The Sarbanes-Oxley Act: A Reason for the Slipshod to Become
the Scrupulous in the Accounting Profession

Joseph J. Schantz II

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James B. Shelton, Ph.D.
Chairman of Thesis

Gene R. Sullivan, Ph.D.
Committee Member

Edgar E. Barker, Ph.D.
Committee Member

James Nutter, D.A.
Honors Program Director

28 April 2005
Date
Abstract

This thesis examines in detail the Sarbanes-Oxley Act of 2002, including the historical events leading up to its enactment and its subsequent effect on the accounting profession. Congress approved the Sarbanes-Oxley Act on July 30, 2002, during the disclosure of immense pecuniary fraud perpetrated by many of America’s largest companies. The Act created new requirements and restrictions for auditors, management, and corporations in hopes of correcting and preventing some of the troubles America was facing at the time. The Act establishes the five-member Public Company Accounting Oversight Board, giving it the authority and power to write rules and enforce penalties, which the Securities and Exchange Commission may evaluate. Violations of the Public Company Accounting Oversight Board’s rules are considered violations of the 1934 Securities Act.

This thesis expresses the importance of the Sarbanes-Oxley Act’s implementation as well as the impact of the new laws on the auditing function of the accounting profession. Implementation of the Sarbanes-Oxley Act will hopefully restore the trust of the people and provide reasonable assurance that there will be harsh consequences for unethical and dishonest practices in the auditing profession.
The Sarbanes-Oxley Act: A Reason for the Slipshod to Become
the Scrupulous in the Accounting Profession

Introduction: Accounting History, Laws, and Guidelines

The accounting profession has made progress since its first few years in the United States. The first American accountants worked hard to establish a profession that connotatively suggested credibility, trustworthiness, competence, accuracy, and honesty.

In 1887, the American Association of Public Accountants was formed and the first “bricks” were laid at the beginning of the path to a national Certified Public Accounting organization. Nine years later, in 1896, the first CPA law was passed by New York State’s legislature. This initiated the beginning of the accredited accounting profession in the United States of America (Dennis, 2000).

Another “brick” was added to the path of accountancy when the first audit reports were called for by Congress in 1902 as a result of the rise of monopolies in the country. Unfortunately for Congress, there were no formally accepted U.S. accounting principles at that time, and as a result, companies disregarded the call for audits and continued to disclose the information as they saw fit. This marked the first major problem the accounting profession would need to address.

In 1905, accountants gained professional standing. A judge in the case of Smith vs. London Assurance Corporation said, “Public accountants now constitute a skilled professional class, and are subject generally to the same rules of liability for negligence in the practice of their profession as are members of other skilled professions” (Dennis, 2000, ¶ 3). This statement was one that helped to improve the respect and credibility of accountants throughout the country.
The Federal Reserve Act of 1913 and the Clayton Antitrust Act of 1914 established the Federal Reserve Board, and focused the government’s attention on audits and financial reporting (Dennis, 2000). The Federal Reserve board issued its first accounting bulletin “Uniform Accounting” in 1917, establishing the recommended ways on audit procedures and financial statements. Yet again, a step was taken to improve the accounting profession and to shape it into one of structure.

Furthermore, in 1917, the national organization’s governing council approved eight rules of professional conduct. This was an important event because it encouraged unethical and unlawful accountants to transform their practices into ethical and lawful ones. To enforce the seriousness of the eight rules of conduct, the ethics committee suspended two members for knowingly certifying improper balance sheets (Journal of Accountancy, 2000).

In 1929 internal controls were recognized for their importance, and a revised version of the Federal Reserve Act of 1917, Federal Reserve Bulletin, was published: “It stressed reliance on the system of internal control and on the use of tests instead of detailed verification when internal controls were reliable” (Dennis, 2000, ¶ 17). Shortly thereafter, in 1930, the American Institute of Accountants (a national organization) formed a committee on cooperation with stock exchanges to address the concerns about financial reporting.

The Securities and Exchange Commission (SEC) was established in 1933. The Securities Exchange Acts of 1933 and 1934 drastically changed the legally recognized liability of the auditor. The independent public or certified accountants were instructed to certify financial statements, and the SEC imposed statutory liabilities on accountants (Dennis, 2000). In 1938, the SEC gave the authority to the American Institute of
Accountants (AIA) to set accounting standards. Subsequently, in 1939 the first statement on auditing procedures was issued. In 1957, the AIA became the American Institute of Certified Public Accountants (AICPA) and the Accounting Principles Board (APB) was formed to develop authoritative accounting principles. The APB did poorly because they were not supported by the government or the people, which caused the Financial Accounting Standards Board to be established in 1973. In 1977, the Independent Public Oversight Board was developed by the AICPA. Finally, in 1987, the AICPA members approved the Plan to Restructure Professional Standards and, as a result, the profession continues to improve accounting principles and standards through the AICPA and other intermediaries (Dennis, 2000).

As one can see, the accounting profession has changed over the years. With these changes in the profession, business professionals had to change and adapt to the increased complexity of accounting issues, standards, rules, and regulations. With each change, accountants and auditors have had more responsibilities and higher standards to apply. As laws were created, accountants had to follow and work with those laws or deal with the consequences. In addition, as people found ways to get around the laws or the laws became outdated, better and stricter laws had to be written.

