

SARBANES - OXLEY LAW
May 1, 2007

The Sarbanes-Oxley Act of 2002 (SOX) is a federal law that was passed in response to corporate and accounting scandals that involve big companies such as Enron, WorldCom and Tyco International by the House and Senate in 2002. It was designed to protect shareholders and the public from being 'cheated' due to accounting errors or other fraudulent practices in the industry and to keep an eye on internal control.

The SOX is administered by the Securities and Exchange Commission (SEC) and has established the Public Company Accounting Oversight Board, which oversees, regulates, inspects and disciplines accounting firms throughout the country. The Act focuses on which records in a certain business should be stored and for how long. What is interesting about this act is that it not only incorporates issues like auditor independence, corporate governance and enhanced financial disclosure; it also talks about employee protections and ban on most personal loans to executive officers or directors.

The Act not only made a huge impact on the finance departments, but the IT departments - as it stores electronic records for companies. The legislation states that all business records must be saved for at least five years. If companies do not comply they can be fined, imprisoned or both. The challenge to this, is that the cost of updating information systems to comply with the control and reporting requirements will increase for companies as they not only have to manage the documents, provide access to financial data, but also long term storage of information and auditing capabilities.

Earlier this year, the Republicans have recently tried to weaken the SOX Act by giving corporations the option of complying with a section on internal controls in the Act. However, the Senate declined the proposition, as they decided to stick firmly to this act,

which main aim is to protect investors. SOX have significantly decreased corporate fraud since it was passed, even though it is a bit costly and complex. In 2004, companies spent an average of 4 million dollars each in adhering to the act. This contradicts greatly with what SEC, in the early days of implementation of the act predicted only an estimated cost of \$91,000 each. Recently, CA Inc.'s CEO, John Swainson is evaluating on whether the company should sue its former chairman, Charles Wang for counting new contracts beyond the end of a fiscal quarter. The fraudulent practices that are performed by employees in corporations are taken more seriously and is more clearly defined. The work ethics and integrity among workers have also improved significantly.

The future of this Act however is still blurry. There are a lot of impediments in making this act a success- such as the process of changing the mindsets of companies towards the Act, the poorly defined roles of employees, the underestimation of technology impacts and implications and also companies ignoring the risks that are involved. The success of SOX will depend on businesses' response to these areas and positively overcome them. However, auditing firms across the country would generate significant revenue from the process of implementing this Act for corporations all over the country.

As of date, the Securities and Exchange Commission and the Public Company Accounting Oversight Board (PCAOB) are working on changes to the law as to improve it to more benefit investors and corporations and also decrease the cost of implementation. The Sarbanes- Oxley Act does not only impact big corporations but also small companies. Thus, the Act has to be able to accommodate various industries across the nation.