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Study: Companies Fail to Utilize SOX Delays

Sept. 11, 2008 (SmartPros) — Small businesses have failed to utilize the many SOX deadline extensions granted to them over the past four years, according to a study by Sarbanes-Oxley research firm Lord & Benoit.

"First Year SOX Results for Small Business: Benefits of the Delays" is a new study of all 3,321 smaller U.S. public non-accelerated filers with fiscal year-ends between Dec. 15, 2007, and Jan. 31, 2008. The study set out to answer the question, "Did the continuous delays in deadlines help smaller public companies to prepare for Sarbanes-Oxley Section 404(a) compliance?"

The study found that many companies did not use the extra time wisely. According to the study data compiled by Audit Analytics:

- 34 percent of non-accelerated filer companies gave little or no consideration to the Section 404 (a) delays and therefore completed assessments at the last minute or not all at. The combined market capitalization of these 1,143 companies with material weaknesses was over \$50 billion.
- 12 percent either filed a faulty report or disclosed inadequate segregation of duties without any evidence of complying. Seven percent were emboldened not to do any work at all in understanding and satisfying Section 404 (a). They did not even file a report. The combined market capitalization of this group of companies was nearly \$26 billion.
- 88 percent of the 575 non-accelerated filer companies with material weaknesses under Section 404 (a) reported clean controls under Section 302 the quarter before--just weeks before year-end.
- The rate of non-compliant audit committees in smaller public companies was ten times greater (19.0 percent) compared to the percentage of accelerated filers who complied four years earlier (1.9 percent).
- 78 percent of non-accelerated filer companies with adverse reports reported material weaknesses from "tone at the top/ethics" and "competency/training".

"The results are obviously disappointing," said Bob Benoit, president and director of SOX Research for Lord & Benoit. "Perhaps the four years of delays lulled companies into thinking 404(a) would go away. Unfortunately, only a small majority used the time wisely to establish QA measures in financial reporting."

On Sept. 25 at 2 pm ET, Lord & Benoit will host a free Webinar describing this report and its public policy ramifications. The webinar is open to interested executives, CPAs, auditors and journalists, and will include live Q&A.

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