

## **SECTION 404 AUDIT COSTS FOR SMALL COMPANIES: THE BENEFIT OF WAITING**

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### **Abstract**

Starting in December 2009, small companies classified as non-accelerated filers must obtain an internal control audit to comply with Section 404 of the Sarbanes-Oxley Act. This study estimates the cost of the internal control audit for new accelerated filers in 2006 and 2007 and assesses whether the new internal control auditing standard, Auditing Standard No. 5, has reduced Section 404-related audit costs. The study finds that the median cost of the internal control audit as a percentage of total audit fees in 42% of new accelerated filers in 2006 and 37% in 2007. This suggests that Section 404-related audit costs have fallen modestly since Auditing Standard No. 5 was adopted, although the change is not statistically significant. The 2007 results provide a reasonable estimate of what non-accelerated filers will have to pay when they comply in 2009.