SOX Costs Drop for Large Public Companies, Smaller Companies See Same Savings

Separate report questions 404 exemption plan

Sarbanes-Oxley (SOX) compliance costs for larger public companies those with a market cap of more than $700 million dropped by 44 percent to $4.8 million in 2005, according to a new study from CRA International. Companies with a market cap of $75 million to $700 million only realized a 31 percent decline.

According to the report commissioned by the Big Four accounting firms, larger companies realized greater savings because they have been able to realize efficiencies in the second year of compliance.

The study comes when smaller public companies are pushing for a permanent reprieve from SOX Section 404 requirements that mandate annual outside audits of internal controls. Last week, an SEC advisory panel recommended that the Commission exempt many small public companies from the rules.

The advisory committee proposes to fully exempt companies with a market cap of less than $128 million and give a more limited exemption to those with caps of $128 million to $787 million. According to The New York Times, this would exempt four out of five public companies from the internal control provisions contained in SOX.

Despite the advisory panels suggestions, four of five SEC commissioners have recently indicated they would oppose a wholesale exemption from internal-controls rules.

In a separate report, "Bridging the Sarbanes-Oxley Disclosure Control Gap," less than 10 percent of accelerated filers self-reported control problems the year before Section 404 of the Sarbanes-Oxley Act was required. The study month by Worcester, Mass.-based Lord & Benoit, examined the historic relationship between Section 302 and Section 404 prior to SOX's enactment.

The report questions whether small-cap and micro-cap companies can be relied upon to self-report material weaknesses in internal controls. The goal of the study was to see if Section 302 on self-reporting could eliminate Section 404 for companies under $250 million. The report shows only 8 to 14 percent of the accelerated filers with material weaknesses self-reported their weaknesses. It was not until Section 404 that they were forthcoming.

Section 302 of the Sarbanes-Oxley law requires companies to self-report disclosure controls and requirements in internal controls. Section 404 requires companies to explain their internal controls and have outside auditors attest to its effectiveness.

Last Updated: 4/27/2006 2:51:21 PM