Facing double digit external audit fee increases, member companies struggle to balance assurance against cost—ensuring proper external audit assurance without draining the corporate coffers. To aid in external audit fee negotiations, the Roundtable compiled member tactics and commentary surrounding successful techniques used to curb or minimize fee increases.

14 WAYS TO REDUCE AUDIT FEES

1. **PLACE THE COST CONTAINMENT BURDEN ON THE EXTERNAL AUDITOR**
   Many companies treat their external auditors with unjustifiable deference and pay for it. One best-practice Audit Director reminds his outside auditor, "You need to justify your price to us." When his auditor presents hourly rate increases of 12-15 percent, he replies, "That's fine. But how are you going to diminish your number of hours by 12-15 percent and still be comfortable?"

   In the process of negotiating fees, auditors often cite peculiarities that make your firm particularly tricky to audit. Among these points: poor controls, a history of risky behavior, organizational complexity, distributed operations, and an Internal Audit staff upon whose work they cannot rely. Every firm has weaknesses, so be reluctant to believe that your firm is truly an exceptional case.

2. **BENCHMARK YOUR INDUSTRY**
   No two companies are the same. But that doesn’t mean that firms in the same industry should pay wildly divergent audit fees.
   a. Find the audit fee of each firm in your industry.
   b. Divide each firm’s fee by its revenue.
   c. See how your fee per billion compares to your competitors’. One Audit Director saw this tactic lop $1 million off the audit fee.

3. **REALIZE THAT “DISCOUNTS” THAT EVERYONE GETS ARE NOT DISCOUNTS**
   Fortune 500 firms consistently pay 60-65 percent of external auditor’s “list” prices. Firms with recent restatements should expect to pay a risk premium of 5-10 percent.

4. **FOCUS ON THE ENGAGEMENT MIX**
   The number of senior audit staff on an engagement should diminish over time. If you are not seeing fewer high-dollar auditors – partners and supervising auditors – have a conversation with your auditor about how the work can be redesigned so that less-expensive junior external auditors can handle it. The external auditor may counter that s/he can only make this change by relying more on the Internal Audit team, potentially increasing their workload.

5. **NEGOTIATE MULTI-YEAR FIXED-FEE CONTRACTS**
   Capping fees puts the onus on the external auditor to figure out how they will become comfortable within a predetermined budget. Although passage of Sarbanes-Oxley negated many pre-SOX fee arrangements, as the regulatory environment becomes more stable, firms will expect their auditors to be more amenable to longer-term, lower-rate contracts.
14 WAY TO REDUCE AUDIT FEES (CONTINUED)

6. **WIELD A HIDDEN HAMMER**
   In negotiation, there is no substitute for the ability to walk away. Realize that auditors create lock-in by entangling themselves with your organization. Since so few firms switch audit firms in any given year, external auditors are fighting for a fixed pie, which should drive prices downward but for auditor lock-in costs.

   Firms estimate that they could save 20-40 percent of their fee by switching auditors. Past experience backs this up: of the seven Fortune 500 companies whose fees have actually gone down since 2000, five have switched auditors during that span.

7. **MAKE THE AUDIT DIRECTOR THE “BAD COP”**
   The Audit Director should begin audit fee negotiations, trying to get the best price possible. Then the Audit Committee should strive to drive the price down a bit more. One Audit Director remarked, “It’s good cop, bad cop… and we’re the bad cop…. At the end, ask them, ‘Do you have adequate resources to get the job done?’ They’ll let you know if they really can’t do it.”

8. **EXPLOIT PARTNER DISCRETION**
   Even deep into the negotiations, the lead partner usually has the ability to give the fee a “haircut” – sometimes to the tune of $500,000.

9. **OPTIMIZE INTERNAL AUDIT**
   Since paying your own people is cheaper than paying their people, Internal Audit should handle a higher fraction of total audit work each year. If this percentage is not growing, ask your external auditor what process improvements they believe would increase their ability to rely on Internal Audit’s work.

10. **UNDERSTAND FEE DRIVERS**
    Always strive to better understand what’s driving fee levels. In addition to pure revenue-driven fees, some drivers we’ve heard from the membership are:
    a. Centralized manufacturers with a distribution network pay less – relative to revenue – than firms with far-flung operations.
    b. Firms with operations in fewer nations save themselves the hassle of having to work with numerous partners.
    c. Conservative accounting policies – particularly in judgment accounts – reduce external audit’s risk and work. (If you have a conservative accounting policy, you’re already paying for it on your income statement; don’t pay for it again with your audit fees.)

11. **KNOW THE ECONOMICS OF FEES**
    Hourly rates and requisite hours drive fees. But what drives hourly rates and requisite hours? Hourly rates are a function of supply and demand for auditors, inflationary pressures, and partners’ expected year-end profit sharing. Requisite hours are a function of more controllable variables: your auditor’s reliance on your work, and year-over-year efficiencies in testing.

12. **ELIMINATE REDUNDANCY**
    Absent compelling rationale, do not have both internal and external team auditing the same process. Review your internal and external audit plans to ensure that the two teams do not pick the same tree twice.
14 WAYS TO REDUCE AUDIT FEES (CONTINUED)

13. COMMUNICATE CONSTANTLY
Firms that succeed at halting audit fees communicate. To take one example, a firm holds weekly meetings during the month before 10-Qs, and biweekly meetings the rest of the time. Present at these meetings are the lead audit partner, the Audit Director, and other key company management. The partner presents: (1) what they're working on this quarter, (2) what is on the plan for the rest of the year, and (3) which emerging issues he believes are inside/outside the fixed-fee audit scope. Management keeps the partner apprised of acquisitions, divestitures, and other audit-altering business news.

14. PLAN AHEAD
Have a tentative audit plan ready far in advance. The sooner you can open communication about how you can – together – cover the audit plan, the happier you will be when it’s time to pay the bills.

Professional Services Note

The Audit Director Roundtable has worked to ensure the accuracy of the information it provides to its members. This project relies upon data obtained from many sources, however, and the Audit Director Roundtable cannot guarantee the accuracy of the information or its analysis in all cases. Further, the Audit Director Roundtable is not engaged in rendering legal, accounting or other professional services. Its projects should not be construed as professional advice on any particular set of facts or circumstances. Members requiring such services are advised to consult an appropriate professional. Neither Corporate Executive Board nor its programs is responsible for any claims or losses that may arise from any errors or omissions in their reports, whether caused by Corporate Executive Board or its sources.