Moreover, as businesses have grown in size and complexity, the need for more accounting committees, laws, education, and standards has expanded. The country grew, the economy changed, fraud and scandals developed, there became a need for better documented internal controls, and, as a result, additional accounting guidance was issued to provide a structure for the fulfillment of those needs.
The Accountants Role in Corporate America

Accounting professionals have one of the most demanding and powerful positions in the country. Accountants have the ability and knowledge to affect companies’ successes, people’s bank accounts, the economy, and, arguably, the world. Previously, the general role of an accountant in corporate America was to record transactions that have taken place and to determine the balances of different accounts.

However, the accountant’s role in corporate America has changed greatly over the years. Now “corporate accountants in leading companies are less bean counters and more business partners and valued team members” (Corporate accountants, 1999, ¶ 1). Accountants are now playing a larger role than ever before. Instead of “just” preparing the financial statements and punching numbers, accountants are analyzing the data and recommending ways to improve business and cut costs. In an article, Corporate Accountants Play a Key Role, DePaul Professor Gary Siegel says, "The occupation is nothing like what it was ten years ago. Management accountants spend the bulk of their time working with others, analyzing and interpreting information" (Corporate accountants, 1999, ¶ 2). With this increase in management roles, accountants and managers now have the increased ability to understand all aspects of the business and discover new ways to affect or change the outcome of a business and its financial information.

The auditor’s role in corporate America is to act as an independent intermediary in order to “determin[e] whether [the issuing company’s] recorded information properly reflects the economic events that occurred during the accounting period” (Arens, 2005, p. 13). Once this is done and the financial statements have been verified to have been properly prepared using the Generally Accepted Accounting Principles, the preparing...
company must be evaluated as a going concern (an ability to continue business operations), and the auditor then issues a letter on his findings.

The 1933 and 1934 Securities Acts required all registered companies to be audited by independent accountants. The purpose of this was to ensure the public that the financial statements were prepared properly and were not materially misstated by the preparing company’s management or accountants. With this requirement, the accounting profession has had great demand, affluence, and respect over the last seventy years of practice. However, the mandate alone did not make the accounting profession what it is today. If the accountants at the time lacked integrity, honesty, or character, their word or confirmation concerning the fair presentation of financial statements would have meant nothing to the financial investor. The accounting profession is one that is based on society’s trust and confidence in the work they perform. If the trust and confidence is missing, the profession has no value.

During the 1990s there was an increased pressure on top management to meet analysts’ expectations (Johnson, 1999). Corporate America seemed to be losing sight of the importance of honesty, and executives across the country appeared to become careless. Corporate America needed an awakening and the Sarbanes-Oxley Act gave it just that.

*Actions Leading the Way for the Sarbanes-Oxley Act*

Corporate America became an untamed garden which grew, among its flowers (legitimately profitable companies), many weeds (scandalizing executives) that needed to be pulled out in order for the garden to reach its full potential of beauty. Once the complacent gardener (Congress) woke up and acknowledged there were weeds growing in the garden, a course of action had to be taken. The weeds needed to be pulled and the
weed killer (the Sarbanes-Oxley Act) needed to be spread in order for the garden and flowers to experience full (honest) growth and beauty.

More than a few scandals unconsciously knocked on the door of Congress asking for a law reinforcing the importance of proper internal controls, clearer auditor independence, ethical decision making, and needed pressure to ensure top corporate executives were not using their envied titles and sophisticated inside knowledge to take undue financial advantage of their company.

At the head of these scandals was Xerox, which in early 2002 was revealed to have disregarded GAAP. From 1997-2000 Xerox decided to use practices differing from standard accounting practices. These accounting lies were reported when booking their copy machine leases, hoping to close what management called "the gap" in order to meet revenue and profit goals. KPMG, Xerox's auditors during the misstated periods, stressed they had brought the issue to the table of Xerox's top management a number of times. However, action was never taken and their suggestions were disregarded. Because of the billions of dollars that would be lost if they did not, KPMG proceeded to sign off on Xerox's financial reports for a number of years knowing the financial information was improperly stated for financial investors (SEC charges, 2003). The inventive accounting practices eventually caught up with Xerox when their accelerated future revenues made it increasingly difficult for management to meet investor's expectations in future periods as the economy and market continued to decline.

In addition, the most prominently noted scandal, crafted by Enron Corporation, was revealed in 2001. Earlier that year, Enron was a leading energy trading and communications company employing nearly 21,000 employees, was named "America's Most Innovative Company" by Forbes Magazine, was the seventh largest company in the
United States, was the sixteenth largest company in the world, according to *Fortune Magazine*, and had its stock trading at 85 dollars per share (Enron, 2001).

