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**THE MAIN GOVERNANCE ASPECTS OF THE SARBANES-OXLEY ACT**

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 US. 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 statements and strengthen disclosure. The Sarbanes-Oxley Act also establishes stricter criminal penalties for securities fraud and changes how public accounting firms operate.

The act which is also known as “Public Company Accounting Reform and Investor Protection Act” (in the senate) and Corporate and Auditing Accountability, Responsibility and Transparency Act (in the house) is a United States federal law that set new or expanded requirements for all US public company Boards and Accounting firms.

Its primary emphases were to enhance the quality and transparency of corporate disclosure and force changes in the auditing of publicly traded companies. These objectives were achieved in a number of ways by passing of the Sarbanes-Oxley Act.

The Sarbanes-Oxley Act significantly 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 report their stock transactions to the Securities and Exchange Commission (SEC) within two days as well.

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 the top management’s decisions. The audit committee members must be independent of management and gain new responsibilities such as improving numerous audit and non-audit services, selecting and overseeing external auditors and handling complaints regarding the management’s accounting practices. The Act changes management’s responsibility for financial reporting significantly

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.
* An 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.

While there was an initial there was an initial corporate outcry, particularly about the expense of compliance which is proving valid, corporate attitudes generally have shifted.

The primary governance objectives of SOX are to promote

* **Fairness to Shareholders:** SOX requires or promotes governance provisions that protect shareholder rights and allow shareholders to exercise those rights through governance procedures, such as shareholder meetings
* **Fairness to Stakeholders**: SOX requires or promotes governance provisions that take into consideration the interests of employees, suppliers, buyers and the local community.
* **Heightened Director and Board responsibilities**: SOX places specific requirements on the composition of board of directors including skill and independence requirements. Notably in an effort to promote director independence in decision making, SOX requires corporations to employee committees for special purposes.
* **Director and Office ethics**: SOX imposes additional obligations on corporations to establish and maintain ethical standards for officer and director conduct and decision making.

-Example, SOX prohibits the corporation from making personal loans to corporate executives or their families.

* **Disclosure and Accountability**: SOX places requirements on boards to increase transparency in corporate governance practices. This includes implementing procedures for ensuring accurate accounting practices and public disclosure mechanisms.

NOTE SOX requires internal review procedures and independence of external auditors that report directly to the corporation’s independent audit committee. Further SOX requires that key officers of the corporation (the CEO and CFO) certify the accuracy of the financial statements and that the internal financial controls are in place and subject to the independent audit committee’s review.

* **Accounting and Disclosure Procedures**: SOX imposed a number of reforms on the accounting and financial reporting requirements of public companies