NAME: ABDUL M KAREEMAT

DEPARTMENT: ACCOUNTING

MATRIC NO: 17/SMS02/001

COURSE: ACC 205

**The impact of Sarbanes- Oxley**

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’ confidence in the financial markets and close loopholes that allow public companies to defraud investors. The act had a profound effect on Corporate governance in the US. The Sarbanes-Oxley Act requires public companies to strengthen their audit committees, perform internal control 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 security Fraud and changes how public accounting firms operate.

Creating the Public Accounting Oversight Board & Increased Corporate Responsibility- 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 Sarbanes –Oxley Act known as Sarbox or SOX was passed in July 2002 in response to the rash of real and perceived failures in corporate governance and financial disclosure. Its primary emphases were to enhance the quality and transparency of corporate disclosure and force changes in their auditing of publicly traded companies. These objectives were achieved in a number of ways by the passing og the Sarbanes Oxley Act. SOX corporate governance include :

* An increase in the direct responsibility of senior corporate managers for the quality of their company’s financial reports and disclosures.
* An Increase in the audit committee’s independence from the company and its responsibility regarding the company’s auditors.
* Limitations on the types and nature of services that auditors can provide to a publicly traded, audit client.
* The creation of an independent Board to oversee auditing practices regarding publicly traded companies.

The SOX Act increases the direct responsibility of senior corporate managers for the quality of their company’s financial reports and disclosures.

Among other things, the Sarbanes Oxley Act:

* Requires the chief Executive Officer and the Chief Financial officer to certify that the company’s financial fairly present the company’s financial condition.
* Requires forfeiture and return to the company of any bonus, stock or option compensation received in the twelve months following a misleading financial statement that subsequently results in a restatement.
* Requires accelerated reporting by insiders- such transaction must now be reported by the second day following the transaction.
* Precludes corporate loans to officers and directors.
* Establishes a new federal crime for securities fraud, the corporate and criminal fraud Accountability Act of 2002, which includes a lengthy prison term upon conviction.

**What Does The Sarbanes-Oxley Act Do?**

The following are the things The Sarbanes-Oxley Act Do:

* One direct effect of the Sarbanes-Oxley Act on corporate governance is the strengthening of public companies' [audit committees](https://www.investopedia.com/terms/a/audit-committee.asp). That is, the audit committee receives wide leverage in overseeing the top management's accounting decisions. The audit committee members must also 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](https://www.investopedia.com/terms/a/accounting-practice.asp).
* The Sarbanes-Oxley Act changes management's responsibility for financial reporting significantly, which 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](https://www.investopedia.com/terms/r/restatement.asp) due to management's misconduct, top managers can be required to give up their bonuses or profits made from selling the company's stock. However, 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 the disclosure requirement. Public companies are required to disclose any material [off-balance sheet](https://www.investopedia.com/terms/o/off-balance-sheet-obs.asp) arrangements, such as operating leases and [special purposes entities](https://www.investopedia.com/terms/s/spv.asp). The company is also required to disclose any pro forma statements and how they would look under the **[Generally Accepted Accounting Principles (GAAP).](https://www.investopedia.com/terms/g/gaap.asp)** Insiders must report their stock transactions to the [**Securities and Exchange Commission (SEC)**](https://www.investopedia.com/terms/s/sec.asp) within two business days as well.
* The Sarbanes-Oxley Act imposes harsher punishment for obstructing justice and securities fraud, mail fraud and [wire fraud](https://www.investopedia.com/terms/w/wirefraud.asp). The maximum sentence term for securities fraud has increased to 25 years, and the maximum prison time for obstruction of justice to 20 years. The act increased the maximum penalties reason been that is 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 offense.
* Finally, the Sarbanes-Oxley Act established the [Public Company Accounting Oversight Board](https://www.investopedia.com/terms/p/pcaob.asp), which promulgates standards for public accountants, limits their [conflicts of interest](https://www.investopedia.com/terms/c/conflict-of-interest.asp) and requires lead audit partner rotation every five years for the same public company.