In a press release Enron’s Chairman and CEO, Kenneth L. Lay boasted how Enron placed No.18 overall on Fortune’s list of the nation’s 535 “Most Admired Companies” and ranked among the top five in “Quality of Management,” “Quality of Products/Services,” and “Employee Talent” (Enron, 2001). Sadly, in the same press release on February 6, 2001, Kenneth L. Lay was noted as saying, “Our world-class employees and their commitment to innovative ideas continue to drive our success in today’s fast-paced business environment. We are proud to receive this accolade for a sixth year. It reflects our corporate culture which is driven by smart employees who continually come up with new ways to grow our business” (Enron, 2001, ¶ 2). Investors and employees had no way of realizing it at the time, but when Kenneth L. Lay said, “Our corporate culture is driven by smart employees who continually come up with new ways to grow our business” (Enron, 2001, ¶ 2), he might have meant, or should have said, our corporate culture is driven by smart *top executives* who continually *make up* new ways to *make it seem like our business growth is legitimate*.

After it was revealed that Enron’s profits and revenues were the result of losses not being properly recorded on the financial statements—because of fallacious accounting practices and a lack of independence due to transactions with special purpose entities (limited partnerships which it controlled)—Enron underwent the largest bankruptcy in history on December 2, 2001 (Accounting, 2003). The company’s equity per share went from 85 dollars to 30 cents, and its auditor, Arthur Andersen, the largest auditing firm in history, lost its auditing license in the United States for shredding
documents after the scandal began to uncover and while an investigation was underway (Accounting, 2003).

Although these three scandals --Xerox, Enron, and Arthur Andersen-- alone could make a case to reevaluate accounting requirements and could give a reason for corporate leaders to realize that their wrongdoings would not be overlooked, it did not end there. In 2002 approximately 28 additional large corporate scandals were uncovered including; AOL, Adelphia, Bristol-Myers Squibb, CMS Energy, Computer Associates, Duke Energy, Dynegy, El Paso Corporation, Freddie Mac, Global Crossing, Halliburton, Harken Energy, HealthSouth, Homestore.com, ImClone Systems, Kmart, Lucent Technologies, Merck & Co., Merrill Lynch, Mirant, Nicor Energy, LLC, Peregrine Systems, Qwest Communications International, Reliant Energy, Sunbeam, Tyco, Waste Management, and WorldCom, which surpassed Enron as the largest bankruptcy in history (Accounting scandals, 2003). These scandals helped to make 2002 one of the most scandalous years in accounting history.

With these scandals came a negative effect on the accounting profession, America’s trust in corporate executives, and the economy. Each “Big Five” auditing firm had a stake in the major corporate scandals.

Table 1. Scandals Divided by the Company’s Auditing Firm at the Time

<table>
<thead>
<tr>
<th>“Big Five” Public Accounting Firms</th>
<th>*Companies Involved in Scandals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Arthur Andersen</strong></td>
<td>CMS, Cornell, Dynegy, Enron, Global Crossing, Halliburton, Martha Stewart Omnimedia, Merck, Peregrine, Qwest, Sunbeam, Waste Management, WorldCom</td>
</tr>
<tr>
<td><strong>Deloitte &amp; Touche</strong></td>
<td>Adelphia, AES, Cendant, Duke, El Paso, Merrill Lynch, Reliant, Rite Aid</td>
</tr>
</tbody>
</table>
This table shows that all of the “Big” accounting firms were having issues and perhaps were not taking their responsibility as seriously as they should have. Often accounting firms were criticized for certifying financial statements even though misstatements were identified because of fear of losing the millions, and sometimes billions, of dollars of revenue from their client.

Moreover, the public eye began to look negatively and skeptically upon top corporate executives in addition to accounting professionals. A few days prior to the Sarbanes-Oxley Act’s signing into law:

[a] July 26-28 Gallup survey showed that a majority of Americans (63%) said they ‘not too confident’ (41%) or ‘not at all confident’ (22%) that an accounting firm’s audit of a major corporation would be accurate. Roughly a third of the American public (35%) expressed confidence that such audits yield accurate results, with just (3%) giving ‘very confident’ as their response. These findings are significantly more negative than when Gallup first asked about accounting accuracy in February 2002 and represent a shift in attitudes. At that time, 56% expressed confidence in the accuracy of accounting audits and 42% said they were not confident. (Public gives, 2002)
In just five months, Americans’ confidence shifted negatively by 21 percentage points. The American economy was deteriorating because of the public scandals that were broadcast and because of the wave of caution that spread during “the second half of 2002 when 196 companies filed with the SEC to correct earlier accounting errors, the largest number in five years” (Corporate stewardship, 2003, ¶1). Clearly, this highlighted for the public that many companies were not being rigorous in their accounting. The economy was hit hard due to corporate selfishness and dishonesty.

Economic Effects of the Acts Leading the Way for the Sarbanes-Oxley Act

During the uncovering of the previously mentioned scandals, the stock market was sliding downward and investors’ were not being optimistic about the market’s future success. Gallup completed a poll on March 3, 2002 showing a direct correlation between the S&P 500 and investor optimism. As one can see below, during the uncovering of the scandals, investors were not too confident and the market mirrored that pessimism.

