

Ives Group Inc 

AUDIT ANALYTICS™

PCAOB Standing Advisory Group Meeting

Panel Discussion-
Implications of ICFR Reporting for Auditing

*Supporting the prepared remarks from
Mark Cheffers, CEO*

June 13, 2006

Agenda

Section 404 Internal Control Disclosure Stats

- Year 1 & Year 2 Filing Breakdown
- GAAP / Accounting Failures
- Internal Control Failures
- Failures by Revenue
- Failures by Industry
- Auditor Change Analysis 2003 – 2006 YTD
- 3 Year Share Price Analysis

Calendar Year 2001 to 2005 Restatements

- 2006 Year to Date
- Revenues of \$1 Billion plus
- First Year 404 Filers Restatements & Litigation

Year 2 Auditor Fees Analysis – Fortune 1000

Questions & Answers

The reports cited in this presentation are available at
www.AuditAnalytics.com

Year 1 & Year 2 Section 404 Disclosure Stats

	Opinions Filed	Adverse Opinions	Restated Opinions	Effective to Non-Effective
Year 1 (period ending prior to 11/15/05)	3,710	591 (15.9%)	90 (2.4%)	59 (10%)
			Pending & Late	Total Estimated Failure Rate for Year 2
Year 2 (period ending 11/15/05 to 1/31/06)	2,895	194 (6.7%)	89	283 (9.5%)

Source: AuditAnalytics.com – May 2, 2006 Section 404 ICMW Dashboard Year 1 & Year 2

Year 1 & Year 2 Section 404 Disclosure Stats GAAP / Accounting Failures by Issue

	Revenue Recognition	Tax Accruals Deferrals etc.	Inventory Vendor COS	Consolidation Fin (46) Issue	Leases or Contingencies
Year 1 (period ending prior to 11/15/05)	185 (31.3%)	189 (32%)	162 (27.4%)	53 (9%)	99 (16.8%)
Year 2 (period ending 11/15/05 to 1/31/06)	55 (28.4%)	67 (34.5%)	46 (23.7%)	13 (6.7%)	18 (9.3%)

Source: AuditAnalytics.com – May 2, 2006 Section 404 ICMW Dashboard Year 1 & Year 2

Year 1 & Year 2 Section 404 Disclosure Stats Internal Control Failures by Issue

	Personnel Issues	Segregation of Duties	Restatements of Financials	Material YE Adjustments	IT Processing Access Issues
Year 1 (period ending prior to 11/15/05)	284 (48.1%)	125 (21.2%)	293 (49.6%)	314 (53.1%)	123 (20.8%)
Year 2 (period ending 11/15/05 to 1/31/06)	91 (46.9%)	24 (12.4%)	59 (30.4%)	136 (70.1%)	34 (17.5%)

Source: AuditAnalytics.com – May 2, 2006 Section 404 ICMW Dashboard Year 1 & Year 2

Year 1 & Year 2 Section 404 Disclosure Stats Failures by Revenue

Total and Adverse SOX 404 Filings per Revenue						
Registrant Revenue (Dollars)	404 Disclosures Filed for First Two Years ^{1 2 3}					
	Year 1			Year 2 (Partial) ^{4 5}		
	Total Filings	Material Weaknesses	Percentage	Total Filings	Material Weaknesses	Percentage
0 to 100 million, inclusive	803	149	18.6%	660	57	8.6%
Above 100 to 300 million	677	127	18.8%	551	54	9.8%
Above 300 to 500 million	387	72	18.6%	299	24	8.0%
Above 500 million to 1 billion	509	88	17.3%	412	38	9.2%
Above 1 billion to 10 billion	989	127	12.8%	780	33	4.2%
Greater than 10 billion	232	19	8.2%	201	9	4.5%
Total	3597	582	16.2%	2903	215	7.4%

Source: AuditAnalytics.com – May 30, 2006

Year 1 & Year 2 Section 404 Disclosure Stats Failures by Industry

Total and Adverse SOX 404 Filings per Industry						
Industry	404 Disclosures Filed for First Two Years ¹					
	Year 1			Year 2 (Partial) ²		
	Total Filings	Material Weaknesses	Percentage	Total Filings	Material Weaknesses	Percentage
Entertainment	16	6	37.5%	13	1	7.7%
Restaurants	47	16	34.0%	33	1	3.0%
Mining	29	9	31.0%	24	3	12.5%
Telecommunications	73	22	30.1%	65	11	16.9%
Software	121	34	28.1%	64	8	12.5%
Equipment Manufacturing ³	182	45	24.7%	212	26	12.3%
Semiconductors & Electronics	135	25	18.5%	76	7	9.2%
General Merchandise Stores	23	4	17.4%	19	1	5.3%
Home, Office, & Personal Mfr. ⁴	159	23	14.5%	116	10	8.6%
Financial Serv./Banking/Credit ⁵	483	57	11.8%	456	16	3.5%
Insurance	140	14	10.0%	146	8	5.5%
Utilities	122	12	9.8%	100	4	4.0%
Pharmaceutical & Biotechnology	229	21	9.2%	197	7	3.6%
Hotels & Motels	23	1	4.3%	23	3	13.0%
Real Estate	18	0	0.0%	22	1	4.5%

