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

When corporate names (Enron, Arthur Andersen, WorldCom, and Tyco) become synonymous with scandal and greed, public confidence wavers. The Sarbanes-Oxley Act was signed into law on July 30, 2002 in response to corporate scandals.

The Sarbanes–Oxley Act, enacted July 30, 2002, also known as the "Public Company Accounting Reform and Investor Protection Act" (in the [Senate](https://en.wikipedia.org/wiki/United_States_Senate)) and "Corporate and Auditing Accountability, Responsibility, and Transparency Act" (in the [House](https://en.wikipedia.org/wiki/United_States_House_of_Representatives)) and more commonly called Sarbanes–Oxley, Sarbox or SOX. The act is focused on financial reporting on the need to maintain a strong control environment, strong internal control over financial reporting is fundamental to providing reliable financial statements.

We’ll take a closer look at these main areas of the Act:

(1.) Increased auditor independence (2.) greater financial disclosures (3.) the oversight board (4.) conflict of interest disclosures for analysts (5.) sharpened responsibilities for attorneys (6.) corporate and criminal fraud accountability (7.) Commission Resources and Authority

1. **Increased Auditor Independence**

It establishes standards for external auditor independence that became effective in May 2003, to limit conflicts of interest. It also addresses new auditor approval requirements, audit partner rotation, and auditor reporting requirements. It restricts auditing companies from providing non-audit services for the same clients. Auditors now have a list of non-audit services they can't perform during an audit. The Act also imposes a one-year waiting period for audit firm employees who leave an accounting firm to become an executive for a former client. In addition, the former firm must wait one year before performing any audit services for the new employer. Finally, the audit committee must establish procedures for the receipt, retention, and treatment of complaints regarding accounting or auditing issues, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Act requires the auditor for a public company to report certain information to the audit committee on a timely basis, including all critical accounting policies used by the company, alternative accounting treatments discussed with management, and other written communications with management.

1. **Greater financial disclosures**

Sarbanes-Oxley Act imposed a number of reforms on the accounting and financial reporting requirements of public companies. Transactions and relationships that are off-balance sheet but that may affect financial status now must be disclosed. Annual reports must include a report stating the management is responsible for the internal control structure and procedures for financial reporting. It describes enhanced reporting requirements for financial transactions, including pro-forma figures and stock transactions of corporate officers. It requires internal controls for assuring the accuracy of financial reports and disclosures, and mandates both audits and reports on those controls. It also requires timely reporting of material changes in financial condition and specific enhanced reviews by its agents of corporate reports.

1. **Public Company Accounting Oversight Board (PCAOB)**

The act created the independent Public Company Accounting Oversight Board (PCAOB) in 2002 to oversee the independent auditors of public companies, replacing a self-regulatory scheme and mandating true independence. All accounting firms that audit public companies must register with the Oversight Board and are subject to annual or triennial agency inspections, depending on their size. The Board’s inspection powers mean the audits of companies’ internal controls are subject to scrutiny. It also inspects, investigates, and enforces compliance from these registered firms. It also creates a central oversight board tasked with registering auditors, defining the specific processes and procedures for compliance audits, inspecting.

1. **Oversight Board**

The Public Company Accounting Oversight Board was created to oversee the audit of public companies. This board sets standards and rules for audit reports. This board will have supervisory powers over the audit process of publicly traded companies. Thus it is not intended to conflict with state regulation and supervision of accountants serving private clients. It will be made up of five persons each appointed for a five year term, two of whom will be CPAs and three of whom cannot be CPAs. All accounting firms that audit public companies must register with the Oversight Board. It also inspects, investigates, and enforces compliance from these registered firms.

1. **Attorneys' Responsibilities**

There are now minimum standards of professional conduct for attorneys representing public companies before the SEC. These include a rule requiring an attorney to report securities violations to the CEO.

1. **Corporate and criminal fraud accountability** **Act of 2002**

Altering, destroying, concealing or falsifying records or documents with the intent to influence a federal investigation or bankruptcy case is subject to fines and up to 20 years imprisonment. New audit workpapers must be retained for five years. Any person who knowingly defrauds shareholders of publicly traded companies is subject to fines or imprisonment. It describes specific criminal penalties for manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protections for whistle-blowers.

1. **Commission Resources and Authority**

This act defines practices to restore investor confidence in securities analysts. It also defines the SEC's authority to censure or bar securities professionals from practice and defines conditions under which a person can be barred from practicing as a broker, advisor, or dealer.