![Index of Investor Optimism vs. S&P 500: 2000-2004](chart)

Obviously there was an issue, “In the March 26, 2002 Gallup/UBS, ‘Index of Investor Optimism -- U.S.‘, survey 59% of investors told Gallup that they think the issue of
questionable accounting practices is a ‘very serious’ problem for U.S. business as a whole. Another 30% said they felt it was a ‘moderately serious’ problem for U.S. business. Obviously, when eight out of ten investors think something is a serious problem, then U.S. policy-makers need to do something to reassure them” (Investors want action, 2002, p. 1).

In addition, in the same poll taken by the Gallup organization U.S. investors said they were looking for significant changes in accounting oversight in the months ahead: “Given the current fragility of investor confidence in today’s accounting practices, delaying such reforms could have a serious impact on both the financial markets and the U.S. economy, if more accounting debacles surface before such changes are implemented” (Investors want action, 2002, p.1).

Clearly, a mandate was made by the public for some type of reformation to take place in corporate America. There was no question, action had to be taken. The citizens of the United States almost unanimously asked for some type of reformation, and Congress spoke for the people by passing the Sarbanes-Oxley Act through the House of Representatives by a roll call vote of 423-3, and by the Senate with a vote of 99-0 on July 25, 2002.

_The Sarbanes-Oxley Act In General_

President George W. Bush signed the Sarbanes-Oxley Act (SOA) on July 30, 2002. The Act applies, in general, to publicly held companies and dramatically affects the accounting profession as a whole. It equally affects the larger auditing firms, as well as the single CPA’s working as an auditor of or for a publicly traded company (American Institute, 2001). The SOA is the single most important piece of legislation affecting
corporate governance, financial disclosure, and the practice of public accounting since
the U.S. Securities laws of the early 1930s (The Sarbanes-Oxley Act, 2002).

The Act puts new controls in place for accountants, increases penalties for various
types of white collar crimes, and increases penalties for violations derived from the 1934
Securities Act. It also restricts the non-audit services that auditors can provide for their
clients, legislates the importance of the audit committee, and mentions in detail: conflicts
of interest, the corporate responsibility of financial reports, insider trades, personal loans,
and management’s assessment of internal controls. The Act also establishes the five-
member Public Company Accounting Oversight Board (the PCAOB), and gives it the
authority and power to write rules and enforce penalties, which are overseen by the
Securities and Exchange Commission. The PCAOB will oversee and investigate the
auditors of public companies and sanction both firms and individuals for violations of
laws, regulations, and rules in order to protect and guard the public interest in the
preparation of informative, fair, and independent audit reports (AICPA, 2005).

*The Sarbanes-Oxley Act in Detail*

The one hundred and seventh Congress passed this 66 page document with the
purpose of protecting investors by improving the accuracy and reliability of corporate
disclosures made pursuant to the securities laws and for other purposes (Sarbanes-Oxley
Act, 2002). The SOA has eleven main topics: the Public Company Accounting Oversight
Board, Auditor Independence, Corporate Responsibility, Enhanced Financial Disclosures,
Analyst Conflicts of Interest, Commission Resources and Authority, Studies and Reports,
Corporate and Criminal Fraud Accountability, White-Collar Crime Penalty
Enhancements, Corporate Tax Returns, and Corporate Fraud and Accountability. All
topics are important and directly address many of the issues and concerns the investors and the public were having with corporate America at the time it was enacted.

The formation of the Public Company Accounting Oversight Board occupies about one third of the act (20 pages) and is one of the most significant changes ordered by the SOA. The first section in the SOA is the establishment and administrative provisions of the PCAOB (The Sarbanes-Oxley Act §101, 2002). The SOA states, “this board (PCAOB) is to oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors, and further the public interest in the preparation of informative, accurate, and independent audit reports for companies securities, which are sold to, and held by and for, public investors” (The Sarbanes-Oxley Act §101-a, 2002, p. 6). Up until this time, the public accounting firms checked and balanced themselves. One public accounting firm would audit or check to make sure another firm was properly carrying out their obligations. Before the PCAOB there was no enforced governance over the large public accounting firms, nor was there any formally enforced accountability established. Now, however, formal governance and accountability is certainly in place.

The PCAOB was ordered to be a non-profit agency or an establishment of the U.S. Government. It is to have five members of high competence, integrity and reputation which have demonstrated a commitment to the investors’ and the public’s concerns (The Sarbanes-Oxley Act §101-e1, 2002). The purpose of this board is to serve the people and to re-instill the level of trust that was lost in the accounting profession after the scandals. With this being the issue, the SOA limited the board to having, at the most, two members that are or have been a Certified Public Accountant (The Sarbanes-Oxley Act §101-e2, 2002). The Act states that if the appointed chairperson happens to
have been a CPA, they must not have been a practicing CPA for at least five years prior to their appointment to the PCOAB, and they are barred from practicing as a CPA one year after being a member on the board (The Sarbanes-Oxley Act §101-e2, 2002). The members of the PCAOB are required to work full-time as exclusive members (The Sarbanes-Oxley Act §101-e3, 2002). They are not allowed to be involved in any other business-related endeavor. The members of the board are also expected to be completely independent from all public accounting firms and are not to be involved in any profits from those firms, unless it is part of a fixed retirement plan from previous employment (The Sarbanes-Oxley Act §101-e3, 2002). The Securities and Exchange Commission appoints the members of the PCAOB (The Sarbanes-Oxley Act §101-e4, 2002).

