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404 Compliance Costs Fall

By: [SmartPros Editorial Staff](#)

April 20, 2006 (SmartPros) — Total year-two Sarbanes-Oxley 404 compliance costs are expected to decline substantially for both large and small companies, according to a study commissioned by the Big Four accounting firms.

The results of the study were released this week by CRA International, a Boston-based economic consulting firm that compiled data on the accounting firms' clients. The study compared year-two compliance costs of randomly selected companies with year-one costs of the same companies. The final data, along with a letter from the Big Four, were submitted to Securities and Exchange Commission Chairman Christopher Cox.

According to the CRA report, total 404 implementation costs for larger companies are expected to decline 42 percent in 2005 to \$4.3 million. For smaller companies, the projected decline is 39 percent to \$900,000.

In addition, the study found that 404 audit fees in year one accounted for about one-fourth of total 404 costs for larger companies, and about one-third of the total 404 costs for smaller companies.

The independent auditors for the companies reviewed cited the *primary* reason for the cost declines:

- increased efficiency gained from "learning curve effects" in implementing and assessing controls (larger: 38 percent; smaller: 49 percent)
- reduced documentation from year one to year two (larger: 32 percent; smaller: 26 percent)
- reduction in the use of outside third parties to perform readiness activities for management in year two (larger: 8 percent; smaller: 13 percent).

Section 404 of the Sarbanes-Oxley Act requires companies to explain their internal controls and have outside auditors attest to its effectiveness. Currently there is a campaign underway to exempt smaller companies -- which account for about 80 percent of publicly traded businesses -- from 404 requirements due to the law's cost. Last week the SEC advisory committee on small companies reiterated its intent to recommend that exemption to the SEC.

The Big Four accounting firms that commissioned the report are Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers.

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