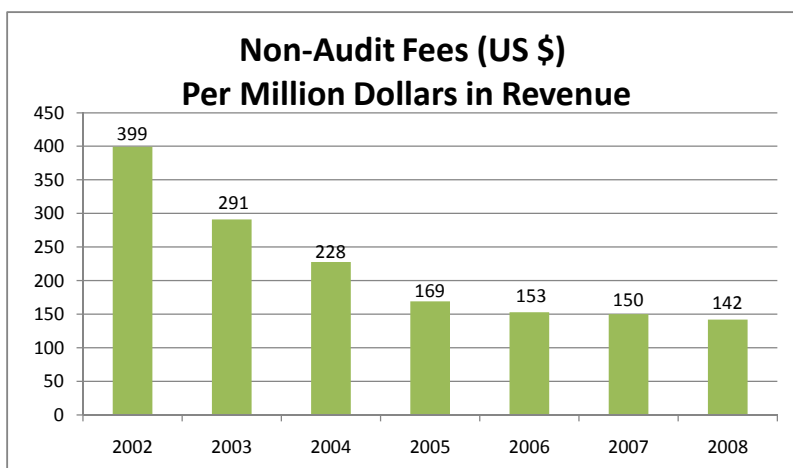
Notes:

¹ The research above is based on fees disclosed in SEC filings as of March 16, 2010. Only a small percentage of calendar year 2009 fees have been disclosed by registrants as of the research date and thus 2009 is not presented.

² The fees above are based on fees paid by a population of 2,924 accelerated filers, all accelerated filers as identified on March 3, 2010 that disclosed audit fees for each and every year displayed.

³ The total non-audit fees represent the aggregate of all other disclosed fees that are not audit fees. For a breakdown of the fees that constitute the total non-audit fees, see definitions on page 11.

Non-Audit Fees: A Seven Year Review (2,924 Accelerated Filers)



Non-Audit Fees Over Revenue Percentage Change from Year to Year

	Non-Audit Fees (\$)	Revenue (\$)	Non-Audit Fees Per \$1 Million In Revenue	% Change of Ratio from Previous Year
2002	3,764,932,556	9,433,034,758,021	399	
2003	3,052,853,033	10,480,662,164,228	291	-27.02%
2004	2,696,086,657	11,837,510,710,703	228	-21.81%
2005	2,221,625,240	13,142,619,441,201	169	-25.78%
2006	2,210,860,742	14,443,467,531,469	153	-9.45%
2007	2,432,091,129	16,230,800,493,151	150	-2.11%
2008	2,372,725,169	16,745,094,124,582	142	-5.44%

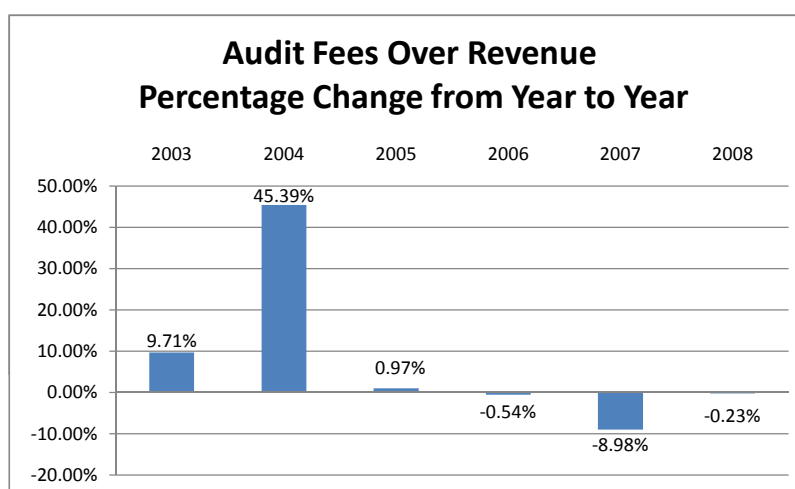
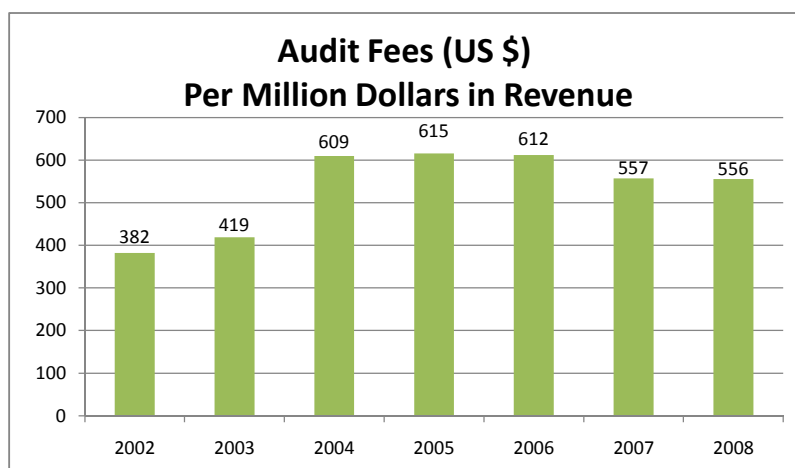
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Audit Fees: A Seven Year Review (2,924 Accelerated Filers)