Source: AuditAnalytics.com – May 30, 2006

Calendar Years 2003–2006 404 Filer Auditor Change Analysis

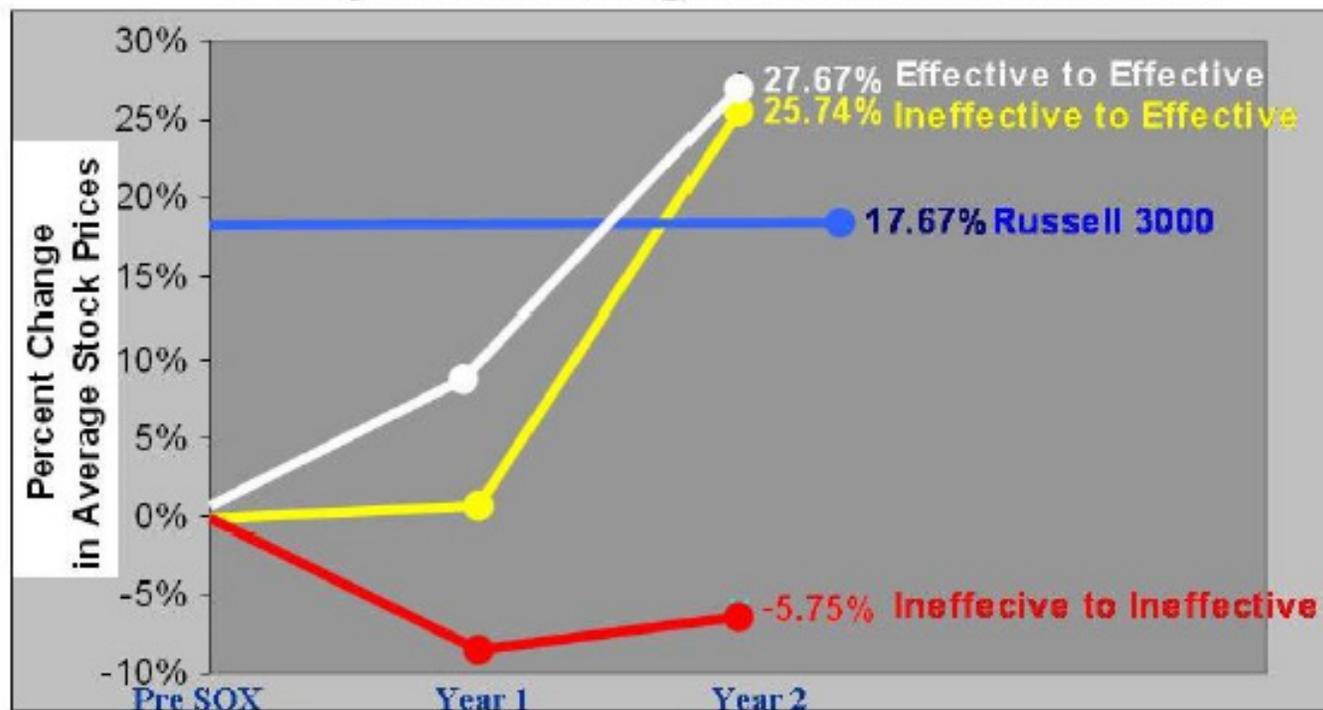
Calendar Year	404 Filer* Auditor Changes	% Change from Previous Year
2006 (Year to Date*)	111	
2005	263	7%
2004	246	37%
2003	179	

*Includes all Section 404 filers for both Year 1 and Year 2 as of June 9th 2006.

Source: AuditAnalytics.com – As of June 9, 2006

Year 1 & Year 2 Section 404 Disclosure Stats 3 Year Share Price Analysis

Good Sarbanes-Oxley Section 404 Internal Controls Corresponded with Higher Share Price Movement



Source: Lord & Benoit "Do the Benefits of 404 Exceed the Cost? May 8, 2006

Calendar Years 2001–2005 Restatements

		Restatement Issues (percentages based on total restatements)					
	Total Restatements	Unique filers	Debt, quasi debt, warrants, equity (BCF) issues	Deferred, stock-based, comp issues	Lease, legal, FAS 5 contingency issues	Revenue recognition issues	FAS 109 tax expense, benefit, deferral issues
2005	1541	1385	319	179	288	210	193
% of Year's Total			20.7%	11.6%	18.7%	13.6%	12.5%
% of Category Total	42.6%	42.0%	51.8%	44.4%	66.4%	31.5%	47.7%
2004	763	698	123	81	61	153	85
% of Year's Total			16.1%	10.6%	8.0%	20.1%	11.1%
% of Category Total	21.1%	21.2%	20.0%	20.1%	14.1%	23.0%	21.0%
2003	587	546	67	65	51	129	77
% of Year's Total			11.4%	11.1%	8.7%	22.0%	13.1%
% of Category Total	16.2%	16.5%	10.9%	16.1%	11.8%	19.4%	19.0%
2002	412	378	51	41	25	93	27
% of Year's Total			12.4%	10.0%	6%	23%	7%
% of Category Total	11.4%	11.5%	8.3%	10.2%	6%	14%	7%
2001	316	293	56	37	9	81	23
% of Year's Total			17.7%	11.7%	2.8%	25.6%	7.3%
% of Category Total	8.7%	8.9%	9.1%	9.2%	2.1%	12.2%	5.7%
Totals	3619	3300	616	403	434	666	405
% Total of all Restatements			17.0%	11.1%	12.0%	18.4%	11.2%

