

Discussion 1 week 2 sarbanes-oxley act (SOX)

[Finance](#)



Running Head: assignment Sarbanes-Oxley Act of the of the of the The Sarbanes-Oxley Act Recommend how the SOX framework can ensure reliable and complete financial information and how accounting professionals have benefitted from its use. Provide support for your response.

The Sarbanes-Oxley Act (2002) - SOX was a commendable step to rejuvenate accounting ethics and weed out the anomalies taking place in corporate governance and audits of large businesses. Inspired by the shocking case of Enron, Tyco and many more, SOX has been able to strengthen the confidence and interests of shareholders in the way independent audit committees perform, financial reporting is carried on and transparency is maintained in all corporate disclosures.

Even an E&Y report affirms that within a span of 10 years from its implementation, a large number of independent audit firms have registered themselves with the PCAOB (The accounting oversight board of the SOX Act). Audit quality has improved, more financial experts have found positions in these committees and number of financial restatements has declined significantly (Cohn 2012).

Apple is a global company which is currently facing pollution problems because of a few of its suppliers (Haselton 2011). With the help of SOX, it can pressurize its suppliers to abide by full disclosure rule of corporate policies and avoid breaking environmental laws. Similarly, companies like Lenovo and IBM face criticisms due to their disposal activities jeopardizing the environment.

The SOX framework is constituted in a manner which comprises all essential elements of reducing white-collar crime and misalignments in shareholder-auditor interests. The SOX framework talks about the independence of <https://assignbuster.com/discussion-1-week-2-sarbanes-oxley-act-sox/>

auditor from those who own the company (Sec 404), responsibility of senior executives in presenting true and accurate records (Sec 409), areas where conflict of interests can happen, penalties for alteration/manipulation of financial data and even corporate crimes including offences and failure to comply with rules and regulations (Sec 802). With the help of these sections and sub-sections, companies under the pressure of corporate social responsibility can be encouraged to abide by the rules.

Evaluate how the SOX has reinforced investors' and creditors' confidence in companies and how these individuals can take steps to verify the accuracy of the financial statements of potential investments or loans. Provide support for your rationale.

SOX has emerged as an apt and demanded medium to expose financial manipulations in corporate activities. Its most important element which reinforces trust and confidence is its emphasis on both the companies and the auditors being accountable and transparent in their deeds. For instance, Tyco International had its shareholders' confidence shaken when financial reporting and disclosure was found below par. To build on this confidence, SOX framework was used which involved greater trade reporting, disclosure of executive salary and incentives, internal audit, financial reports certification and independence of auditor from that of the senior officials.

Different sections of SOX help individuals reaffirm the validity and reliability of financial records and data. Section 404 emphasizes on the quality of personnel appointed for maintaining requisite accounting procedures and controls. Under Sec 409, senior executives are under the obligation to check and attest financial reports before they can be revealed to the public, thereby increasing their answerability. Even for non-profit organizations, SOX

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requires them to hire additional number of personnel, if needed, to be able to present the true picture to its clients, donors and general public as their moral responsibility is greater than that of profit organizations.

References

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