LINEAR TRENDS IN AUDIT FEE EXPENDITURES: A TEN-YEAR RETROSPECTIVE

Dan Coster, College of Science, Utah State University, UMC 3900, Logan, UT 84322,435-797-2815, dan.coster@usu.edu
Drew Dahl, Jon M. Huntsman School of Business, Utah State University, UMC 3565, Logan, UT 84322, 435-797-191, drew.dahl@usu.edu
Richard Jenson, Jon M. Huntsman School of Business, Utah State University, UMC 3540, Logan, UT 84322, 435-797-2335. richard.jenson@usu.edu

ABSTRACT

This paper examines the change over a ten year period (2000-2009) of two audit fee ratios measured at the company level. The first, audit fees divided by total fees (*AUD_RATIO*) is used as a surrogate measure of compliance with auditor service restrictions imposed by SOX. The second, audit fees divided by total assets (*AUD_ASSETS*) is a measure of audit fee resource allocation, normalized by reported total assets. We use financial information for individual companies for the years 2000 through 2009 from Audit Analytics. We exclude observations where: (a) fees and financial data are not reported in U.S. dollars; (b) Audit Analytics reports more than one auditor for the same period; and (c) very small companies – those with reported total assets under $5 million. As a result, our adjusted sample consists of 57,937 observations.

We find that the mean ratio of audit fees to total fees for large companies, starting from a lower ratio, increased significantly faster in years 2000-2005 than for small companies and that the gap in the audit fee ratio between small and large companies was effectively closed by 2005. We conclude that there is no significant difference in the mean audit ratio between small and large companies in the time interval 2005-2009. Audit fee ratios for both classes continued to climb through 2009, but at a slower rate. We also find that the rate of decrease in the variance of the mean audit fee ratio for large companies is significantly greater in years 2000-2004 than for small companies, whose decrease in variance is fairly constant over all ten years of the study.

The authors also examined the changes in the ratio of audit fees to total assets over the same ten year period. For small companies, the mean audit fees to assets ratio approximately doubled during the study period. For large companies, this ratio nearly tripled over the same timeframe. Our results show a significant increase in audit fee expenditures for small companies even though these companies are not yet subject to SOX 404 provisions. This may be due to spillover effects due to auditors preparing small companies for full SOX. Nevertheless, it appears that relative audit expenditures have peaked for all companies and have begun to subside. This suggests that companies may have begun to reap benefits of enhanced internal control systems in the form of somewhat smaller audit fees.

[The full manuscript is available from the authors]