

SARBANES-OXLEY ACT – A BRIEF INTRODUCTION

In the year 2002, the Sarbanes-Oxley Act came into force in response to corporate financial scandals that emerged due to Enron, Tyco, Global Crossing, Arthur Andersen and WorldCom to protect shareholders and the public from accounting errors and unethical business practices. It brought major changes to the regulation of financial practice and corporate governance.

The Act covers issues related to creating a public company accounting oversight board, auditor independence, corporate responsibility and improved financial disclosure. The Act states that all business records, even electronic records and electronic messages, must be saved for nearly five years and not less. The results for non-compliance could be fines, imprisonment, or both. For both large and small organizations the Act is mandatory, so also compliance, for the Act emphasizes on information transparency and accountability.

Senator Paul Sarbanes and Representative Michael Oxley are the main architects, thus the name. The Act is organized into eleven titles and sections 302, 404, 401, 409, 802 and 906 are the most significant with respect to compliance and section 404 seen is most of important for internal control; the laws deal on corporate board responsibilities to criminal penalties. The Security and Exchange Commission (SEC) is required to implement rulings on requirements to comply with the Act.

The section 404 is cause of concern within corporate audit committees and internal audit departments, largely due to deadlines for compliance as the Act is new. Some companies have yet completed a Section 404 assessment of internal control. Internal auditors, external auditors, financial management, audit committees – are learning, developing software tools, methodologies and procedures for the first time to understand and adapt the Act. From the year 2004, the publicly-traded companies are required to submit their

internal accounting controls annual report to the Securities and Exchange Commission (SEC).

Compliance means that organizations or their accounting firms must:

- a) Control how they process, distribute, retain, and access key financial information and supporting information in daily activities
- b) Establish controls that improve the transparency of communications, identify material deficiencies, and bring to notice key information that may be material to compliance
- c) Create a compliance program that makes employees aware of their responsibilities
- d) Establish checks-and-balances to ensure that the compliance program is followed, and review its effectiveness periodically
- e) Maintain all documents and information related to any audit report

The Act requires CEOs and CFOs to certify certain information about their financial statements, their system of internal control, and to forego previously paid bonuses and profits in the event of financial statement restatements.

Therefore, though the ultimate accountability lies with key company officers, responsibility also is on various business operations and personnel that work or part of financial operations.

References:

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