

# [Sarbanes oxley act 2002](https://assignbuster.com/sarbanes-oxley-act-2002/)

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Anna Hendryx September 14, 2010 Acc. 201 Sarbanes-Oxley Act 2002 Extra Credit Report Frank Huber Introduction The Sarbanes-Oxley Act of 2002 was a piece of legislation that came into effect in 2002 which introduced major changes to the regulations of the many financial practices as well as corporate governance. This particular piece of legislation was named after Senator Paul Sarbanes and Representative Michael Oxley. In this paper I will be discussing the overview, intended purpose, and whether or not SOA was a success orfailure. Overview

The Sarbanes-Oxley Act of 2002 has been deemed as being the most significant change to securities laws since the 1934 Securities Exchange Act. The Sarbanes-Oxley Act was signed by President George W. Bush in 2002, and became effective on July 30th of that year. The Sarbanes-Oxley Act, which is often times referred to as “ SOX”, was an act that set forth records management as well as retention policies for all public companies. This particular act was enacted in response to corporate scandals that involved large corporations, the Enron scandal being one of the more popular. Anand, 2004) The Sarbanes-Oxley Act requires all financial reports to include an internal control report. What an internal control report is designed to do is to show the company’s financial data accurately. Companies have confidence in these particular reports because its adequate controls are in place at all times in order to safeguard financial data. All year-end financial reports must always contain an assessment of the effectiveness of all internal controls. (Anand, 2004) Intended Purpose The intended purpose of the Sarbanes-Oxley Act was passed in the spot light of major corporate scandals.

What a lot of these scandals had in common were that they engaged in skewed reporting of selected transactions. For example companies such as Enron, Tyco, and WorldCom misrepresented a variety of questionable transactions which ultimately resulted in very large losses for the stakeholders, of the companies, as well as a crisis in investor confidence. (Green, 2004) It was thought of by Congress that the Sarbanes-Oxley Act would address the problem by aiming to enhance corporate governance as well as to strengthen corporateaccountability.

Some of the ways that the Act does this is; it formalizes and strengthens internal checks within corporations. It has instituted various new levels of control and sigh-off which is designed to ensure that financial reporting exercises the full disclosure and that corporate governance is transacted with full transparency. (Green, 2004) Has the Sarbanes-Oxley Act been a success or a failure? This particular question is very debatable among different people. I would like to include both sides those who think that SOA has been a failure, and those who feel that SOA has been a success.

Those who tend to criticize the Act, often times claim that the Act is unnecessary, and is too expensive to implement. The most overbearing of all the criticizers of the bill claim that not only did the Sarbanes-Oxley Act fail, but also with its so called mission to ensure honest financial record keeping and disclosure but that it has also stifled new business development in the United States. Those who have deemed the SOA as being a success believe that more precise financial statements that are now being prepared for public companies allow the shareholders a greater confidence in regards to their investments. Green, 2004)

Conclusion In conclusion having the opportunity to do this paper, has really taught me a lot about the Sarbanes-Oxley Act. Before doing the research I can honestly say that I had no idea what it was. My feelings on this Act is that I would more so deem it a success more than a failure for the simple fact that it allows shareholders of large corporations that added confidence and comfort when it comes to dealing with their investments. Also, it helps the internal controls of companies which ultimately provides them more tools to stop fraudulent activity.

References: Anand, S. (2004). The Sarbanes-Oxley guide forfinanceand informationtechnologyprofessionals: by Sarbanes-Oxley group. Clifton, New Jersey: CLA Publishing. Green, S. (2004). Manager's guide to the Sarbanes-Oxley act: improving internal controls to prevent fraud. Hoboken, New Jersey: John Wiley and Sons Inc.