

# First-of-Its-Kind Report Quantifies Actual Cost of Sarbanes-Oxley Section 404 Compliance for Smaller Public Companies

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Lord & Benoit, a SOX research and consulting firm, recently gathered empirical cost data to answer a crucial question that government officials, legislators, and business executives have been asking since June of 2007: *"what exactly is the cost for a smaller public company to comply with Sarbanes-Oxley Section 404(a) and Section 404(b) regulations using the latest guidance issued by the SEC and PCAOB?"* The data reveal that for non-accelerated filers, the total average first-year cost for management assessment and additional audit fees is \$78,474, which is 13.8% less than the \$91,000 cost the SEC initially predicted.

The new Lord & Benoit Report, entitled **"The Sarbanes-Oxley Investment: A Section 404 Cost Study for Smaller Public Companies,"** is based on a cross-section of 29 smaller public companies in the semiconductor, manufacturing, distribution, banking and finance, real estate, food and beverage, transportation, mining, software, energy, services, and biotech industries. The Report is also based on an Audit Analytics study of actual audit fees reported by nearly 5,500 public companies.

From a public policy perspective, this newest Lord & Benoit Report is very relevant and timely. Concerned that the cost of Section 404(b) on small companies is still unknown and could therefore be disproportionately high for smaller publicly-held companies, the US. House of Representatives Committee on Small Business recently requested cost estimates prior to enforcement of the law. In order to honor this request, SEC Chairman Christopher Cox is considering extending the delay in the auditor attestation requirement of Section 404(b) for non-accelerated filers until years ending after December 15, 2009. The empirical data in the Lord & Benoit Report may provide government officials with the cost information they need now.

While analyzing the compliance cost data, the research team at Lord & Benoit discovered a paradoxical, unintended consequence of past delays in Section 404 compliance: the American Institute of CPA auditing standards governing the audit of internal controls for private companies and non-profit organizations are now greater than PCOAB auditing standards for smaller public companies in years 2007 and 2008, and possibly 2009 should the SEC grant an extension of Section 404(b).

In the summary, the Report states that compliance costs are not without corresponding benefits. The improvement in procedures has removed volatility in reporting and this, in turn, has contributed to the recent dramatic decrease in security class action claims against companies. In addition, the Market Capitalization to Revenue Ratio of companies with good financial reporting procedures and filings results in higher stock values.

For a free copy of the full report, go to [www.Section404.org](http://www.Section404.org) and visit the Research section.

**The Lord & Benoit Report** was written by Bob Benoit. Bob is President and Director of SOX Research at Lord & Benoit, LLC, one of the most influential SOX Research and Compliance firms for smaller public companies. In addition to his position with Lord & Benoit, Bob serves on the COSO Monitoring Project Task Force. He has also served on the AICPA Peer Review Acceptance Board in MA for past 11 years, has taught Complying with Sarbanes-Oxley Section 404 throughout the country through the State CPA Societies and is the author of the Lord & Benoit Reports, which have been referenced by the SEC, PCAOB, COSO, AICPA, CHH, RIA, BNA, Wall Street Journal, all of the ?Big 4? firms and over 120 legal, educational and trade journals around the world. Bob is the first evaluator to use the COSO Guidance for Smaller Public Companies, the inventor of Virtual SOX taught on the AICPA website and research contributor to the SEC Subcommittee, SEC Concept Releases and SEC/PCAOB Internal Control Roundtables which can be downloaded free of charge from the SEC and PCOAB websites or at [www.Section404.org](http://www.Section404.org).

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