The sarbanes-act of 2002 and its effects on businesses

Business

For the stock market to work investors must have confidence in the financial information that publicly traded companies released to investors such asthe annual report and more importantly the data contained in the financial statements. At the turn of the century investors were faced with a series of accounting scandals that hurt the reputation of Wall Street. Three of the huge financial scandals involved Tyco, WorldCom, and the infamous Enron debacle. Due to pressures from the investment community the government intervened by creating a new regulation called the Sarbanes-Oxley Act (SOX) of 2002. The Sarbanes-Oxley Act was created by senator Paul Sarbanes and Representative Michael J. Oxley (Bergen). The purpose of this paper is to discuss the Sarbanes-Oxley Act.

The Sarbanes-Oxley Act of 2002 was created in order to raise investor confidence in the market. The SOX regulation applies only to publicly traded companies. The act increased the accountability and transparency of the financial information that public companies release. The implementation of SOX was able to reform accounting practices by improving accountability, internal controls, auditor independence and executive responsibility. The Sarbanes-Oxley Act attended a variety of accounting issues that were of great concern for the investor community. One of the first issues that the Sarbanes-Oxley Act attended was auditor independence. In the Enron scandal the firm was able to get away with the con due to the fact that its auditor, Author Anderson, was an accomplice in the fraud. In order to deal with potential situation of conflict of interest between the pubic firm and the auditors SOX created the Public Company Accounting Oversight Board (PCAOB). All companies that perform audits on public companies must be

registered with the PCAOB (Pcaobox). Auditor independence was achieved by SOX because since its inception accounting firms that perform audits cannot have other accounting contracts with the audited firm. Public firms are mandated to include an independent's auditors report within the annual report of the company. Another measure that the Sarbanes-Oxley Act created was mandatory rotations of auditing firms. Companies auditing a public company can only realize the job for four years, at that time a new auditor must take over the roll.

A great measure that the Sarbanes-Oxley mandated was the requirement of public companies to create internal control measures. Internal control measures are a great way to prevent fraud because these measures can give an early warning sign of potential irregularities or fraudulent activity. Public companies must present an internal control report within the contents of the annual report submitted to the Securities and Exchange Commission based on Section 404 of the Sarbanes-Oxley Act. One of the greatest reasons people were outrage prior to the passage of SOX was at the exuberant amounts of money CEOs and executives of companies were receiving from public companies and the fact that executive managers were not being penalized when fraudulent activity occurred in the financial statements of the companies. I consider Section 802 of the Sarbanes-Oxley Ac the biggest breakthrough because it created capital punishments for executives involved in frauds. The CEO and other top executives could receive up to 20 years in prison, while accountants involved in a fraud are also punishable with up to 10 years of prison time.

Work Cited Page

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