Currently, the five members are: William J. McDonough–Chairman, Kayla J. Gillan – Member, Daniel L. Goelzer – Member, Bill Gradison – Member, and Charles D. Niemeier – Member. The board also has appointed fourteen staff members (Public Company, 2003).

The members of the board are to serve a five year staggered term, meaning that each member will be leaving during a different year, and no member is to serve any more than two terms (The Sarbanes-Oxley Act §101-e5, 2002). A board member may be removed for good cause, shown before the expiration of that member’s term. If this happens, a new member will be appointed, but only to complete the remainder of the unfinished term (The Sarbanes-Oxley Act §101-e5-6, 2002).

The PCAOB was also given the authority to, function as a corporation, in essence, subject to the approval of the Securities and Exchange Commission. The SOA granted the PCAOB the power to sue or be sued, to conduct its operations and maintain offices, to lease, purchase, accept gifts or donations of or otherwise acquire, improve, use, sell,
exchange, or convey all of or an interest in any property, to appoint employees, or other professionals, and other normal courses of business, develop its bylaws, and a code of ethics, to name a few (The Sarbanes-Oxley Act §101-f, 2002).

Each public accounting firm is required to register with the PCAOB (The Sarbanes-Oxley Act §102-a, 2002). As of February 3, 2005, 1,433 accounting firms were registered with the Board. This total did not include any firms that had a pending request to withdraw from registration (Public company, 2003). In order to register with the PCAOB, an application to register must be filled out (The Sarbanes-Oxley Act §102-b1, 2002). This form is currently a 19 page document referred to as “Form 1” by the PCAOB. These applications are quite lengthy and require an enormous amount of information. For instance, an applying firm must provide the names of all companies for which the firm prepared or issued audit reports during the preceding and current calendar year, the annual fees received by the firm from each such company for audit, non-audit services, and any other reasonable financial information the board may request (The Sarbanes-Oxley Act §102-b2, 2002). The form also requires a statement of quality control policies, a list of accountants who are associated with the firm and preparation of audit reports stating the license or certification number for each such person, and all criminal, civil, or administrative actions in connection with the firm or any of its employees in connection with any audit report (The Sarbanes-Oxley Act §102-b2, 2002). The application for registration also requires the firm to provide a consent form from each employee, as a condition of employment, stating that they will cooperate with and comply with any request for testimony or the production of documents made by the PCAOB (The Sarbanes-Oxley Act §102-b3, 2002).
Once the application is submitted, the PCAOB has 45 days to accept or decline the application (The Sarbanes-Oxley Act §102-c1, 2002). Once the accounting firm has been approved and registered, they are required to file a report with the SEC at least once a year (The Sarbanes-Oxley Act §102-d, 2002). In addition, each firm that registers with the PCAOB must pay a registration fee and an annual fee in amounts that are enough to recover the costs of processing and reviewing applications and annual reports (The Sarbanes-Oxley Act §102-f, 2002). Current application fees are determined by the number of issuing or reporting clients the public accounting firm services.

Table 2. *Current PCAOB Application Fees*

<table>
<thead>
<tr>
<th>Issuer Clients</th>
<th>Fee</th>
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<tbody>
<tr>
<td>0</td>
<td>$250</td>
</tr>
<tr>
<td>1-49</td>
<td>$500</td>
</tr>
<tr>
<td>50-100</td>
<td>$3,000</td>
</tr>
<tr>
<td>101-1000</td>
<td>$29,000</td>
</tr>
<tr>
<td>1001 and up</td>
<td>$390,000</td>
</tr>
</tbody>
</table>

Annual “accounting support fees are based on the average monthly U.S. equity market capitalization of publicly traded companies, investment companies and other equity companies” (Public company, 2003, ¶4). “The fees will be paid by publicly traded corporations with average monthly U.S. equity market capitalization of more than $25 million each, and by investment companies with average monthly net asset value or U.S. equity market capitalization of more than $250 million each” (Public company, 2003, ¶4).

The PCAOB was also given the authority to issue or adopt the standards/rules from other professional groups of accountants and advisory groups, approved by the SEC (The Sarbanes-Oxley Act §103-a, 2002). Since SOA gave this authority, the PCAOB
adopted certain pre-existing standards as its interim standards to be used on an initial, transitional basis. PCAOB Rules 3200T, 3300T, 3400T, 3500T, and 3600T describe the standards that the Board adopted and require registered public accounting firms and their associated persons to comply with these interim standards, to the extent not superseded or amended by the Board (Public company, 2003). Since that time, the board has issued three auditing standards and has amended some of the interim standards. The issued standards are Auditing Standard No. 1 – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board, Auditing Standard No. 2 – An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements, Auditing Standard No. 3 – Audit Documentation, and Amendment to Interim Auditing Standards – Part of Audit Performed by Other Independent Auditors Conforming Amendments to PCAOB Interim Standards Resulting from the Adoption of PCAOB Auditing Standard No. 2. The abovementioned standards were adopted and written in conformance with the SOA sections 103-a, b, and c.

