

# Why sox and pcaob came into existence

Finance



Why SOX and PCAOB Came Into Existence Why SOX and PCAOB Came into Existence Business failures, which come as a result of corporate frauds, starting with Enron, lead to the introduction of the Sarbanes Oxley Act of the year 2002. When these corporate failures are implicated, they lead to losses to shareholders, the investors' confidence in the capital market, pension benefits losses to employees, and losses to the service providers, vendors, customers and other business partners (Northrup, 2009). However, this act was initiated to protect shareholders by facilitating dependability of the financial reporting so to restore investors' confidence in the capital market. Apart from this, it needs that management evaluates the efficiency of internal control over financial reporting. Additionally, it requires independent auditor attest to, and report on management assessment of the internal controls.

According to Northrup (2009), there are several implications of SOX on the accounting profession. One of the implications is that auditors of public companies are required to issue three opinions; an opinion on management's assessment of internal controls over financial reporting, a view on whether the financial statements are presented fairly and their own appraisal about the efficiency of internal controls over financial reporting. The main intension of SOX is to protect investors by improving reliability and accuracy of corporate disclosure that are made pursuant to the security rules, and for other reasons. Objective of PCAOB is to oversee the auditors of governmental organizations and companies so as to protect the interest of the preparation of informative, independent and fair audit reports.

Moeller (2008) asserts that the rules inflicted on the accounting occupation by the Public Company Accounting Oversight Board (PCAOB) require

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sovereign auditor to evaluate the efficiency of the internal controls over financial reporting by the use of a method of recognition. It releases Audit Standard No. 2 which describes internal controls over financial reporting, and management responsibilities which are being set out. This audit standard emphasize on the importance of the Environment control and Anti-Fraud Programs and Controls in assessing internal control over financial reporting. The PCAOB develop some issues which are related to the registration and reporting of public accounting firms, inspections, professional standards, investigations and adjudications.

SOX and PCAOB have recognized the significance of the assessment of the Control Environment and Anti-Fraud Programs and control to the general evaluation of internal controls over financial reporting. Many governmental companies appear to be aiming at Anti-Fraud Programs and Controls during the process level with no considerations of the high level control such as “tone at the top,” culture, compensation, incentive and attitude towards management override. Because of this, Forensic accountant are brought, who are specifically trained and highly experienced at recognizing the red flags of fraud and environmental factors that contribute to fraud, as well as in depth understanding of prevention of fraud and detection controls (Anand, 2011). Controls over embezzlement of asserts, the risk evaluation procedure, reporting mechanism for complaints, and the code of ethics which are related to questionable accounting or auditing matters as a key fraud of prevention controls are identified by PCAOB.

Furthermore, forensic accountants are experienced in performing fraud risk assessment task, which include an evaluation of soft controls such as culture, ethics, and tone at the top, communication and reward

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management. A review of the internal control deficiencies which was carried out by public companies indicated that there are remarkably few companies, which are disclosing weakness in the control environment, in spite of the increased reporting of corporate fraud in the marketplace. Therefore, training and education are both necessary to get the independent auditors and the governmental organizations and companies up the curve of learning with respect to the evaluation of the control environment, Anti-Fraud Programs and controls if SOX 404 is to meet the goal of advancing the dependability of financial reporting (Anand, 2011). However, inclusion of a forensic accountant on management SOX advisory team and the PCAOB team would significantly improve the quality of the control environment assessments and thereby increase reliability of financial reporting.

In conclusion, the introduction of SOX and PCAOB view on Anti Fraud Programs and Control Environment, it is clear that protection and recognition of deceptive financial reporting is a major goal of the SOX.

#### References

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