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Sarbanes-Oxley Act of 2002 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, Sarbox or SOX, is a United States federal law that set new or expanded requirements for all U.S. 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. The bill, which contains eleven sections, was enacted as a reaction to a number of major corporate and accounting scandals, including Enron and WorldCom. The sections of the bill cover responsibilities of a public corporation’s board of directors, adds criminal penalties for certain misconduct, and requires the Securities and Exchange Commission to create regulations to define how public corporations are to comply with the law.

**Background**

In 2002, Sarbanes-Oxley was named after bill sponsors U.S. Senator Paul Sarbanes and U.S. Representative Michael G. Oxley. As a result of SOX, top management must individually certify the accuracy of financial information. In addition, penalties for fraudulent financial activity are much more severe. Also, SOX increased the oversight role of boards of directors and the independence of the outside auditors who review the accuracy of corporate financial statements.

The bill, which contains eleven sections, was enacted as a reaction to a number of major corporate and accounting scandals, including those affecting Enron, Tyco International, Adelphia, Peregrine Systems, and WorldCom. These scandals cost investors billions of dollars when the share prices of affected companies collapsed, and shook public confidence in the US securities market .

The act contains eleven titles or sections, ranging from additional corporate board responsibilities to criminal penalties, and requires the Securities and Exchange Commission (SEC) to implement rulings on requirements to comply with the law. Harvey Pitt, the 26th chairman of the SEC, led the SEC in the adoption of dozens of rules to implement the Sarbanes-Oxley Act. It created a new, quasi-public agency, the public Company Accounting Oversight Board , or PCAOB, charged with overseeing, regulating, inspecting, and disciplining accounting firms in their roles as auditors of public companies. The act also covers issues such as auditors independence, corporate governance, internal control assessment, and enhanced financial disclosure. The nonprofit arm of Financial Executives International(FEI), Financial Executives Research Foundation(FEFR),completed extensive research studies to help support the foundations of the act. The act was approved in the house by a vote of 423 in favor, 3 opposed, and 8 abstaining and in the senate with a vote of 99 in favor and 1 abstaining. President George W. Bush signed it into law, stating it included the most far reaching reforms of American business practices since the time of Franklin D. Roosevelt. The era of low standards and false profits is over, no boardroom in America is above or beyond the law.

**Major Elements**

1. Public Company Accounting Oversight Board (PCAOB)

Title 1 consists of nine sections and establishes the Public Company Accounting Oversight Board, to provide independent oversight of public accounting firms providing audit services. It also creates a central oversight board tasked with registering auditors, defining the specific processes and procedures for compliance audits, inspecting, and policing conduct and quality control, and enforcing compliance with the specific mandates of SOX.

2. Auditor Independence

Title 2 consists of 9 sections and establishes standards for external auditor independence, 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.

3. Corporate Responsibility

Title 3 consists of eight sections and mandates that senior executives take individual responsibility for the accuracy and completeness of corporate financial reports. It defines the interaction of external auditors and corporate audit committees, and specifies the responsibility of corporate officers for the interaction of external auditors and corporate audit committees, and specifies the responsibility of corporate officers for the accuracy and validity of corporate financial reports.

4. Enhanced Financial Disclosure

The IV consists of nine sections. It describes enhanced reporting requirements for financial transactions, including off-balance-sheet transactions, pro forma figures and stock transactions of corporate officers. It requires internal controls for assuring the accuracy of financial reports and disclosures, and mandates audits and reports on those controls. It also requires timely reporting of material changes in financial condition and specific enhanced reviews by the SEC or its agents of corporate reports.

5. Analyst Conflicts of Interest

Title 5 consists of only one section, which includes measures designed to help restore investor confidence in the reporting of securities analysts. It defines the codes of conduct for securities analysts and requires disclosure of knowable conflicts of interest.

6. Commission Resources and Authority

Title 6 consists of four sections and 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 e barred from practicing as a broker, advisor, or dealer

7. Studies and Reports

Title 7 consists of five sections and requires the comptroller general and SEC to perform various studies and report their findings. Studies and reports include the effects of consolidation of public accounting firms, the role of credit rating agencies in the operation of securities markets, securities violations, and enforcements actions, and whether investment anks assisted Enron, Global Crossing, and others to manipulate earnings and obfuscate true financial conditions.

8. Corporate and Criminal Fraud Accountability

Title 8 consists of seven sections and is also referred to as the corporate and criminal fraud accountability act of 2002. It describes specific criminal penalties for manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protection for whistle-blowers.

9. White Collar Crime Penalty Enhancement

Title 9 consists of six sections. This section is also called the white Collar Crime Penalty Enhancement Act of 2002. This section increases the criminal penalties associated with white-collar crimes and conspiracies. It recommends stronger sentencing guidelines and specifically guidelines and specifically adds failure to certify corporate financial reports as a criminal offense.

10. Corporate Tax Returns

Title 10 consists of one section 1001 states that the Chief Executive Officer should sign the company tax reurn.

11. Corporate Fraud Accountability

Title 11 consists of seven sections. Section 1101 recommends a name for this title as corporate fraud accountability act of 2002. It corporate fraud and records tampering as criminal offenses and joins those offenses to specific penalties. It also revises sentencing guidelines and strengthens their penalties. This enables the SEC to resort to temporarily freezing transactions or payments that have been deemed large or unusual.

References : https:/en.wikipedia.org/wiki/Sarbanes-Oxley\_Act