Section 104 addresses the inspection of registered public accounting firms. The inspections performed by the PCAOB are to ensure that the public accounting firms are complying with the SOA, the issued rules of the board, the SEC, and other professional standards when performing audits and verifying that GAAP have been applied during the certification of annual reports (The Sarbanes-Oxley Act §104-a, 2002). The PCAOB conducts inspections annually of registered public accounting firms that provide audit services to more than 100 companies. When the 100 company requirement is not met, those companies will be inspected once every three years (The Sarbanes-Oxley Act §104-b, 2002). As of 2005, all of the “Big Four” Accounting firms have been inspected and
the reports required by the SOA section 104-g are available to be reviewed on the official PCAOB website (Public company, 2003).

Section 105 concentrates on the investigations and disciplinary proceedings resulting from the section 104 investigations. Any accounting firm or member of that firm associated with a violation of the SOA may be investigated by the PCAOB, regardless of how the matter was brought to the Board’s attention (The Sarbanes-Oxley Act §105-b1, 2002). All involved parties in any investigation taking place by the PCAOB must provide any requested testimonies, work papers, documents, or any other information the Board requests, regardless of whose possession it is in (The Sarbanes-Oxley Act §105-b2, 2002). Conspicuously, this section of the act seems to have been added to prevent another Arthur Andersen predicament.

Section 105 also explains the confidentiality that will be upheld by the PCAOB during any investigations, as well as the immunity a Board member will be granted in the result of a civil suit cropping up once an investigation has begun. If the investigation reveals misconduct by either a firm or one of its members the Board may issue suspension or revocation of registration, a limitation of operations, monetary penalties, censure, required additional professional education (CPE), or any other sanction deemed appropriate by the board (The Sarbanes-Oxley Act §105-c4, 2002). If a sanction is to be given, it will be reported to the SEC, a fitting State regulatory authority, or the public (The Sarbanes-Oxley Act §105-d, 2002). Regarding the enforcement of the SOA, the PCAOB has issued Adoption Release 2003-015 in order to comply with the SOA by adopting rules relating to the investigation and adjudication processes.

Foreign public accounting firms are also affected by the SOA. Section 106 of the Act includes any foreign accounting firm that prepares or furnishes an audit report, with
respect to any company in the United States, to be included under the same umbrella as U.S. firms when it comes to SOA compliance. A foreign firm may also be subjected to the SOA if they are considered to have a material impact on the preparation of furnishing an annual report, though they did not certify and sign off on it themselves (The Sarbanes-Oxley Act §106-a2, 2002). The PCAOB also has the authority to exempt a foreign public accounting firm from compliance to the SOA if it decides it would be in the best interest of the public and/or investors.

The Securities and Exchange Commission has been given the supervision and enforcement authority over the PCAOB by the SOA section 107. Section 107 notes that no proposed rule of the PCAOB will become effective until it is approved by the SEC. In order for a rule to be approved, it must be in correlation with the overall purpose of the SOA, be in the public’s best interest, or be for the investor’s protection. Once a proposed rule is approved, the SEC has the authority, under the Amendment of the Securities Act of 1933 and section 108 of the SOA, to recognize it as “generally accepted” for the purpose of the securities laws.

The PCAOB is also required to issue an annual report to the SEC and the public, which contains audited financial statements. Beers & Cutler PLLC audited the PCAOB’s financial statements for the year ending December 31, 2003. In addition, as established by the 1993 Securities Act and section 109 of the SOA, the PCAOB is fully funded by receiving penalties, registration fees, and support fees, from the registered public accounting firms which it regulates.

The second topic addressed by the SOA is auditor independence. During the uncovering of the scandals in 2001 and 2002, many people suspected the auditors were not remaining independent, and that they had their hands in too much of their clients
company, as in the case of Arthur Andersen. Therefore, section 201 amends the 1934
Securities Act by stating that it is now unlawful for a registered public accounting firm to
provide to any one company, at the same time, both audit and non-auditing services.
Non-audit services include bookkeeping or other related financial recordkeeping,
financial information systems design and implementation, appraisal or valuation services,
fairness opinions, or contribution-in-kind reports, actuarial services, internal audit
outsourcing services, management functions or human resources, broker or dealer,
investment advisor, investment banking services, legal services, and expert services
unrelated to the audit (The Sarbanes-Oxley Act §201-g, 2002). The PCAOB also has the
right to include any other non-audit services it determines to be impermissible.

Before the SOA, large public accounting firms would often use their audit
services to get into the door of the client and then they would sell their other services, like
consulting. Now, most of the large public accounting firms have broken off from their
consulting firms and are relying on their audit practices to earn revenue. The only non-
audit service the SOA does allow a public accounting firm to furnish a client at the same
time as audit services is tax services.

