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ASSIGNMENT

Q1. What are the main governance aspects of the Sarbanes-Oxley Act. Give a summary.

Answer

SARBANES-OXLEY ACT

The Sarbanes-Oxley Act 202 also known as the “Public company Accounting Reform and Investor Protection Act”(in the senate) and “Corporate and Auditing Accountability, Responsibility, and Transparency Act”( in the house) and more commonly called Sarbanes-Oxley, in a united state federal law that set new or expanded requirement for all U.S public company boards, management and public accounting firms. A number of provisions of the Act also apply to privately held companies, such as the willful destruction of evidence to impede a federal investigation.

WHAT IS IMPACT OF SARBANES-OXLEY ACT?

After a prolonged period of corporate scandals in the United states from 2000 to 2002 , the Sarbanes-Oxley Act was enacted in July 2002 to restore investors’ confidences in the financial market and close loopholes that allowed public companies to defraud investors. The Act had a profound effect on corporate governances in the U.S. The Sarbanes-Oxley Act requires public companies to strengthen audit committees , perform internal control tests, make directors and officers personally liable for accuracy of financial statement , and strengthen disclosure. The Sarbanes-Oxley Act also establishes stricter criminal penalties for securities fraud and changes how public accounting firms operate.

WHAT DOES THE SARBANES-OXLEY ACT DO?

One direct effect of the Sarbanes-Oxley Act on corporate governance is the strengthening of public companies audit committees. The audit committee receives wide leverage in overseeing decisions. 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 management’s accounting practices.