

SOX 404(a) to 404(b)

Strategies for Compliance Success



Outgrowing SOX 404(a)

Public companies typically begin their Sarbanes-Oxley (SOX) compliance journey under Section 404(a), which requires only management's assessment of Internal Controls over Financial Reporting (ICFR). However, as companies mature and exit Emerging Growth Company (EGC) status, they become subject to the more rigorous requirements of SOX 404(b), which mandates an external auditor's attestation of management's internal controls.

To maintain EGC status, a company must have less than \$1.235 billion in annual gross revenue in its most recent fiscal year and not meet any of the following conditions:

- Annual gross revenue exceeds \$1.235 billion.
- Five years have passed since the company's initial public offering (IPO).
- Over the past three years, the company has issued over \$1 billion in non-convertible debt.
- The company qualifies as a large accelerated filer with over \$700 million public float.

Transitioning to SOX 404(b) can be challenging. It introduces new complexities, including increased scrutiny from external auditors, higher expectations for documentation and testing, and greater risk of financial reporting errors. Without early preparation, companies may face audit delays, increased costs, and potential damage to stakeholder confidence.

Understanding SOX 404(a) vs. SOX 404(b)

Understanding the distinctions between SOX 404(a) and 404(b) is a critical first step toward a successful transition.

SOX 404(a): Management's Responsibility

Under SOX 404(a), management is responsible for establishing, maintaining, and assessing the effectiveness of ICFR. Companies are required to disclose material weaknesses, but external auditor attestation is not mandatory.



SOX 404(b): External Auditor Attestation

SOX 404(b) requires an independent auditor to review and attest to the effectiveness of ICFR. This added level of oversight increases regulatory scrutiny and places a greater burden on companies to have well-documented, tested, and robust controls.

Key Differences:

- **External Validation:** Unlike SOX 404(a), SOX 404(b) mandates independent auditor verification. A company under SOX 404(a) may internally assess its financial reporting systems as secure and free of material weaknesses. However, under SOX 404(b), an external auditor will independently test and verify this assessment.
- **Higher Standards:** Controls must withstand independent testing rather than just an internal evaluation. If a company under SOX 404(a) has a less formal approval process for certain transactions, it may pass management's review via some compensating controls. Under SOX 404(b), the auditor will likely require formalized policies, written documentation, and evidence of adherence to the process.
- **Greater Documentation Needs:** Companies must ensure rigorous control of documentation and testing procedures. Auditors closely examine areas where weak internal controls can compromise financial reporting accuracy. Some critical areas include Segregation of Duties (SOD), IT General Controls (ITGC), and Management Review Controls (MRC).

The Importance of SOX 404(b) Compliance

- **Regulatory Adherence:** Non-compliance with SOX 404(b) can have significant ramifications, including financial restatements and control failures. In 2024, over 100 public companies were forced to restate their financials due to material errors, underscoring the critical need for well-documented and tested controls.
- **Investor Confidence:** The SEC's study on SOX 404(b) found that compliance enhances the reliability of financial reporting. By involving external audit professionals in the assessment of internal controls, companies provide greater assurance to investors and stakeholders, improving transparency and trust.
- **Operational Efficiency:** Implementing automation and process improvements as part of compliance adoption leads to more accurate reporting and streamlined operations. According to a 2024 PwC survey, organizations that embraced automation reduced time spent on financial tasks by 30-40%, enabling teams to focus on more strategic, high-value activities.

Common Challenges Companies Face with SOX 404(b)

Moving to SOX 404(b) compliance is a significant milestone for companies, but it also introduces several challenges that can impact financial resources, operations, and risk management. Drawing from Connor Group's extensive experience, the most common obstacles companies face during this process include:

1. Increased Compliance Costs and Resource Burden

The financial and operational demands of SOX 404(b) compliance can be particularly challenging for smaller public companies. For non-accelerated filers with a public float under \$75 million, the costs associated with external auditor fees and compliance efforts often represent a substantial expense. Companies may need to allocate additional personnel, invest in automation, or engage third-party consultants to meet the rigorous requirements.

2. Heightened Scrutiny of Internal Controls by External Auditors

Unlike SOX 404(a), SOX 404(b) requires external audit professionals to independently assess and confirm the effectiveness of a company's ICFR. This results in stricter documentation requirements and increased scrutiny of critical control areas, including ITGC, Information Produced by the Entity (IPE), SOD, MRC, and data integrity. Companies must provide detailed evidence to demonstrate control effectiveness and maintain the integrity of financial data, which can be resource intensive.

3. Risk of Material Weaknesses and Financial Restatements

Inadequate testing and documentation of internal controls increase the likelihood that an external audit will identify material weaknesses. Late-stage findings of deficiencies can delay compliance efforts, erode investor confidence, and lead to regulatory scrutiny. Companies must proactively address control gaps to mitigate these risks.



As part of the broader SOX compliance framework, public companies must adhere to the process below:

Step-by-Step Guide to SOX 404(b) Readiness

Shifting to SOX 404(b) compliance can be daunting. Still, with a structured approach, companies can meet regulatory expectations while enhancing operational efficiency. Based on Connor Group's extensive experience, the following roadmap provides actionable steps to ensure smooth and successful adoption.

