

## Introduction

Under the new Auditing Standard, AS 3101, Auditors are now required to include a discussion on Critical Audit Matters (CAMs.) CAMs are anything that is required to be communicated to the Audit Committee that relates to a material account or disclosures that are material to the financial statements, often involving Auditor judgement. With these new disclosures starting to take place, there are a variety of issues that are concerning to both the auditor and audit committees of public companies. To analyze the many different impacts of this new auditing standard, we have chosen to look at the Audit Fee and see what it is that truly drives the cost of an Audit.

## Significance

Companies spend a great deal of money on an audit every year. In the sample, that we look at the average audit fee is \$2,192,812. This is a significant amount of money for a company to spend on an audit, to not know how a new standard could impact the audit fee. Thus, showing the importance to both regulators and companies in knowing how much it will cost in order to implement the new standard.

## Need

Our research is to inform regulators if the new AS 3101 standard taking effect will impact the audit fee. The potential for auditors to increase their audit fees for the implementation of this standard is of concern to both companies and audit firms. The Companies are hoping that the audit fees will increase, while audit firms are looking to be able to charge more since they now potentially have more work involved in the audits.

## Hypothesis

Critical Audit Matters will increase the price of an audit.

## Methods

- Data was gathered and compiled from Audit Analytics for all Audits that have occurred since December 2017. These dates were used since that was when the new Auditing Standard started taking place. This auditing standard was phased in as some could start this use gradually until required to be implemented by June 30, 2019 for large accelerated filers and for audits for fiscal years on or after December 15, 2020 for all other filers. This became a challenge, since the regulation took effect during the same time the COVID-19 pandemic started. Therefore, auditors had to control year-end effects surrounding pandemic timing.
- Data was then looked at for all U.S. Companies yielding 30,695 audits that were included in the data for this analysis. Then the data was sorted to only include U.S. Companies in all service-related industries while removing those without information on Market Cap or Asset detail in order to sustain validity in our findings. We ultimately ended up with a sample of 17,359 U.S. Service-related companies in our final sample.
- From the data, multiple regressions were run to determine the statistical impact of many factors on the audit fee.
- The Audit Fee stayed as our dependent variable, while the independent variables were: Big 4 Auditor, Auditor Tenure, Having at least 1 CAM, Going Concern Opinion, Accelerated Filer, COVID-19, Market Cap, Revenue, and Assets.

## Acknowledgement



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## Matters on Audit Fees

### Results

- The Results suggest that each of these variables have some statistical significance to the Audit Fee.
- Audit Fee Model

$$\text{Audit Fee} = a + \beta_1 \text{LN}(\text{MarketCap})_{i,t} + \beta_2 \text{LN}(\text{Total Revenue})_{i,t} + \beta_3 \text{LN}(\text{total assets})_{i,t} + \beta_4 \text{LN}(\text{Big 4 Auditor})_{i,t} + \beta_5 \text{LN}(\text{Having a CAM})_{i,t} + \beta_6 \text{LN}(\text{Auditor Tenure})_{i,t} + \beta_7 \text{LN}(\text{COVID})_{i,t} + \beta_8 (\text{Going Concern Opinion})_{i,t} + \beta_9 \text{LN}(\text{Accelerated Filer})_{i,t}$$

- Table 1: Correlation of Variables with Mean and Standard Deviation

	Market Cap	Revenue	Assets	Big 4 Auditor	Having a CAM	Auditor Tenure	Covid Related	Going Concern Opinion	Accelerated Filer	Audit Fees
Market Cap	100%									
Revenue	34%	100%								
Assets	18%	34%	100%							
Big 4 Auditor	35%	8%	8%	100%						
Having a Cam	39%	14%	8%	15%	100%					
Auditor Tenure	22%	6%	3%	13%	6%	100%				
Covid Related	4%	4%	2%	1%	34%	(10)%	100%			
Going Concern Opinion	(55)%	(9)%	(5)%	(21)%	(18)%	(22)%	(4)%	100%		
Accelerated Filer	(2)%	(8)%	(5)%	(3)%	(16)%	7%	(6)%	(15)%	100%	
Audit Fees	50%	60%	57%	21%	22%	10%	3%	(18)%	(9)%	100%