Audit Fees Over Revenue Percentage Change from Year to Year

	Audit Fees (\$)	Revenue (\$)	Audit Fees Per \$1 Million In Revenue	% Change of Ratio from Previous Year
2002	3,604,150,999	9,433,034,758,021	382	
2003	4,393,059,063	10,480,662,164,228	419	9.71%
2004	7,214,067,417	11,837,510,710,703	609	45.39%
2005	8,086,978,868	13,142,619,441,201	615	0.97%
2006	8,839,650,096	14,443,467,531,469	612	-0.54%
2007	9,041,174,708	16,230,800,493,151	557	-8.98%
2008	9,305,795,079	16,745,094,124,582	556	-0.23%

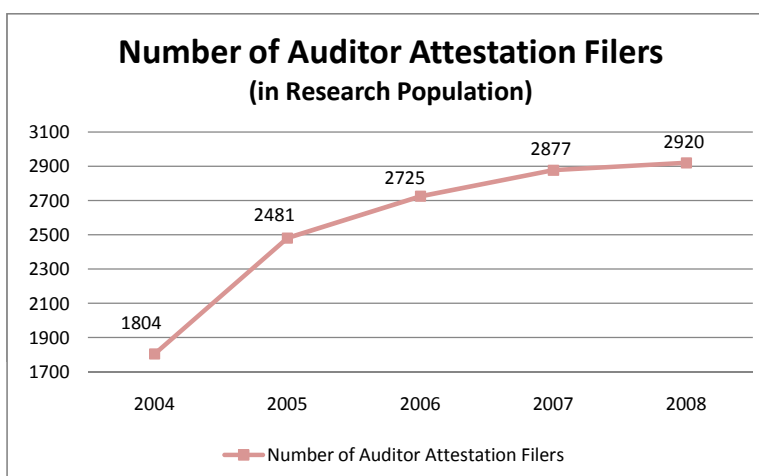
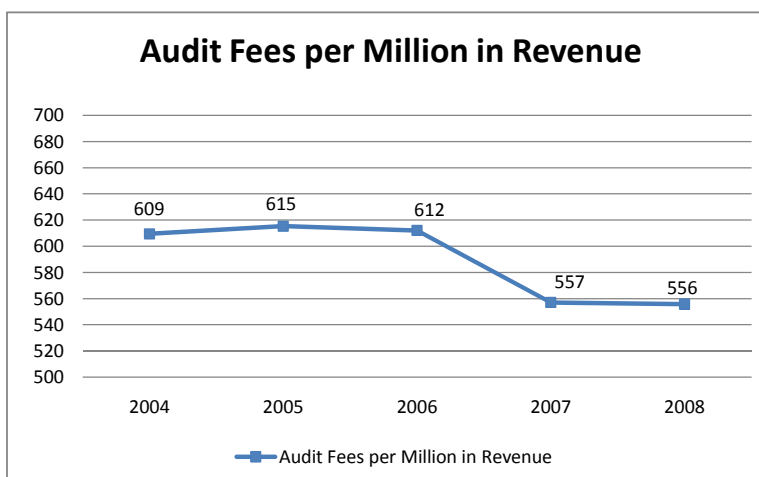
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Audit Fees and SOX 404 Auditor Attestation Filer Growth (2,924 Accelerated Filers)



