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QUESTION: WHAT ARE THE MAIN GOVERNMENT ASPECTS OF THE SARBANES‑OXLEY ACT.

 The Sarbanes-Oxley Act was enacted in July 2002 to restore investor’s confidence in the financial market and close the loopholes that allows public companies defraud investors. This act has profound effect on corporate governance in the U.S, The Sarbanes-Oxley act requires public companies to strengthen audit committees, performs internal control tests and strengthen disclosure. The act also establishes stricter criminal penalties for security fraud and changes how public accounting firm.

 Before Sarbanes­-Oxley act the federal regime comprised disclosure requirement instead of substantive corporate governance mandate, which were deemed to be states are of jurisdiction and accordingly left to state corporate law, SOX act changes this mechanism by making explicit provision for the SEC(securities and exchange commission).

 One direct effect of the Sarbanes-Oxley act on corporate governance is the strengthening of public companies (audit companies). The audit committee members must be independent of management, and gain new responsibilities such as approving numerous audit and non-audit services, selecting and overseeing external auditors and handling complaints regarding the managements accounting practices.

 The Sarbanes-Oxley act imposes harsher punishment for obstructing justice and securities fraud, mail fraud and wire fraud. The maximum sentence term for securities fraud has been increased to 25 years and the maximum prison time for obstruction of justice to 20 years. SOX act also significantly increases fines for public companies committing the same offense.

 The Sarbanes-Oxley act established the public company accounting oversight board, which promulgates standards for public accountants to limit their conflicts interest and requires lead audit partner rotation every five years for the same public company.

 SOX act also promotes fairness to shareholders, fairness to stakeholders, disclosure and accountability, securities regulations, etc. The act changes management responsibility for financial reporting.