

Sarbanes-oxley act of 2002

Finance



Sarbanes-Oxley Act of 2002 The Security Exchange Commission (SEC) of the US wields enormous power in regulating publicly listed corporations to protect people at large. That is why it is a precondition for the companies to register with the SEC before going public. Around 2000 when some of the companies such as Enron, Tyco and WorldCom committed frauds duping public and investors, the SEC was given more powers under a new Act called the Sarbanes-Oxley Act (SOX) of 2002. The Sarbanes-Oxley Act of 2002 was drafted by Senator Paul Sarbanes and Michael Oxley. The US Congress enacted this act essentially to protect investors from the fraudulent accounting practices of corporations.

The Sarbanes-Oxley Act (SOX) aims at more financial disclosures by companies to prevent accounting frauds. Due to this act a new agency, the Public Company Accounting Oversight Board, or PCAOB came into existence. The purpose of this agency is to oversee, regulate, inspect and discipline accounting firms that conduct auditing activities of public companies. SOX act is applicable to all US registered public companies. International companies that are registered with the SEC and the accounting companies that conduct auditing services are also covered in this Act.

The Sarbanes-Oxley Act ensures corporate accountability and makes provision for penalties in case of violations. Section 302 of the Sarbanes-Oxley Act specifies corporate responsibility for financial disclosures. CEOs and CFOs are made accountable for the veracity of financial disclosures. The Act makes it mandatory to include an internal control report in all financial disclosures of companies. This is to ensure that the management is confident about the reported financial data because of necessary controls in place to verify authenticity of data. Each financial report will also conduct an

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assessment of the effectiveness of the internal controls to be certified by auditor of the firm. Section 1348 has been added in Chapter 63 of title 18 pertaining to securities fraud. Accordingly, Criminal penalties are enforceable for defrauding investors of the companies by false presentations. Criminal penalties are also enforceable under section 802 for modifying documents. Section 13 of the Securities Exchange Act of 1934 is further modified through section 409 of the Sarbanes-Oxley Act to provide Real Time Issuer Disclosures. Under the provision, any material changes in the financial condition must be provided by the companies to protect the interests of shareholders or investors. The auditor conducting an audit of the company intends to issue securities needs to maintain all records, reviews for a 5-year period from the end of the fiscal year. In the event of altering any documents, penalties under the section 802 of this Act are enforceable that may go up to 10 years of imprisonment along with fines.

Section 806 of Sarbanes-Oxley Act also protects those who help or provide evidence of fraud in public traded companies. The Act prescribes that no employee, contractor or any other person related to the company can be discriminated, suspended or harassed who performs the job of whistleblower. In case of any discriminatory behavior, whistle blower will be able to file complaint with the Secretary of Labor and seek remedies that include reinstatement of his status, compensation with interest or reliefs to make the employee free from any harm. Thus, section 806 is a significant step taken by the US authorities to protect whistle blowers from the possible harms while exposing misrepresentations and frauds of the publicly listed US companies. The provision of criminal proceedings in the Act would certainly deter management, officers and auditors to commit serious financial

offences and thus, protect people at large.

References

The Sarbanes-Oxley Act of 2002. SOX-online. com. Retrieved February 15,

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References