Moreover, all services done by a registered accounting firm, audit or non-audit,
must be approved by the company or client’s audit committee (The Sarbanes-Oxley Act
§202-a, 2002). As with most rules, there is an exception to this requirement, termed the
De Minimus Exception. It waives the pre-approval requirement for any non-audit service
if: the aggregate amount of all non-audit service constitutes no more than five percent of
the amount of revenues paid for the audit service during the same fiscal year as the non-
audit service, the non-audit services where not realized to be non-audit services by the
company at the time of the engagement, the non-audit services are brought to the
attention of the audit committee and are approved by the committee, or one of its committee members who has the authority to make the approval before the audit is completed (The Sarbanes-Oxley Act §201-b, 2002). If a non-audit service is approved by the audit committee and is to be performed by the same public accounting firm that is auditing the company’s financial statements, this must be disclosed in the company’s annual report.

In an effort to guide auditor independence most effectively, the SOA also requires the lead audit partner responsible for reviewing the audit to be rotated if he has performed audit services for the company in each of the five previous fiscal years of that company (The Sarbanes-Oxley Act §203, 2003). Also, each registered public accounting firm must now report to the client’s audit committee. If no committee exists with respect to that company, the entire board of directors of the company should be reported to. Furthermore, under section 206 it is unlawful for a registered public accounting firm to perform an audit for any company if they have a chief executive officer, controller, chief financial officer, chief accounting officer, or any person serving an equivalent position that was employed by that registered public accounting firm in any capacity, during the audit of the company they are now working for, throughout the one year period preceding the date of the commencement of the audit.

The SOA also requires the Comptroller General of the United States to conduct a study and review of the potential effects of requiring a mandatory rotation of registered public accounting firms (The Sarbanes-Oxley Act §207, 2002). The study was published on February 2004 and it concluded that more time would be needed to fully evaluate the potential effects of a mandatory audit firm rotation. Nonetheless, the study did suggest, that “if audit committees regularly evaluate whether audit firm rotation would be
beneficial, given the facts and circumstances of their companies’ situation, and are actively involved in helping to ensure auditor independence and audit quality, many of the intended benefits of audit firm rotation could be realized at the initiative of the audit committee rather than through a mandatory requirement” (Mandatory Audit, 2004, p. 2).

In addition, the report noted that one of their surveys showed “about 90 percent of Fortune 1000 public company audit committee chairs stated they do not support requiring mandatory rotation of public accounting firms registered with the PCAOB, 2 percent stated they did support such mandatory rotation, about 7 percent of Fortune 1000 public company audit committee chairs supported the concept of requiring mandatory audit firm rotation of registered public accounting firms, but believed that more time was needed to evaluate the effectiveness of the various requirements of the Sarbanes-Oxley Act of 2002, and 1 percent stated other opinions” (Mandatory Audit, 2004, p. 160).

Just as partners are required to remain independent, corporate audit committees are also to remain independent. The audit committee’s independence is part of its corporate responsibility. ‘Corporate Responsibility’ is the second longest topic in the SOA with 10 pages dedicated to the issue. Section 301 directs the audit committee to be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by the company; for the purpose of preparing or issuing an audit report or related work, and as stated earlier, the public accounting firm is to report directly to the audit committee (The Sarbanes-Oxley Act §301-2, 2002). Each member of the audit committee is to be a member of the board of directors and is to remain independent. The SOA goes on to define independent as not accepting, other than for service on the board, any consulting, advisory, or other compensatory fee from the company, and as not being an affiliated person of the company, or any subsidiary
The audit committee is also required to establish procedures to allow for the anonymous submission of concerns regarding questionable or creative accounting matters, and for the receipt, retention, and treatment of complaints in regard to the company on accounting, internal controls, and auditing (The Sarbanes-Oxley Act §301-4, 2002). The SOA also allows the audit committees to have independent assistance that it might need in order to complete their obligations, and each company is to fully fund their audit committee (The Sarbanes-Oxley Act §301-5,6, 2002).

Section 302 of the SOA puts a considerable amount of pressure on the chief financial officer and chief executive officer of each issuing company. The executives are now required to prepare a statement that is to accompany all annual or quarterly reports filed with the SEC certifying that they have reviewed the information included in the report. Additionally, management is to state, based on their best knowledge, whether all statements are true or misleading. They are also to report whether the financial statements fairly present, in all material respects, the financial condition of that company. The signing officers or management are the people responsible for establishing and maintaining internal controls, designing internal controls to make certain material information, relating to the parent company and its subsidiaries, is made known to the respective officers of those entities, evaluating the internal controls within 90 days prior to issuing the report, and they must present in their report the overall conclusion on the effectiveness of the internal controls (The Sarbanes-Oxley Act §302-a4, 2002).

Moreover, the signing officers must also disclose all significant deficiencies in the internal controls, identify for the auditors any material weakness in the internal controls, disclose fraud committed by anyone involved in the internal controls, state whether
significant changes have been made to the internal controls, as well as mention any corrective actions that have taken place in order to improve the controls (The Sarbanes-Oxley Act §302-a5, a6, 2002). Any violation of section 302 must be deliberate to give rise to legal responsibility (AICPA, 2005). Noticeably, this section was included in the SOA to put pressure on the top executives in corporate America. As stated earlier, management in the companies being audited, in addition to the auditing firms, were becoming lethargic in their professions. Even if an organization attempted to avoid these requirements by reincorporating their activities or transferring their activities outside of the United States, they must still comply with this section and the rest of the SOA. Without a doubt, this is to operate as a reminder, to the top executives in corporate America, to take seriously the responsibility and accountability they have to their companies and investors. It reinforces the importance of having involved executives by forcing them to review the financial reports and certify the quality of their company’s internal controls.

