

What Is Sarbanes Oxley?

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When the Enron and MCI scandals broke, it became clear to the US government as well as everyone else that something needed to be done to prevent financial abuses from harming the public. A bipartisan team of legislators led by Senator Paul Sarbanes and Representative Michael G. Oxley put together the Sarbanes Oxley Act, also titled the Public Company Accounting Reform and Investor Protection Act of 2002, and more manageably called SOX for short. It was overwhelmingly passed by the House of Representatives, and the Senate voted unanimously to pass the Sarbanes Oxley bill.

The Sarbanes Oxley Act was signed into federal law on July 30, 2002. Its primary purpose is to protect investors by making corporate information released about accounting and finance more accurate and reliable. It addresses issues like the establishment of a public company, creation of an accounting oversight board, auditor independence, corporate responsibility, and enhanced financial disclosure.

According to President Bush, Sarbanes Oxley includes 'the most far-reaching reforms of American business practices since the time of Franklin Delano Roosevelt.'

That may be true, but it's also one of the most complex and difficult to understand reforms ever passed. It covers topics such as:

Personal loans by the company to executive officers or directors

Financial report certification

More timely insider trading reporting

Strong limitations on insider trades

Public reporting of top executive real compensation and company profits Auditing independence

Personal accountability by the chief officers of the company, backed up by criminal and civil penalties including serious jail time and financial penalties on individuals who misstate financial statements and commit securities violations

You can see how a bill covering so many different topics might be seen as discouragingly complex

Understanding Sarbanes Oxley

There are a few things you can do to learn how Sarbanes Oxley works. First, read reviews and synopses of the Sarbanes Oxley Act on the SEC website; they give an excellent overview of what the law is about. Second, you can get training focused in several different ways on the part of Sarbanes Oxley you need to understand.

The main thing to understand about Sarbanes Oxley, though, is that it primarily affects how you do your accounting, and thus how you run your IT services. Electronic controls must properly manage your financial information, so that you have clear, easy-to-access real-time information on your company's finances. Corporate finances must be kept separate from executive finances, payroll, and other moneys. Auditing for accountability is crucial, so that if errors or misinformation enter the data stream you will be able to determine the source.

With Sarbanes Oxley, even if you were ignorant of what was going on in your accounting, if you are a major executive you will be both civilly and criminally liable for any errors released to the public, or the failure to release certain information in a timely manner. You must learn about Sarbanes Oxley, not just to comply with more government regulations, but to protect your personal life. Earl Powers, US Lawyer and SOA expert - focusing on Sarbanes Oxley and Segregation Of Duties