# Sarbanes oxley act of 2002 essay

Business, Accounting

The Sarbanes Oxley Act of 2002 was passed to improve oversight over corporate governance. It involves proactive accounting transparency measures which seek to reduce such corporate schemes as off-balance-sheet accounting and questionable business ethics.

The act is generally associated with the SEC. On an ethical level of compliance, it is important for organizations to view the act proactively, especially in the light of the current economic crisis, and fairly recent corporate scandals such as Worldcom and Enron. There are many ways in which the proactive company can comply with the Sarbanes-Oxley Act (SOX), among them the institution of aggressive PR campaigns that draw attention to ethics codes, transparency in accounting and operations, and shareholder communication. Even with the institutions of ethics within the business macrocosm which seek to support SOX, there still exists a gulf between the ethics of the individual and the absolutism of ethical policy. Finding a middle line between these two can help corporations and other organizations better comply to the rules set down in the Sarbanes-Oxley Act, and therefore have a better level of ethical as well as fiscal responsibility and accountability. Visibility is a large part of getting the message of ethical compliance out to a concerned public. " The most appropriate and effective vehicle is probably the Ethics Policy.

Why not, for example, distribute the company's ethics booklet to vendors, customers and shareholders (in addition to putting it on the Web site)? This document thus can be the focus; it sets the standard and becomes the stage for action. The board then has to make sure it happens, and establish itself as the court of last resort to all parties, especially employees" (Mumson and

Burns, 2003, p. 44). This is a complicated issue because of the split between ethics-as-institutional-policy and ethics-as-individual-conscience, but a sense of balance can at least be sought by the institution of PR campaigns stressing the importance of transparency, accountability, and ethics within the financial sectors of the corporation. Due to the Sarbanes-Oxley Act, companies have been stressing shared vision and ethical unity among their employees by putting forth such measures as codes of ethics and ethics review boards in the effort to focus company attention on the importance of ethical behavior in the corporate workplace. In accounting branches of organization, corporate staff are being required to meet more stringent mandatory standards for the transparency of accounting and the level of communication between the organization and its stakeholders. The present prevalence of ethical breaches in high finance, with criticisms of so called golden parachutes, is one of the main causal motivations of this new focus.

But too many employees are showing that despite these efforts, companies can only be so superficially unified in terms of ethics, while beneath this surface, individual behavior is often shown to compromise the very ethical principles that are supposedly being stressed. In other words, sometimes a structure can only help someone a limited amount. Within the corporate environment impacted by SOX, in many cases, morality is being based on what is good for the company. The company's growth becomes an excuse for personal growth or a subterfuge behind which individual agendas can be furthered. And this is a hard pattern to change with a theoretical set of codes such as the ones contained in the act.

“ Although there has been much rhetoric about corporate governance reform, the underlying reality is that changes in culture and values have been slow in coming. The response of management and boards has been slow — evolutionary t best, but certainly not revolutionary” (Bostrom, 2003, p. 190). This is counter to the purposes of the act, and shows a gulf that is developing between the theory behind it and its implementation, which needs to be addressed in a way that gives both the SEC and the SOX teeth, so that it can be applied to mandatory instead of voluntary situations in the corporate environment. Under independence release advocated by the SEC under SOX, there appears to be a contradiction regarding auditors having very much theoretical authority over the ocuments or financial situations over which they might have a high degree of real-world control.

This shows another breach that appears in the act between the framework of theory and the reality of implementation. As one source notes regarding this possible conundrum in auditing responsibility, “ The SEC’s auditor independence release notes that the auditor independence rules are based on three underlying principles: 1) an auditor should not audit his/her own work; 2) an auditor should not act in the role of anagement; and 3) an auditor should not serve as an advocate for his/her client. Clearly, the provision of internal audit outsourcing and information technology design and implementation violate the first two principles” (Munter, 2003, p.

26). Yet these last mentioned conditions, those of audit outsourcing and IT design, are accepted business practices that do not seem to confer any sort of clear ethical breach. Nonetheless, they are excluded by the theoretical parameters of the Sarbanes-Oxley Act. One possible esult of this type of situation is that the more parts of the act do not comply with realistic situations in which there is no ethical breach, the more the whole act will suffer from credibility issues. For SOX to really work, it must be able to be enforced in a realistic manner. This abovementioned situation has a special impact on auditors, because they are the ones targeted for a possible reduction of responsibility under the act. “ Because the evaluation of internal controls has, historically, been the responsibility of the auditor, new uestions have arisen regarding the role that auditors can play in assisting management to fulfill its responsibilities to assess and report on internal controls” (Munter, 2003, p.

27). The act does not seem to answer this question clearly, but this may be remedied in the future by additions that clear up this and other issues. Judging by the present state of affairs and accountability polemics, the time for full enforced implementation may be sooner than later. It is hopeful that in the future, SOX will bring great change to the organizational environment.