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## FEI Survey: Management Drives Sarbanes-Oxley Compliance Costs Down by 23%, But Auditor Fees Virtually Unchanged

FLORHAM PARK, N.J., May 16 /PRNewswire/ -- Financial Executives International (FEI) announced today the results of its sixth Sarbanes-Oxley compliance survey, which found that Section 404 compliance cost Corporate America less in year three of adoption than in each of the first two years. FEI polled 200 companies to gauge experiences in complying with Section 404. Responding companies have average revenues of \$6.8 billion.

According to the FEI survey, which included 172 "accelerated filers" -- companies with market capitalizations above \$75 million -- total average cost for Section 404 compliance was \$2.9 million during fiscal year 2006, which represents a 23 percent decrease from 2005 totals. The data also shows reductions in internal and external costs of compliance, with internal staff time decreasing by 10 percent. The lower costs can be attributed to companies' increased efficiencies in complying with Section 404.

"Efficiency gains are being realized in Section 404 compliance; however, audit fees are virtually unchanged. Companies have driven down compliance expenses by getting beyond the initial start-up, and now await relief from the added audit costs of Section 404," said FEI President and CEO Michael P. Cangemi. "While there is still work to be done, we have come a long way, and total compliance costs have dropped about one-third (35 percent) since year one. This drop is largely attributed to increased efficiencies, a positive learning curve, and technical systems and software rollouts. We are hopeful that pending guidance from the SEC and PCAOB will further reduce 404 expenses."

### Lowering of Costs

#### Fewer Internal and Non-Auditor External Hours

In year three of Section 404 compliance, accelerated filers reported a continued drop in both internal and external people hours. Notably, while companies have achieved double-digit decreases in both internal and external hours (other than external auditor) spent on Section 404 compliance, auditor attestation fees have remained flat.

- Companies said that they required an average of 18,070 people hours internally to comply with Section 404 in 2006, a 10 percent decrease from the previous year.
- Companies said that they required an average of 3,382 external people hours (other than external auditor) to comply with Section 404 in 2006, a 14 percent drop from the year before.
- Auditor attestation fees for Section 404, paid in addition to annual financial statement audit fees by accelerated filers, averaged \$1.2 million in 2006, only slightly less (0.8 percent) than in 2005.

### Centralized Operations More Cost-Effective

As expected, the survey found that respondents with centralized operations had significantly lower total costs of compliance in 2006 than did those respondents with decentralized operations.

- Total average 2006 compliance costs for companies with centralized operations were \$1.7 million;
- Total average 2006 compliance costs for companies with decentralized operations were \$4.0 million, 58 percent higher than for those with centralized operations.

## Seeing the Value

"The survey revealed that financial executives agree that compliance with Section 404 raises investor confidence, but does so at a significant price, with three-quarters saying the costs still exceed the benefits," continued Mr. Cangemi.

For each benefit, the survey revealed a direct correlation between the benefit and the size of the company, with a greater percentage of larger companies on average agreeing with the value of the benefit.

- When asked whether the benefits of compliance with Section 404 have exceeded their costs, 22 percent, on average, agreed, with 78 percent saying instead that the costs have exceeded the benefits.
- The number of respondents agreeing that benefits have exceeded costs saw a slight increase from last year's 15 percent.
- 60 percent of accelerated filer companies agreed that compliance with Section 404 has resulted in more investor confidence in their financial reports.
- 46 percent agreed that financial reports are more accurate.
- 48 percent agreed that financial reports are more reliable.
- 34 percent agreed that compliance with Section 404 has helped prevent or detect fraud.

The full survey results, including costs by company size, historical cost comparisons and an executive summary are available for \$99 at <http://www.fei.org/404survey>. For reprints and content licensing, contact Janet Russell at 973.765.1000 or [jrussell@fei.org](mailto:jrussell@fei.org).

### About Sarbanes-Oxley Section 404

Section 404 requires each company's annual report to contain (1) a statement of management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and (2) management's assessment, as of the end of the company's more recent fiscal year, of the effectiveness of the company's internal control structure and procedures for financial reporting. Section 404 also requires the company's auditor to attest to and report on management's assessment of the effectiveness of the company's internal controls and procedures for financial reporting.

### About FEI

Financial Executives International (FEI) is the leading advocate for the views of corporate financial management. Its 15,000 members hold policy-making positions as chief financial officers, treasurers and controllers. FEI enhances member professional development through peer networking, career management services, conferences, teleconferences and publications. Members participate in the activities of 85 chapters, 74 in the U.S., 11 in Canada.

Financial Executives Research Foundation (FERF) is the non-profit 501(c)(3) research affiliate of FEI. FERF researchers identify key financial issues and develop impartial, timely research reports to FEI members and non-members alike, in a variety of publication formats.

For more information, visit <http://www.fei.org/>.

SOURCE: Financial Executives International

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