Name: Okpola Ugbolochi St-John

Matric No: 17/SMS02/044

Department: Accounting

Course: ACC205

**Answer**

**Main Governance Aspect of the Sarbanes Oxley Act of 2002**

1) **Public Company Accounting Oversight Board(PCAOB):** The public company oversight Board was created to oversee the audit of public companies. This board sets standards and rules for audit reports. All accounting firms that audit public companies must register with the Oversight Board. It also inspects, investigates, and enforces compliance from these registered firms. Title I consists of nine sections and establishes the Public Company Accounting Oversight Board, to provide independent oversight of public accounting firms providing audit services ("auditors"). It also creates a central oversight board tasked with registering auditors, defining the specific processes and procedures for compliance audits, inspecting and policing conduct and quality control, and enforcing compliance with the specific mandates of SOX. The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection. The Sarbanes-Oxley Act of 2002, PDF which created the PCAOB, required that auditors of U.S. public companies be subject to external and independent oversight for the first time in history. Previously, the profession was self-regulated. The five members of the PCAOB Board, including the chairman, are appointed to staggered five-year terms by the Securities and Exchange Commission, after consultation with the chair of the Board of Governors of the Federal Reserve System and the secretary of the Treasury. The SEC has oversight authority over the PCAOB, including the approval of the Board's rules, standards, and budget.

2) **Auditors Independence:** refers to the independence of the internal auditor or of the external auditor from parties that may have a financial interest in the business being audited. Independence requires integrity and an objective approach to the audit process. The concept requires the auditor to carry out his or her work freely and in an objective manner. Auditors now have a list of non-audit services they can't perform during an audit. The Act also imposes a one-year waiting period for audit firm employees who leave an accounting firm to become an executive for a former client. In addition, the former firm must wait one year before performing any audit services for the new employer. Title II consists of 9 sections and establishes standards for external auditor independence, to limit conflicts of interest. It also addresses new auditor approval requirements, audit partner rotation, and auditor reporting requirements. It restricts auditing companies from providing non-audit services (e.g., consulting) for the same clients.

3) **Enhanced Financial Disclosures:** Title IV consists of nine sections. It describes enhanced reporting requirements for financial transactions, including off-balance-sheet transactions, pro-forma figures and stock transactions of corporate officers. It requires internal controls for assuring the accuracy of financial reports and disclosures, and mandates both audits and reports on those controls. It also requires timely reporting of material changes in financial condition and specific enhanced reviews by the SEC or its agents of corporate reports. Transactions and relationships that are off-balance sheet but that may affect financial status now must be disclosed. Personal loans from a corporation to its executives are now largely prohibited. Annual reports must include a report stating the management is responsible for the internal control structure and procedures for financial reporting.

4) **Corporate Responsibility:** Title III consists of eight sections and mandates that senior executives take individual responsibility for the accuracy and completeness of corporate financial reports. It defines the interaction of external auditors and corporate audit committees, and specifies the responsibility of corporate officers for the accuracy and validity of corporate financial reports. It enumerates specific limits on the behaviors of corporate officers and describes specific forfeitures of benefits and civil penalties for non-compliance. For example, Section 302 requires that the company's "principal officers" (typically the Chief Executive Officer and Chief Financial Officer) certify and approve the integrity of their company financial reports quarterly.

5) **Analyst Conflicts of Interest:** Conflict of interest disclosures now need to be made by research analysts who make public appearances or offer research reports. These disclosures need to contain certain information about the company that is the subject of the appearance or report. The analyst has to report whether he or she holds any securities in the company or received corporate compensation. Brokers and dealers have to disclose if the public company is a client. Title V consists of only one section, which includes measures designed to help restore investor confidence in the reporting of securities analysts. It defines the codes of conduct for securities analysts and requires disclosure of knowable conflicts of interest.

6) **Corporate and Criminal Fraud Accountability**: Altering, destroying, concealing or falsifying records or documents with the intent to influence a federal investigation or bankruptcy case is subject to fines and up to 20 years’ imprisonment. New audit work papers must be retained for five years. Any person who knowingly defrauds shareholders of publicly traded companies is subject to fines or imprisonment. A provision within the Sarbanes-Oxley Act of 2002 that provides for criminal penalties for securities fraud and protects employees of publicly traded companies from punitive actions from their employers for reporting Securities & Exchange Commission (SEC) violations and/or shareholder fraud. Title VIII consists of seven sections and is also referred to as the "Corporate and Criminal Fraud Accountability Act of 2002". It describes specific criminal penalties for manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protections for whistle-blowers.

7) **White Collar Crime Penalty Enhancement:** Title IX consists of six sections. This section is also called the "White Collar Crime Penalty Enhancement Act of 2002". This section increases the criminal penalties associated with white-collar crimes and conspiracies. It recommends stronger sentencing guidelines and specifically adds failure to certify corporate financial reports as a criminal offense.

8) **Studies and Reports:** Title VII consists of five sections and requires the Comptroller General and the SEC to perform various studies and report their findings. Studies and reports include the effects of consolidation of public accounting firms, the role of credit rating agencies in the operation of securities markets, securities violations, and enforcement actions, and whether investment banks assisted Enron, Global Crossing, and others to manipulate earnings and obfuscate true financial conditions.

9) **Commission Resources and Authority:** Title VI consists of four sections and defines practices to restore investor confidence in securities analysts. It also defines the SEC's authority to censure or bar securities professionals from practice and defines conditions under which a person can be barred from practicing as a broker, advisor, or dealer.

10) **Attorneys' Responsibilities:** There are now minimum standards of professional conduct for attorneys representing public companies before the SEC. These include a rule requiring an attorney to report securities violations to the CEO.Securities laws like Sarbanes-Oxley are complicated and confusing. But failing to follow the Act's new restrictions and procedures can result in severe penalties. For a copy of the Act and for more information on the SEC,

**Sources**

-https://en.wikipedia.org/wiki/Sarbanes%E2%80%93Oxley\_Act

-https://pcaobus.org/About

-https://www.legalzoom.com/articles/corporate-accountability-a-summary-of-the-sarbanes-oxley-act