Audit Fees and SOX 404 Auditor Attestation Filer Growth Change from Year to Year

	Audit Fees (\$)	Revenue (\$)	Audit Fees over Revenue (Ratio)	Number of Auditor Attestation Filers	% of Population that Filed Auditor Attestations
2004	7,214,067,417	11,837,510,710,703	0.000609	1804	61.70%
2005	8,086,978,868	13,142,619,441,201	0.000615	2481	84.85%
2006	8,839,650,096	14,443,467,531,469	0.000612	2725	93.19%
2007	9,041,174,708	16,230,800,493,151	0.000557	2877	98.39%
2008	9,305,795,079	16,745,094,124,582	0.000556	2920	99.86%

Notes:

¹ The research above is based on fees disclosed in SEC filings as of March 16, 2010. Only a small percentage of calendar year 2008 fees have been disclosed by registrants as of the research date and thus 2009 is not presented.

² The fees above are based on fees paid by a population of 2,924 accelerated filers, all accelerated filers as identified on March 3, 2010 that disclosed audit fees for each and every year displayed.

³ The "% of Population that Filed Auditor Attestations" is based on a total research population of 2,924 accelerated filers discussed in footnote 2 above.

AUDIT FEE CATEGORY DEFINITIONS

Audit Fees

Consists of all fees necessary to perform the audit or review in accordance with GAAS. This category also may include services that generally only the independent accountant reasonably can provide, such as comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with the SEC.

Audit Related Fees

In general are assurance and related services (e.g., due diligence services) that traditionally are performed by the independent accountant. More specifically, these services would include, among others: employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

Benefit Plan Related Fees

In general these fees compose part of the total audit related fee number. In cases where the registrant itemizes their audit related fees and discloses the fees associated with benefit plan audits, the benefit plan fees are subtracted from the total audit related fees and entered under this field.

FISDI Fees

Financial information systems design and implementation related fees. Currently the principal accountant is prohibited from such services. With the implementation of SEC Rule 33-8183, with an effective date of May 6, 2003 and a corrected March 31, 2003, these fees now are a component of Other Fees.

Tax Related Fees

Typically this category would include fees for tax compliance, tax planning, and tax advice. Tax compliance generally involves preparation of original and amended tax returns, claims for refund and tax payment-planning services. Tax planning and tax advice encompass a diverse range of services, including assistance with tax audits and appeals, tax advice related to mergers and acquisitions, employee benefit plans and requests for rulings or technical advice from taxing authorities. This category would not capture those services related to the audit.

Other/Miscellaneous

All other auditor fees. (Note that prior to the implementation of SEC Rule 33-8183, with an effective date of May 6, 2003 and a corrected March 31, 2003, this category included tax related fees and audit related fees.)

Total Non-Audit Fees

The sum of Audit Related Fees, Benefit Plan Related Fees, FISDI Fees, Tax Related Fees and Other/Misc Fees.

AUDIT ANALYTICS - AUDIT, REGULATORY AND DISCLOSURE INTELLIGENCE

Audit Analytics provides detailed intelligence research on over 20,000 public companies and 1,500 accounting firms. Our data includes detailed categorizations of issues and is considered by many professionals to be the best primary data source for tracking and analysis of the following public company disclosures:

- ✚ **Sarbanes-Oxley Disclosures**
 - Track Section 404 internal control disclosures and Section 302 disclosure controls.
- ✚ **Auditor Information**
 - Know who is auditing whom, their fees, auditor changes, auditor opinions and more.
- ✚ **Restatements**
 - Identify company restatements by type, auditor and peer group. Analyze by date, period and specific issue.
- ✚ **Legal Disclosures**
 - Search all federal litigation by auditor, company and litigation type. Know who is representing whom.
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