Sarbanesoxley paper

Law

The Sarbanes-Oxley Act - An Overview To address the concerns of financial scandal in corporate America, the Sarbanes-Oxley Act of 2002 (SOX) was signed into law President George W. Bush on July 30, 2002. In order to sustain public confidence in capital markets and protect the investors, the law was designed to permit the reviewing of legislative audit requirements for the enhancement of accuracy and reliability of corporate disclosures (" Sarbanes-Oxley Act of 2002 - SOX," n. d.). It should be noted that most of the provisions of the act applies to publicly listed companies.

With the enactment of this law new duties and penalties are imposed for non-compliance of concerned entities which includes public companies and their executives, directors, auditors, attorneys and securities analysts (" Executive Summary of The Sarbanes-Oxley Act Of 2002 P. L. 107-204," n. d.). Furthermore, the law covers significant corporate issues as follows (" Sarbanes-Oxley Act of 2002 - SOX, Investopedia" n. d.):

Establishment of a Public Company Accounting Oversight Board (PCAOB), where public companies must now be registered;

Implementation of strict auditor regulation and control by means of auditing committees and inspecting accounting firms;

Recognition of heightened corporate responsibility for any fraudulent actions taken;

Carrying out of stricter disclosure rules pertaining to company financial statements, and ethical guidelines for compliance of senior financial officers;

Implementation of guidelines for analyst conflicts of interest;

Stipulation of authorities available to the Commission and the Federal Court and required broker and dealer qualifications; and

Enforcement of methods for punishment of activities deemed criminal by the

SOX.

Effect on Internal Controls of Companies

In view of the provisions of the SOX, companies covered are required to submit report on their internal controls to ensure that they are compliant with the law in general. As per Section 404 of the Act, Chief Executive Officers and Chief Financial Officers must file Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the forms of which are published by the Securities and Exchange Commission. (" Sarbanes-Oxley Act of 2002 - SOX," n. d.)

Moreover, the said section requires management to document and evaluate the effectiveness of their internal controls over financial reporting. As part of the reports, companies must provide verification that their internal controls have been appropriately assessed. Such provisions present new challenges to businesses, particularly in terms of documentation of control procedures related to information technology. In this regard, this provision has had serious effects on those companies deemed to have substantial weaknesses in internal control. (" Sarbanes-Oxley Act of 2002 - SOX," n. d.)

In line with the above provision, the PCAOB has issued guidelines on how management should render their opinion on internal control matters. The PCAOB guidelines impel management to use an internal control framework which describes how to assess the control environment, determine control objectives, undertake risk assessments, and identify controls and monitor compliance. In this regard, most companies have adapted COSO (Committee of Sponsoring Organizations of the Treadway Commission) as the standard model when choosing an internal control framework.

References

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