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Attempting to Answer the \$91,000 Question

The figure often cited as the cost of Section 404 compliance for small companies is not correct, according to a new study, which claims the real figure is lower. Many beg to differ.

[Sarah Johnson](#)

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Ever since companies began to confront Section 404 of the Sarbanes-Oxley Act, the question of how much it actually costs to comply has been hotly debated. While many companies ridiculed the Securities and Exchange Commission's initial estimate of \$91,000 as being far too low, the figure has attained an iconic status in the world of finance — including among small-business advocates, who have cited it in their calls to give small companies extensions and other forms of relief.

Now, a consultancy specializing in Sarbox compliance for small companies believes it has a better idea of how much Section 404 compliance does cost. According to Lord & Benoit, total first-year costs for complying with 404 currently average \$78,474 for nonaccelerated filers (those with market capitalizations below \$75 million), with \$53,724 of that spent on management's own assessment.

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The figures are based on empirical data from just 29 small companies, as well as research pulled from SEC filings and audit-fee data from Audit Analytics. When the second portion of 404 — called 404(b), or the auditor attestation report — takes effect, it will cost smaller companies an additional \$24,750 on average, Lord & Benoit says.

That figure represents a very rough pass, given that it is based on the audit fees of about 5,500 *accelerated* filers and does not incorporate the effects of the relatively new Auditing Standard

No. 5, which encourages auditors to take a top-down, risk-based approach that should, in theory, bring down the cost of internal-control audits.

SEC chairman Christopher Cox has said he will propose a delay on 404(b) that would allow nonaccelerated filers to defer that added expense, whatever it may be, for two years. Lord & Benoit president Bob Benoit suggests that a full embrace of AS5 could save companies a whopping 30 to 50 percent. Ironically, he says, some accelerated filers may overlook that opportunity. Why? "Sometimes people are uncomfortable with change and continue to do things the old way," he says.

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The Cost Of 404

How much smaller companies pay to meet Section 404 requirements varies greatly by industry (in \$ thousands)



Source: Lord & Benoit study of nonaccelerated filers, 2008

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