

The sarbanes oxley act



SUBJECT: The Sarbanes Oxley ActThe Sarbanes Oxley Act was created as an attempt to prevent fraudulent behavior in financial statements. This new law, which was enacted in 2002, seeks to require greater accountability by management and boards of directors in the reporting of financial data.

Positive EffectsTwo of the positive results of the Sarbanes Oxley Act are due diligence and transparency. According to the article in BusinessWeek, ??? A few companies are discovering, to their surprise, that taking stock of internal controls can help beyond just unmasking accounting problems. By forcing executives to dig deep into how their companies get work done, Section 404 is enabling businesses to cut costs and boost productivity.??? Furthermore, the 404 documentation is turning out to be a ??? catalyst for computer-system upgrades and other efficiency moves that chief financial officers have long had on the back burner.

??? According to the BusinessWeek article, the ??? 404 exercise revealed soft spots in business management,??? which in turn is forcing managers and executives to review their internal control systems and processes. **Negative Effects**However, while most of the Sarbanes Oxley Act requirements are simple and straightforward (i. e., an independent auditor), the internal system mentioned in sections 302 and 404 seems to be little understood, and the cause of most of the confusion surrounding Sarbanes Oxley Act. Nonetheless, according to critics, it is this provision of Sarbanes-Oxley that could have done the most to prevent our current crises. For example, the current mortgage crisis could have been prevented with a proper internal control system would have required that information provided by loan applicants be verified as accurate, and established that applicants had the

means to repay the loan. An internal control system would have ensured the due diligence and transparency by investment banks and institutions buying these mortgages bundled into investment securities, which obviously didn't happen.

It would have required that those selling default swaps understand what they were insuring and that they have the means to back them up. In conclusion, although the Sarbanes Oxley Act might not have been the best response to the Enron scandal, the Sarbanes Oxley Act has brought about positive change in the financial sector. References: http://www.businessweek.com/magazine/content/05_47/b3960113.htm<http://www.ft.com/cms/s/2118145e-b564-11d9-be59-00000e2511c8>, Authorised= false. html_i_location= <http://www.ft.com/cms/s/2118145e-b564-11d9-be59-00000e2511c8.html>&i_referer= <http://www.ft.com/search?queryText= Sarbanes Oxley Act&searchType= news>http://money.cnn.com/2010/06/28/news/companies/sarbanes_oxley_supreme_court.fortune/index.htm