Impact of the sarbanes oxley act on accounting

Finance

Impacts of Sarbanes Oxley Act on Accounting Impacts of Sarbanes Oxley Act on Accounting Introduction/Issue Although auditing is the most effective tactic to get a true and fair view of the state of affairs of a company, certain audit issues such asset valuation, asset ownership, and manager representation challenge the scope of auditing. Asset valuation greatly affects the efficacy of auditing as asset statement constitutes a major part of financial reports. Auditors confront with this issue when company or person fails to present enough evidence to support specific claims. Sometimes, auditors may not deeply examine information that a filer has included. Under such a situation, the auditor is at fault. However, people normally neglect to provide supporting evidence that justifies the claims. In this situation, an official auditor will either visit the person at fault or the person will be allowed specific number of days to produce reasonable evidence. However, " new legislation in the United States known as the Sarbanes-Oxley Act has been introduced recently to ensure fair reporting of asset valuation" (Omnix Asset Management). Asset valuation before and after Sarbanes-Oxley Act Prior to the introduction of Sarbanes-Oxley Act, most firms had practiced unfair asset valuation. Asset valuation issues are mainly associated with acquisitions. Determining the cost of acquisition is a major difficulty that arises when valuing an acquisition. Normally, the amount paid to acquire the company reflects acquisition cost. However, valuation of acquisition cost would be more complicated if acquisition is made on the strength of stock rather than cash. The situation becomes worse if final price is contingent on the assets received or on the acquired entry's performance. It would be a cumbersome task for the auditor to assess the likelihood of acquired entity in meeting performance objectives. In addition, valuation of tangible and intangible assets and good will becomes a serious threat in asset valuation process. It has been identified that companies unfairly represent asset values with intent to inflate or deflate profit in final financial statements. For this purpose, firms falsify depreciation values or other asset values. Hence, shareholders and other external parties who are the primary beneficiaries of financial statements do not get the opportunity to effectively appraise company’s actual state of affairs. However, the Sarbanes-Oxley Act enforces financial accounting disclosure where organizations are needed to submit complete information of all their assets, depreciation, values, and status in any accounting period (Omnix Asset Management). In short, implementation of the Sarbanes-Oxley Act has greatly increased the accuracy and reliability of asset valuation. Impacts on accountants, auditors, and stakeholders Section 401 of the Sarbanes-Oxley Act mandates certain procedures to ensure accurate disclosures in periodic reports. This Act effectively prevents companies from unfairly making their financial position more attractive to investors. Obviously, this practice safeguards the interests of investors and other related individuals or entities. The Sarbanes-Oxley Section 802 states about criminal penalties for violation of SOX. According to section 802 (a) of the SOX, the person or group of persons who try to “ alter, destroy, cover up, falsifies a document” or a tangible object with intent to mislead the investigation or corrective administration of any matter within the jurisdiction of the United States shall be fined and imprisoned not more than 20 years or both (Cornell University Law School). This Act strictly regulates the deeds of accountants and auditors, and ensures that business practices under the jurisdiction of United States are fair and apparent. In short, the act puts a moral check on accountants and auditors and forces them to abstain from unfair practices. Institute of Internal Auditors reports that organizations have greatly improved their internal controls as a result of the SOX Act. This condition is very beneficial to stakeholders since improved internal controls would ensure high rate of return on their investment. In addition, the SOX Act increased the reliability of financial statements and hence stakeholders today get a true view of state of affairs of the concern. Conclusion From the experiences, it has been identified that auditors' failure to deliver effective suggestions becomes the root cause of more than half of bankruptcy cases. Since the legal risks, insurance, and other liability related costs associated with auditing significantly increased after the enactment of SOX, audit firms give more emphasis on client retention and acceptance decisions. The SOX act influences the auditors to use more vigorous audit process in order to issue going concern or other effective opinions to financially struggling firms. In total, auditors would not issue an unqualified report without examining each and every financial aspect of the firm. In total, the Sarbanes-Oxley Act has considerably increased the efficacy of auditing process as a whole.

References Omnix asset management. (n. d). Andrew Corporation. Retrieved from http://www. avw. co. nz/catalogue/images/andrew/docs/BR-100682-EN. pdf Destruction, alteration, or falsification of records in federal investigations and bankruptcy. (n. d). Cornell University Law School. Retrieved from http://www. law. cornell. edu/uscode/18/1519. html