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## Auditing fees likely to increase as higher standards take effect

Pittsburgh Business Times - by [Jennifer Curry](#)

New auditing standards being rolled out this year are set to raise fees for local companies.

The new rules, which are designed to improve the quality of the audits of financial reports, are making local accounting firms raise auditing fees between 10 percent and 20 percent.

New procedural framework from the Auditing Standards Board, part of the **American Institute of Certified Public Accountants**, takes effect for audits of financial statements for fiscal years starting on or after Dec. 15, 2006. This means the audits will begin in earnest at the end of this year, once the final year-end reports start rolling in to the auditing firms.

These new rules, commonly referred to as risk assessment standards, adopt a top-down approach, determining the risk areas within a company's financials and then designing audit procedures to address them. Many accountants said they expect the guidelines will be beneficial over the long run because of their clarity and detail.

"(Auditors) will have a much better understanding of their client," said Jeff Kovacs, director of quality control at Downtown-based accounting firm **Alpern Rosenthal**. "(They will be in a) better position to make recommendations to their clients regarding improvements, which will translate into better financial reporting and hopefully less fraud risk at the end of the day."

Yet, the changes are already prompting increased training of auditors and will mean additional time and money, particularly in the first year of implementation.

Brad Lusk, an audit partner at Downtown-based Sisterson & Co. LLP, agreed that the first year will require the most additional time, which will lead to a rise in audit fees.

"There's a lot of additional documentation as we obtain a deeper and a broader understanding of the organization and the control environment," he said. "Generally, across the board, (audit fees) are going to go up because it's a lot of time. Fees are commensurate with time."

Alpern auditors expect the new standards will increase their workload by about 10 percent, translating into a fee increase of 10 percent or less, according to Kovacs.

"To remain competitive, firms are going to have to absorb a fair amount of the increased audit costs," he said. "We are prepared to absorb some of it."

Brian O'Brien, a shareholder in charge of accounting and assurance at Downtown-based Schneider Downs & Co. Inc., said he's also expecting more work and increased audit fees of up to 15 percent,

depending on the client.

And **Carbis Walker LLP** in the North Hills is putting new systems in place to make way for the new requirements, including more personnel training, more partner involvement and new audit software. The company expects to spend between 20 percent and 30 percent more time in the first year, leading to an audit fee increase of about 15 percent to 20 percent.

"There will definitely be an increase in fees as a result of this because of the time and new software," said Brian Kassalen, senior manager at Carbis Walker.

New auditing rules also will be taking effect for public companies this year. These rules, also known as AS5 and created by the Public Company Accounting Oversight Board, are effective for companies with fiscal years starting after Nov. 15, 2007.

The standards are similar to those of private companies but likely won't lead to as much of a rise in auditing fees.

"It's trying to create some efficiencies," said Mary MacPherson, a partner in the Pittsburgh office of Deloitte & Touche USA LLP. "Hopefully, it makes it more efficient, more effective and potentially less burdensome to our clients."

Yet, MacPherson said this doesn't mean fees will go down next year for public companies because a number of other new standards are adding to the workload.

"There will be cost savings associated with AS5," she said. "However, that's looking at things in a vacuum. There are still other standards, other activities going on within the accounting world."

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