Sarbanes-Oxley Act of 2002

A Summary

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Sarbanes-Oxley Act: Summary and Introduction

- **The Sarbanes-Oxley Act came into force in July 2002 and introduced major changes to the regulation of corporate governance and financial practice.**
- **It is named after Senator Paul Sarbanes and Representative Michael Oxley, who were its main architects, and it set a number of non-negotiable deadlines for compliance.**

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Sarbanes-Oxley Act: Summary and Introduction (cont.)

- **The Sarbanes-Oxley Act is arranged into eleven 'titles'.**
- **As far as compliance is concerned, the most important sections within these eleven titles are usually considered to be 302, 401, 404, 409, 802 and 906.**
- **An over-arching public company accounting board was also established by the act, which was introduced amidst a host of publicity.**

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SOX Section 302: Corporate Responsibility for Financial Reports

- **Periodic statutory financial reports are to include certifications that:**
  - The signing officers have reviewed the report
  - The report does not contain any material untrue statements or material omission or be considered misleading
  - The financial statements and related information fairly present the financial condition and the results in all material respects
  - The signing officers are responsible for internal controls and have evaluated these internal controls within the previous ninety days and have reported on their findings
  - A list of all deficiencies in the internal controls and information on any fraud that involves employees who are involved with internal activities
  - Any significant changes in internal controls or related factors that could have a negative impact on the internal controls
- **Organizations may not attempt to avoid these requirements by reincorporating their activities or transferring their activities outside of the United States**

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SOX Section 401: Disclosures in Periodic Reports

- Financial statements are published by issuers are required to be accurate and presented in a manner that does not contain incorrect statements or admit to state material information.
- These financial statements shall also include all material off-balance sheet liabilities, obligations or transactions.

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SOX Section 401: Disclosures in Periodic Reports (cont.)

- The Commission was required to study and report on the extent of off-balance transactions resulting transparent reporting.
- The Commission is also required to determine whether generally accepted accounting principals or other regulations result in open and meaningful reporting by issuers.

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SOX Section 404:
Management Assessment of Internal Controls

- Issuers are required to publish information in their annual reports concerning the scope and adequacy of the internal control structure and procedures for financial reporting.
- This statement shall also assess the effectiveness of such internal controls and procedures.
- The registered accounting firm shall, in the same report, attest to and report on the assessment on the effectiveness of the internal control structure and procedures for financial reporting.

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SOX Section 409:
Real Time Issuer Disclosures

- Issuers are required to disclose to the public, on an urgent basis, information on material changes in their financial condition or operations.
- These disclosures are to be presented in terms that are easy to understand supported by trend and qualitative information of graphic presentations as appropriate.

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SOX Section 802:
Criminal Penalties for Altering Documents

- **This section imposes penalties of fines and/or up to 20 years imprisonment for altering, destroying, mutilating, concealing, falsifying records, documents or tangible objects with the intent to obstruct, impede or influence a legal investigation.**

- **This section also imposes penalties of fines and/or imprisonment up to 10 years on any accountant who knowingly and willfully violates the requirements of maintenance of all audit or review papers for a period of 5 years**

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