

# Statement on Auditing Standards No. 70

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## RESOURCE GUIDE

### SAS 70 Fixed Fee vs. Hourly Bill Rates

Much has been discussed regarding pricing for SAS 70 engagements, particularly as of late, with the advent of additional auditors now performing these highly specialized audits. Traditionally, "big four" accounting firms were the main providers for [Type I](#) and [Type II](#) audits, and as such, fees were reflective of that dominance. The last three to four years has witnessed the rise of many boutique firms now specializing solely in Statement on Auditing Standards No. 70. Additionally, prior pricing was that of hourly bill rates, with additional fees for out of pocket travel expenses; a mere reflection of the billing structure of accounting firms for all other services they provided. As competition ensued, firms began using market differentiators, such as proposing "fixed fees" for SAS 70 audits, and as such, this is now the industry norm. Some firms are now advocating multi-year, three and five year contract agreements, with sliding scales in fees depending on the length of the contract. And most accounting firms view this in a positive light as the engagements are not looked upon solely for hourly fees and average bill rates. Rather, the audit has become a function of creating efficient, quality reports within an acceptable fixed fee arrangement with the [service organization](#).

### Wide Spectrum on Pricing

The issue is not that of the "fixed fee" but the sporadic pricing that has ensued following the adoption of this method by many SAS 70 service provider firms. Fees for Type I and Type II audit have varied widely from firm to firm and region to region. Service organizations have reported receiving fee proposals ranging from \$15,000 to \$35,000 for Type I audits and \$25,000 to \$90,000 for Type II audits. Please keep in mind that these are large variances, thus important factors to consider for pricing are the type of audits, be it a Type I or Type II, the scope of the audit being performed, and the entity providing the audit. Service organizations should look to strike a balance between all three variables, that is, identify which audit is to be performed (Type I or Type II), agree on the scope, and seek out a provider with the experience, knowledge and depth to perform the audit. Using pricing as the sole indicator for the selection of an auditor can potentially have the following negative impacts on the report:

- The firm lacks the expertise to conduct the audit, ultimately costing more time, effort and resources as originally planned.
- The SAS 70 audit was not properly scoped by a qualified professional, thus resulting in information and testing being left out of the audit.
- The final [SAS 70 service auditor's report](#), if deficient in nature, can lead [user organizations](#) to question its validity and usefulness. This could lead to additional fees as user auditors may require extensive testing by their own auditors.

### Big Four vs. National Boutique vs. Sole Practitioner

That's not to say you have to choose a "big four" accounting firm or even a national second tier firm. Sometimes, however, there are advantages to this choice, such as the following:

- National "big four" firms and second tier nationally recognized firms have the brand recognition that lead many privately held companies to use them when going public or declaring and IPO.

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- These firms also have deep staff to conduct a SAS 70 engagement on short notice, without worrying about lack of skilled auditors on the engagement.

### **Notable benefits of national, specialized boutique firms are as follows:**

- Lower fees and more personal attention and devotion to the audit than larger firms.
- Highly skilled auditors working solely on SAS 70 audits year round.
- Less bureaucratic in nature, allowing for faster turnaround for final deliverables.
- Many have developed close a working relationship with "big four" auditors who read and rely on their reports for purposes of planning year end financial statement audits.

### **Benefits and drawbacks of sole practitioner firms:**

- Aggressive prices and greater emphasis on personalized attention
- Quick turnaround on final deliverables for the audit
- Lack of expertise and manpower
- Market perception and perceived negativity of a SAS 70 audit report signed by an individual CPA, rather than a firm signature
- Intense scrutiny from "big four" accounting firms who have to rely on a report from a relatively small, unknown practitioner

In summary, choosing either a "big four" or second tier national firm, a smaller national boutique firm or a sole practitioner all have benefits, but also drawbacks.