How sarbannes-oxley act affects internal controls

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Sarbanes-Oxley Act which is also referred to as the public company accounting reform and investor protection act is a wider legislation passed in 2002. The SOX act has provisions touching on the standards for all the United States public firms' boards, management as well as the public accounting companies. Sarbanes-Oxley Act has been considered one of most important legislation to the America's security laws probably since the New Deal of passed in 1930s. According to Moeller (2008) it has eleven sections that clearly spell out the standards it oversees.

The provisions of this law implies that American companies as well as those with the united states listings have a legal obligation to show that they have efficient and effective mechanisms of both internal control and financial reporting. The main objective of the Act is to enhance both transparency and financial reporting disclosures that would stifle any form of corporate or financial fraud. The SOX also enforces theresponsibilityof the senior officers in ensuring accuracy as well as honesty in the disclosure of financial outcomes (Porter & Norton, 2007).

The Sarbanes-Oxley act of 2002, in sections 302 and 404 have some tough provisions regarding the internal controls. Section 302 for example calls for certification of all information relayed to the public or market as correct. This section also requires evaluation of the " disclosure controls" (that is having full control of all information issued to the public) as well as being aware of any changes that would or might affect the performance of the controls from the time evaluation was done.

It requires that every company set up certain internal procedures that would ensure honesty and accuracy in financial reporting (Kairab 2004). Section 404 on the other hand a requirement for annual evaluation of controls effectiveness and procedures for financial reporting. It further stipulates that this evaluation must be vindicated by an external auditor’s report. Moeller (2008) suggests that the external auditors are obligated to give opinion regarding the effective internal controls over financial disclosure was adhered to in every material respects by the management.

In addition to this, the external auditors are further mandated to offer an opinion on the financial statements accuracies (Ramos, 2006). Section 404 of the Sarbanes Oxley act requires both the management and the external auditor to disclose on the adequacy of the firm’s internal control over financial disclosures. It has been considered quite costly to implement because documenting as well as testing some of the vital financial manual and other related automated controls would need a lot of effort (Moeller 2008).

Benefits so Far In a research carried out in 2006 among almost 2, 500 American companies, it was found out that those firms that had no material limitation in their internal controls and those that corrected any of such limitations in appropriate and timely manner, registered a greater outcome in share prices as oppose to firms that did not. The report further showed that the profits to a compliant firm in share price were much higher than the companies’ respective costs for Sarbanes-Oxley Act section 404 (Ramos, 2006).

Conclusion Despite many attempts by PCAOB to help reduce the high cost of compliance, practice as well as guidance, much is needed to be done to improve on the management of companies vis-a-vis adherence to the Sarbanes-Oxley act. Nevertheless it is one great piece of legislation that will help to safeguard some of the America’s companies fundamental imperative in their markets which are characterizes by high level of corporate confidence as well as participation which has long been second to none.