Source: AuditAnalytics.com – As of April 25, 2006

Calendar Year 2006 Restatements to Date

		Restatement Issues (percentages based on total restatements)					
	Total Restatements	Unique filers	Cash flow statement issues	Debt, quasi debt, warrants, equity (BCF) issues	Deferred, stock-based, comp issues	Revenue recognition issues	FAS 109 tax expense, benefit, deferral issues
2006 YTD	844	752	93	203	112	113	97
% of Year's Total			11.0%	24.1%	13.3%	13.4%	11.5%
2006 Forecasted	1925	1716	212	463	256	258	221
% of Year's Total			11.0%	24.1%	13.3%	13.4%	11.5%

Total number of Financial Restatements could increase by as much as 25% from 2005 to 2006 if this pace (year to date) continues

Source: AuditAnalytics.com – As of June 9, 2006

Calendar Years 2001–2005 Restatements Top Issues for Registrants w/ Rev. \$1Billion plus

		Restatement Issues (percentages based on total restatements)					
	Total Restatements	Unique filers	Financial derivatives, hedging issues	Inventory, vendor, cost of sales issues	Lease, legal, FAS 5 contingency issues	Revenue recognition issues	FAS 109 tax expense, benefit, deferral issues
2005	240	217	22	21	91	41	46
% of Year's Total			9.2%	8.8%	37.9%	17.1%	19.2%
% of Category Total	39.7%	39.7%	38.6%	31.8%	71.1%	34.5%	26.0%
2004	136	120	13	14	17	29	85
% of Year's Total			9.6%	10.3%	12.5%	21.3%	62.5%
% of Category Total	22.5%	22.0%	22.8%	21.2%	13.3%	24.4%	48.0%
2003	121	111	9	19	15	30	16
% of Year's Total			7.4%	15.7%	12.4%	24.8%	13.2%
% of Category Total	20.0%	20.3%	15.8%	28.8%	11.7%	25.2%	9.0%
2002	68	60	10	7	4	14	27
% of Year's Total			14.7%	10%	6%	21%	40%
% of Category Total	11.2%	11.0%	17.5%	11%	3%	12%	15%
2001	40	38	3	5	1	5	3
% of Year's Total			7.5%	12.5%	2.5%	12.5%	7.5%
% of Category Total	6.6%	7.0%	5.3%	7.6%	0.8%	4.2%	1.7%
Totals	605	546	57	66	128	119	177
% Total of all Restatements			9.4%	10.9%	21.2%	19.7%	29.3%

Source: AuditAnalytics.com – As of April 25, 2006

Preliminary Securities Class Action Litigation Analysis for First Year 404 Filers

First Year 404 Filers - Restatements and Litigation					
Adverse 404s (582 total)			Clean 404s (3015 total)		
Restatements	Securities Class Action Litigation	% Litigation of Restatements	Restatements	Securities Class Action Litigation	% Litigation of Restatements
280	52	19%	192	103	54%

For companies who filed a financial restatement and had a clean 404 opinion from their auditors, there was a 184% greater likelihood that they would also be involved in securities class action litigation, as compared to those who had an adverse 404 opinion.

Source: AuditAnalytics.com – As of May 30, 2006

Year 2 404 Filer Auditor Fees Analysis Fortune 1000 w/ FYE Nov & Dec

	% Change in Auditor Fees from FY 2004 to FY 2005				
	Audit	Audit Related	Tax Related	Other	Total
Fortune 500	-0.40%	-6%	-24%	-52%	-5%
Fortune 501 - 1000	-0.28%	-8%	-21%	-55%	-4%
Fortune 1000	-0.38%	-7%	-23%	-53%	-5%

Source: AuditAnalytics.com – May 2, 2006 Fortune 1000 Auditor Fee Analysis

Thank You

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<i>May 15, 2006</i>	<i>Public Accounting Report – Fortune Fees Dip Slightly for Year-Two Sox 404 Filers</i>
<i>May 9, 2006</i>	<i>GAO – Key Principles Needed in Addressing Implementation for Smaller Public Companies</i>
<i>May 8, 2006</i>	<i>Wall Street Journal – Checks on Internal Controls Pay Off</i>
<i>May 4, 2006</i>	<i>PCAOB – Confronting the Challenges of Change in the World of Financial Reporting</i>
<i>April 23, 2006</i>	<i>SEC – Final Report of the Advisory Committee on Smaller Public Companies.</i>
<i>April 19, 2006</i>	<i>USA Today - More firms late sharing annual financials</i>

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