Step	Action	Why it matters	Key Deliverables
1	Run a 404(b) Readiness Assessment	Establishes a baseline view of your controls environment and highlights gaps against PCAOB expectations.	• Maturity scorecard • Priority gap list • Target state roadmap
2	Fortify the Internal-Control Framework	Robust design and equally strong documentation are prerequisites for a clean audit opinion. Focus first on high-risk areas such as IT General Controls (ITGC) and Segregation of Duties (SoD).	• Refined risk and control matrix (RCM) • Updated narratives and flowcharts
3	Automate and Optimize Key Processes	Automation reduces manual error, accelerates evidence gathering, and lowers recurring compliance costs.	• System workflows/robotic process automation • GRC (Governance, Risk, and Compliance) tools • System-generated audit trails
4	Perform Gap Analysis and Execute Remediation	Early detection and remediation of control deficiencies prevent last-minute surprises and cost overruns.	• Gap tracker with owners and due dates • Remediation testing results
5	Stage a Mock External Audit	Pre-auditing the evidence lets you address issues before your auditor arrives, shortening fieldwork and improving the likelihood of a first-pass sign-off.	• Mock audit report • Corrective-action log
6	Educate and Align Stakeholders	Finance, IT, and compliance teams must understand their day-to-day control obligations while executives must be ready to sign SOX 302 and 906 certifications.	• Role-based training • Executive certification playbook
7	Embed Continuous Monitoring and Advisory Support	Regulations evolve, and systems change. Control creep is real. Ongoing monitoring tools and periodic external check-ins keep you ahead of new risks.	• Automated control dashboards • Quarterly health-check reports



SOX 302 and 906 Certification Requirements

Public companies must adhere to the certification requirements outlined in Sections 302 and 906 of the Sarbanes-Oxley Act as part of the broader SOX compliance framework. These provisions require CEOs and CFOs to personally certify the accuracy of financial statements and the effectiveness of internal controls.

- **SOX 302** requires executives to certify the completeness and reliability of quarterly and annual filings (such as Forms 10-Q and 10-K), affirming that disclosures fairly present the company's financial condition.
- **SOX 906** further elevates the stakes by introducing criminal penalties for knowingly filing inaccurate or misleading financial reports.

Together, these certifications promote executive-level accountability and reinforce the integrity of financial reporting. When implemented alongside SOX 404(a) and SOX 404(b) internal control attestations, they form a cohesive compliance strategy that supports transparency, investor confidence, and regulatory trust.

Here is a comprehensive view of the various public company requirements around SOX certifications:

Certification Defined

Summary of SOX Certification & Requirements – U.S. vs. Foreign Filers

	SECTION 302	SECTION 906	SECTION 404(a)	SECTION 404(b)
Certified by	CEO and CFO	CEO and CFO	Management	External Auditor
Summary Requirements	Certify to financial statement fairness and internal control effectiveness	Certify to financial statement fairness (criminal liability)	Annual internal control assessment	Annual attestation to managements internal control report
Applies to	All issuers filing periodic reports, including FPIs using Form 20-F annually	All issuers filing periodic reports, including FPIs using Form 20-F annually	All issuers filing periodic reports, including FPIs using Form 20-F annually ¹³	Accelerated and large accelerated filers; exempt for non-accelerated filers ¹²
Timing	Quarterly with 10-Q; annually with 10-K or 20-F ^{4 5}	Quarterly with 10-Q; annually with 10-K or 20-F ^{4 5}	Annually with 10-K or 20-F	Annually with 10-K or 20-F, unless exempt (e.g., non-accelerated FPIs)

¹First year exemption for new public issuers

²Emerging Growth Company (EGC) exempt from auditor attestation requirement under 404(b)

³Additional rules apply for SPAC-related transactions that may allow exemption from 404(b) during the initial fiscal year after the de-SPAC transaction

⁴ 302 and 906 not required with Form 6-K. Form 6-K is not considered a 'periodic report' under Sections 13(a) or 15(d) of the Exchange Act, and therefore does not trigger SOX certification requirements

⁵ Form 20-F filings for FPIs are typically due within 120 days of fiscal year-end

Certifying officers should not sign the Section 404 opinion, inclusive of the acquired entity, unless they are satisfied the available evidence enables them to do so.

Turning Compliance into Competitive Advantage

A well-executed SOX program does more than satisfy regulators - it delivers tighter processes, cleaner data, and greater investor confidence. Connor Group's SOX specialists combine proven methodology, industry benchmarks, and enabling technology to help build a robust SOX program, including transitioning from SOX 404(a) to 404(b).



About Connor Group

Connor Group is built for breakthroughs.

We're a professional services firm focused on the most critical opportunities and challenges facing ambitious companies. We're leaders in accounting, compliance, M&A, IPOs, and digital solutions, including strategy, selection, implementation, automation, analytics, and AI. Serving the offices of the CFO, CIO/CTO, and CHRO, we're trusted by over 2,000 of the most exciting brands on earth to deliver results that last.

Founded in 2006, Connor Group quickly became the leading IPO advisory firm. Helping over 250 companies go public built our pragmatic, delivery-oriented approach and \$3.3 trillion in client valuation. It also created elite-level pattern recognition and listening skills to identify problems quickly and solve them efficiently.

The majority of Connor Group has industry experience. We know how to get things done. Our expert teams are fluent in function, technology, and world-class communication. Unlike others, we're independently owned and fully in control of how we deliver. We never compromise on quality.

Neither should you.

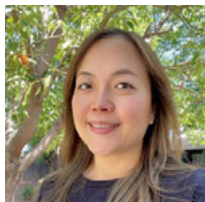
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