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ACC 205 Assignment: What are the main governance aspects of the Sarbanes-Oxley Act? *Give a summary.*

After a prolonged period of corporate scandals in the United States from 2000 to 2002, the Sarbanes-Oxley Act (SOX) was enacted in July 2002 to restore investors' confidence in the financial markets and close loopholes that allowed public companies to defraud investors. The act had a profound effect on corporate governance in the U.S. The Sarbanes-Oxley Act requires public companies to strengthen audit committees, perform internal controls tests, make directors and officers personally liable for accuracy of financial statements, and strengthen disclosure. The Sarbanes-Oxley Act also establishes stricter criminal penalties for securities fraud and changes how public accounting firms operate.

* The most prominent change SOX engendered was a shift from a perspective that the board serves management to a perspective that management is working for the board. SOX also recognized that director independence is necessary for the board to serve effectively as a check on management. It allows for director liability if the board fails to exercise the appropriate oversight. Steve Blonder, a principal at Much Shelist, says that in the wake of SOX, companies are stronger and subject to additional oversight from more proactive board members with greater technical expertise. In general, he says, the increased demands and need for independence has led to greater diversity among the people who serve on boards. Today, the audit committee of the board has greater powers and many more responsibilities, such as working with external auditors of internal controls.
* SOX required companies to disclose whether their senior executives and financial officers followed a code of ethics. If they did not have one, they had to explain why. Around the same time, both the New York Stock Exchange and Nasdaq adopted rules requiring that listed companies adopt and disclose a code of conduct. While the SOX rule did not require adoption of a code, it made clear that the SEC expected one.
* The Sarbanes-Oxley Act established the Public Company Accounting Oversight Board (PCAOB), which promulgates standards for public accountants, limits their conflicts of interest and requires lead audit partner rotation every five years for the same public company. Accounting firms that audit public companies must register with the PCAOB, and are subject to annual or triennial agency inspections, depending on their size. Currently the Board is in various stages of exploration of new initiatives in the wake of the financial crisis. They include new ways of promoting the transparency of audits, updating audit report formats, expanding foreign inspections and ensuring the independence of auditors. This includes a measure to require mandatory firm rotation, or term limits, between a public company and its audit firm.
* The Sarbanes-Oxley Act changes management's 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 management's 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.
* Finally, the costliest part of the Sarbanes-Oxley Act is Section 404, which requires public companies to perform extensive internal control tests and include an internal control report with their annual audits. Testing and documenting manual and automated controls in financial reporting requires enormous effort and involvement of not only external accountants, but also experienced IT personnel. The compliance cost is especially burdensome for companies that heavily rely on manual controls. The Sarbanes-Oxley Act has encouraged companies to make their financial reporting more efficient, centralized and automated. Even so, some critics feel all these control makes the Act expensive to comply with, distracting personnel from the core business and discouraging growth mandatory firm rotation, or term limits, between a public company and its audit firm