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The Sarbanes Oxley Act

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The Sarbanes Oxley Act

The Sarbanes Oxley Act (SOX) got introduced in 2002 after many cases of scandals involving corporations. Specifically, this bill wanted to restore hope among investors by eliminating gaps that allowed organizations to defraud them. Majorly, the bill impacted the corporates' governance in the United States. All the public companies were directed to develop audit committees to conduct internal control examinations, make leaders accountable for monetary flows and increase disclosure of matters. Moreover, the law stated that the public accounting firms reported with fraud cases would receive higher penalties. The literature compares and contrasts management as well as accountants' views concerning changes needed by SOX and how this changes affect corporations various accounting firms besides investors.

The changes required by Sarbanes Oxley Act indicate similarity in view of management and accounting. In the past, it was the auditors' role to assess companies' financial statements. The bill also claims that auditors are responsible for the financial analysis, though it increased professionalism because their accountability was increased. Another notable aspect in the view of management and accounting is that fraud was a common encounter. Financial malpractices were many that led to collapsing of large companies such as WorldCom. The cases had affected investors and the public as data shows that between 1994 and 1997, over \$ 900 billion was lost (Gu & Zhang, 2017). After the bill was passed, the view changed because the number of cases reduced. The taxpayers and investors believed in public companies again as losses were avoided by ensuring that the auditors conducted their responsibilities professionally. Therefore, the view of management and accounting was similar because auditors had a huge role in both cases, but it was also different regarding fraud cases.

The bill affected corporations whereby the management was made responsible for the monetary reporting. The top leaders had to certify the correctness of reports, and if they intentionally made mistakes, they could be imprisoned for at most twenty years. Moreover, the bill stated that in cases where the public demands restatement of accounting activities due to misconduct leaders would use the profit made to compensate them. Leaders engaged in malicious acts would also be banned from serving in public companies across the country (Gu & Zhang, 2017). The bill, therefore, affected corporations as top leaders had to be more vigilant concerning financial statements. Corporations were also affected because SOX directed the Public Company Oversight Board's development that ensured public accounts standards were followed, conflicts of interest minimized, and rotations of the lead audit after five years.

The Sarbanes Oxley Act also impacted the accounting firms where internal control tests were made extensive. For example, testing and documentation were to involve the external accountants and information technology personnel. Firms relying on manual controls were burdened, as these changes were costly. Moreover, the processes had to be efficient, collected, and automated to reduce the investors' chances of losing money. Besides, the accounting firms had to expand disclosure, especially of additional expenses in the companies. The firm needed to describe how the Generally Acceptable Accounting Principles (GAAP) were applied in transactions (Gorshunov et al., 2020). The bill also affected the investors positively as the aim was to restore their confidence. The policy guided change management, insisting that companies have to involve the information technology department to use new computers with updated software. As a result, these changes benefited the investors as proper record keeping was done, and criminal activities were limited.

Therefore, the Sarbanes Oxley Act had similarities and differences regarding the view of management and accounting. As described, both insisted on auditors' role in financial statements and differed concerning fraud cases. The bill had implications on corporations, accounting firms and investors by increasing accountability, strengthening internal control tests and strategies to eliminate fraud eliminated. The policy aimed to restore the business peoples' confidence after many cases of fraud that collapsed huge organizations and caused the loss of billions.

References

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