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After a long period of corporate scandals in the united states from 2002-2002, the Sarbanes Oxley act was enacted in the year July 2002 to restore investors’ confidence in the financial market and close loopholes that allowed public companies to defraud investors. The act had a profound effect on corporate in governance in the U.S. The Sarbanes Oxley requires public companies to strengthen audit committees, perform internal controls tests, make directors and officials personally liable for accuracy of financial statement, and strengthen disclosure.

One direct effect on the Sarbanes Oxley act on corporate governance is the strengthening of public companies audit committees. The audit committees receive wide leverage in overseeing the top management accounting decisions. The audit committee members must be independent on management, and gain new responsibilities such as approving numerous audit and non-audit services, selecting and overseeing external auditors, and handling complaint’s regarding the managements accounting practices.

The Sarbanes Oxley act charges managements responsibility for financial reporting significantly. The act requires that top managers personally certify the accuracy of financial reports. If a top manager knowingly or willfully makes a false, certification he can face 10 to 20 years in prison. If the company is forced to make a required accounting restatement due to managements misconduct, top managers can be required to give up their bonuses or profits made from selling the company’s stock. If the director or officer is convicted of a securities law violation, he can be prohibited from serving in the same role at the public company.

The Sarbanes Oxley act significantly strengthens disclosure requirement. Public companies are required to disclose any material off-balance sheet arrangements, such as operating leases and special purposes entities. The company is also required to disclose any pro forma statements and hoe they would look under the generally accepted accounting principles. Insiders must report their stock transactions to the securities and exchange commission within two business days as well.

The Sarbanes Oxley act imposes harsher punishment for obstructing justice and securities fraud and wire fraud. The maximum sentence term for securities has increased to 25 years, and the maximum prison time for obstruction of justice to 20 years. The act increased the maximum penalties for mail and wire fraud from five to 20 years of prison time. Also, the Sarbanes Oxley act significantly increases fines for public companies committing the same offenses.

Finally, the Sarbanes Oxley act established the public company accounting oversight board which promulgates standards for public accountants, limits their conflict of interest and requires lead audit partner rotation every five years for the same public company.