- Table 2: Probability Table of Variables with Mean of Having each Variable

Variables Tested	Sample Size (n)	Probability of Variable	Mean of Audit Fee
Total Observations	17,539	100.00%	2,192,812
Had at least 1 CAM?	2737	15.61%	4,701,248
Used Big 4 Auditor	4273	24.38%	4,015,305
Auditor had Tenure	15,863	90.44%	2,343,789
Covid audits?	1,784	10.17%	2,644,396
Going Concern Opinion	2,977	16.97%	363,846
Was Accelerated Filer	2,906	16.57%	1,160,403

- Table 3: Regression Results Part 1

Regression Statistic Results	
Multiple R	0.777
R Square	0.603
Adjusted R Square	0.603
Standard Error	3,054,268.25
Observations	17,539

- Table 4: Regression Statistics Part 2

	Regression Statistic Results			
	Coefficients	Standard Error	T Stat	P-Value
Intercept	(10,318,451.48)	251,966.35	(40.952)	<0.001*
Market Cap	597,402.22	12,476.14	47.884	<0.001*
Revenue	0.000	0.000	66.617	<0.001*
Assets	0.000	0.000	76.382	<0.001*
Used a Big 4 Auditor	575,839.26	57,484.71	10.017	<0.001*
Had at least 1 CAM	241,308.44	74,809.49	3.226	0.001*
Auditor was Tenured	(41,198.91)	81,894.71	(0.503)	0.615
Covid related	(178,455.76)	82,433.91	(2.165)	0.030
Going concern opinion	788,508.42	76,184.77	10.350	<0.001*
Was an accelerated Filer	(417,788.09)	64,233.41	(6.504)	<0.001*

## Discussion

- Surprisingly the COVID-19, Auditor Tenure, and Accelerated Filer appear to be negatively correlated to the audit fee. We have the impression that these are negatively correlated due to the travel restrictions under the COVID-19 pandemic, that the Audits performed were not thoroughly done as before. Auditor Tenure being negatively correlated with the audit fee could be due to the longer the auditor is performing the audit. The faster the audit is done the less the audit fee will be charged.
- We did find that CAMs do seem to have a significant impact on the Audit Fee, but not as much as a Going Concern Opinion. This is not unreasonable or unexpected as a Going Concern Opinions is more in depth than a CAM.
- It also appears that a using a Big 4 Auditing firm is likely to increase your Audit Fee. It makes sense as the Big 4 firms are more likely to audit the larger companies and charge more for their services, as the company is also paying for their reputation.

## Conclusion

- The main conclusion that we can draw is that several items appear to increase the audit fee charged, such as; Having a Big 4 Auditing Firm, Having at least 1 CAM, Market Cap, and a Going Concern Opinion.
- Another point, we can see that certain issues seem to have a decreasing impact on the audit fee. These issues are the Impact of COVID-19, Auditor Tenure, or being an Accelerated Filer. These could be due to the negative impact that they would have on a company financially.

## Recommendations

- The best recommendation that we see is that if you would like a lower audit fee then you should try to avoid having anything critical in the audit that would increase your fee the greatest based on the data that we have examined.
- From an auditor standpoint, the more time or complexity of the audit and the more that a company has critical issues within the audit, the more in theory you can charge the company.

## References

- Audit analytics. (n.d.). Retrieved March 15, 2021, from <https://www.auditanalytics.com/0002/company-search-op.php>
- AS 3101: The auditor's report on an audit of financial statements when the Auditor expresses an unqualified opinion. (n.d.). Retrieved April 08, 2021, from <https://pcaobus.org/oversight/standards/auditing-standards/details/AS3101>