

# Individual assignment sarbanes oxley act essay sample



**ASSIGN  
BUSTER**

Sarbanes-Oxley, Sarbox or SOX, is a United States federal law which was introduced in 2002. It is also known as the “ Public Company Accounting Reform and Investor Protection Act” and “ and ‘ Corporate and Auditing Accountability and Responsibility Act”. The main objective of the act is to protect investors by improving the accuracy and reliability of corporate disclosures. New aspects are created by SOX act for corporate accountability as well as new penalties for wrong doings. It was basically introduced after major corporate and accounting scandals including the scandals of Enron, WorldCom etc so that the same kind of scandals do not repeat again. There are 11 titles on the act. Each title consists of several sections. The Securities and Exchange Commission needs to implement rulings on the requirements to comply with the law. These major elements are- 1. Public Company Accounting Oversight Board:

This title establishes the Public Company Accounting Oversight Board. It provides specific processes and procedures for compliance audits, policies for control purposes. Basically it provides an oversight of public accounting firms that do auditing. 2. Auditor Independence:

It provides standards for external auditor independence, so that conflicts of interest can be minimized. It also mentions the requirements for appointing new auditor and auditor reporting requirements. Auditing companies are prohibited from providing non-audit services (consulting) for the clients for whom they provide auditing services. 3. Corporate Responsibility:

According to this title the senior executives must take responsibility for accuracy and integrity of their corporate financial reports, otherwise they will

be held responsible. This title describes the responsibility of corporate managers, enumerates the limitations and penalties for non compliance. 4.

Enhanced Financial Disclosures :

This standard works for improving financial reporting so that there are no misstatements or embellishments of financial reports. It requires the financial executives to report accurately through internal control, appoint auditor to report on those control. It also requires informing public for any deficiencies or changes in financial conditions. 5. Analyst Conflicts of Interest:

This section contains rules which are designed to stimulate greater public confidence in securities research, and to protect the objectivity and independence of securities analysts. 6. Commission Resources and Authority:

This title defines qualifications of associated persons of brokers and dealers and circumstances when a person can be restricted from practicing these activities. It also defines the conditions under which the commission may censure any person, or deny, temporarily. 7. Studies and Reports:

The controller general of USA and the SEC is mandated to perform various studies and report their findings according to this title. It includes the study and report regarding the consolidation of public accounting firm which requires identifying the factors that have led to the consolidation of public accounting firm, the present and future impact of the condition etc. Not only that, there must be studies and reports on violators and violations,

investment banks, credit rating agencies, enforcement acts. 8. Corporate and Criminal Fraud Accountability:

<https://assignbuster.com/individual-assignment-sarbanes-oxley-act-essay-sample/>

This title may be cited as the “ Corporate and Criminal Fraud Accountability Act of 2002”. It includes sections for criminal penalties for destruction, alteration, or falsification of financial records. Anyone who destroys, mutilates, conceals, covers up any record, document shall be fined under this title, imprisoned not more than 20 years, or both. It also has sections regarding the statute of limitations of fraud and the protection of employees and publicly traded companies who provide evidence of fraud. 9. White Collar Crime Penalty Enhancement:

This title may be called as the “ White-Collar Crime Penalty Enhancement Act of 2002”. This title includes amendments to sentencing guidelines relating to certain white collar crimes and also recommended penalties and punishments for attempts and conspiracies to commit criminal fraud offenses including mail and wire fraud, violation of employee retirement income security act. This act also sees Failure of corporate officers to certify financial reports as criminal offense.

#### 10. Corporate Tax Returns:

This title defines the sense of the Senate that the chief executive officer of a corporation should sign the Federal income tax return of a corporation. 11.

#### Corporate Fraud Accountability :

This title is also called the “ Corporate Fraud Accountability Act of 2002”. This title has a section that gives temporary freezing authority to Securities and Exchange Commission. It also includes amendments to federal sentencing guidelines and authority of commission to prohibit person to serving as officers or directors. Increased criminal penalties under securities and exchange act are also described here.

<https://assignbuster.com/individual-assignment-sarbanes-oxley-act-essay-sample/>

This act was named after U. S. Senator Paul Sarbanes and U. S. Representative Michael G. Oxley. The act was introduced due to several reasons including auditor's conflict of interest, analyst's conflict of interest; inaccurate banking practices etc provide measures to deal with these problems.

Effectiveness of SOX in avoiding future frauds:

In improving a publicly traded company's bottom line Sarbanes-Oxley can be a positive factor. By introducing ethics codes and internal controls and building an ethical mind-set in a company it helps to minimize the risk associated with accounting fraud. Implementation of internal controls to improve financial reporting prevents fraud, induces transparency and manages risks.

Sarbanes-Oxley's strengthening of Internal Control:

Section 404 specifically deals with internal control requirement of Sarbanes-Oxley which is quite extensive. Management's assessment of internal control, a code of ethics for senior financial managers, and new audit committee provisions are the areas of internal control which SOX talks about. In each annual report of a company, it must 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 most recent fiscal year, of the effectiveness of the company's internal control structure and procedures for financial reporting. Sarbanes-Oxley requires that there must be a code of ethics containing the standards that must be followed by <https://assignbuster.com/individual-assignment-sarbanes-oxley-act-essay-sample/>

senior financial managers of a company and all the audit committee must be independent, audit committee must have a financial expert and not have any conflicting interests.

Fulfilling these criteria is time consuming but this will create transparent financial disclosure and reduce future frauds.

Sarbanes-Oxley on Off-Balance Sheet Entities:

Sarbanes-Oxley requires new disclosure for all material off balance sheet transactions, arrangements, obligations, even contingent obligations, and other relationships of the issuer with unconsolidated entities or other persons, which may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses. Even if shareholders and investors cannot understand the technical language, then the company must put it in better terms. The purpose of disclosure is useless if it is not done.

Manipulation of earnings and hide of debt can be prevented in future more accurately by using off balance sheet disclosures required by the SOX act and it also enhances accounting transparency.

Sarbanes-Oxley on Conflict of Interests:

The Sarbanes-Oxley Act requires that there should be an audit committee which will be directly responsible for appointing, determining compensation, and overseeing the work of the outside auditors. Conflicting duties of a firm's employees and auditors, auditor partner rotation, and distinguishing

<https://assignbuster.com/individual-assignment-sarbanes-oxley-act-essay-sample/>

between audit and non-audit services are the three specific topics that Sarbanes-Oxley Act of 2002 discusses.

Section 206 of Sarbanes-Oxley states that it is unlawful public accounting firm to perform for an issuer any audit service employing chief executive officer, controller, chief financial officer, chief accounting officer, or any person serving in an equivalent position for the issuer. The act states that it is illegal for a registered public accounting firm if the audit partner has performed audit services for that issuer in each of the 5 previous fiscal years of that issuer. The Sarbanes-Oxley Act of 2002 makes it clear that in order to prevent conflict of interest among the auditors external auditors must distinguish between auditing services and non-auditing services. These measures might reduce the extent of fraud.

Although Sarbanes-Oxley strengthens internal control, requires a more transparent disclosure of off-balance sheet entities, and increases oversight and regulation on public auditors, it does not necessarily guarantee the prevention of a future fraud. It might reduce the extent of future fraud. There are two schools of analysts; one school supports SOX as a measure to prevent future fraud whereas other school opposes it. However, compliance cost should also be considered because the acts will only be effective for a company if the benefit attained due to the introduction of the act outweighs the cost associated with it.