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WHAT ARE THE MAIN GOVERNANCE ASPECTS OF THE SARBANES-OXLEY ACT

ANSWER.

The Sarbanes-Oxley Act {the act} was passed in July 2002 in response to the rash of real and perceived failures in corporate governance and financial disclosure, the Act is also known as Sarbox or SOX. Its primary emphases were to enhance the quality and transparency of corporate disclosure and force changes in the auditing of publicly traded companies. SOX corporate governance guidelines include: an increase in the direct responsibility of senior corporate managers for the quality of their company’s financial reports and disclosures, limitations on the types and nature of services that auditors can provide to a publicly traded, audit client. The SOX 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 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 imprisonment. The Sarbanes-Oxley Act also strengthens the 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 how they would look under the Generally Accepted Accounting Principles {GAAP}.Insiders must also report their stock transactions to the Securities and Exchange Commission {SEC} within two business days. The most important part of the Sarbanes-Oxley Act is Section 404, which requires that the public companies should perform extensive internal control tests and include an internal control report with their annual audits. The Sarbanes-Oxley Act has encouraged companies to make their financial reporting more efficient, centralized and automated. The Sarbanes-Oxley Act established the Public Company Accounting Oversight Board, 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.