However, as required by the SOA section 302-a, the SEC published its Final Rule: Certification of Disclosure in Companies’ Quarterly and Annual Reports on August 30, 2002. The Final Rule clarifies the necessary steps that must be taken for a company to fully meet the filing requirements. One of the issues since the inception of the SOA has been the amount of work section 302 creates for most companies. The Final Rule states: “The June Proposals generally did not distinguish between large and small companies. Similarly, Section 302 of the Act directs that the certification requirement to apply to any company filing a periodic report under Section 13(a) or 15(d) of the Exchange Act. Accordingly, new Rules 13a-14 and 15d-14 apply to all companies that file Exchange Act periodic reports regardless of their size. We note, however, that
because many small businesses do not file Exchange Act reports, not all small businesses will be subject to the certification requirement” (Final Rule §302-2 B(d), 2003, ¶ 1). The small companies that do file Exchange Reports often have a hard time finding the resources to meet the requirements. Nevertheless, most companies now have a greater reason to wake up and start to once again practice a more meticulous work-ethic.

Section 303 reinforces the issue of auditor independence by reiterating the unlawfulness of any action taken to fraudulently influence, coerce, manipulate, or mislead a registered public accounting firm in the preparation and certification of a company’s financial statements. The SOA even goes to the extent of requiring the company’s CEO and CFO to reimburse the company of any bonuses or other incentive/equity based compensation or profits realized from the sale of securities within the 12 month period subsequent to the noncompliant financial statements being issued. This is another ostentatious reason for the top executives to be thorough, and to properly report the numbers, because if they do not report the financial statements properly, in hopes of seeing a greater amount of income, they will have to give their increases back, plus pay fines and other penalties that might be in the best interest of the investors (The Sarbanes-Oxley Act §304-305, 2002).

Together with misstated numbers, insider trading is an issue that has long been a problem for investors, companies, the SEC, and other governing bodies to prevent. As seen by the recent scandals and in news articles, this issue is still haunting investors. In an effort to nip this problem, the SOA focuses on insider trades during pension fund blackout periods. Section 306 in the Act proscribes the purchase or sale of stock by any director, executive officer, and other insiders during a blackout period. A blackout period, for the purpose of the SOA, is referring to a period of more than three consecutive
business days, during which 50 percent or more employees’ individual account plans are suspended by the company or the fiduciary of the plan (The Sarbanes-Oxley Act §306-A4a, 2002). If an unlawful trade does take place during a blackout period, and the responsible parties were properly notified of the blackout period, all profits earned by those parties are fully recoverable by the company (The Sarbanes-Oxley Act §306, 2002). This section of the Act is extremely significant for the reason that, if an insider trade is proved to have taken place, the responsible person will be held according to the law and no profit from the criminal act will be received.

This leads to the fourth section of the SOA, Enhanced Financial Disclosures. Disclosures are detailed explanations of the numbers presented on the financial statements, which are included in an annual report. Disclosures are arguably the most valued information for investors in an annual report, besides the actual financial statements. Disclosures are valuable because they notify the investor of the methods used to produce the financial statements, and to discuss most other information necessary to make a confident projection of how the company will perform in the future. Section 401 of the SOA requires the financial statement to be prepared in compliance with GAAP and to include all material correcting entries or adjustments that have been made in accordance with GAAP. This section of the SOA also requires companies to disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships that may have a material impact on the current and future financial condition of the company (The Sarbanes-Oxley Act §401-j, 2002).

Furthermore, because of Adelphia and other scandals, where executives took it upon themselves to borrow billions of dollars from the companies they worked for, the SOA enacts section 402, which makes it generally unlawful for a company issuing
financial statements to extend credit to any director or executive officer. Though, this section of the act does not include any loans that would normally take place in an everyday course of business, such as home improvement and manufactured home loans, company credit cards; on the same offering conditions that would be made to the general employee. In particular, section 402 would outlaw practices such as those practiced by Mr. John Rigas, former CEO of Adelphia Communications, when he took $13 million from the company to build a golf course (Founder, 2002). Executives of Adelphia made false statements to their lenders and borrowed more than two billion dollars from the company without reporting it to the SEC, said Deputy Attorney General Larry Thompson (MercuryNews, 2002).

Because of Mr. Rigas’s act and others, Section 403 of the SOA requires Directors, Officers, and any principal stockholder (the beneficial owner of more than 10% of any class of an equity share) to report their position within 10 days after they assume that position. The SOA also requires them to report/file any designated transactions made by the end of the second business day proceeding the day the transaction was completed. This requirement helps the SEC keep track of the company’s top investors and, at the same time, to keep track of the amount of securities management holds.

Section 404 of the SOA has received the most attention in the corporate world. As of July 2004 section 404, being only 191 words, has a compliance cost estimated at $3.14 million or 62% more than the $1.93 million estimate identified by Financial Executives International on January 2004 (SOX Compliance, 2004). This requirement is so costly because it requires a large amount of documentation and organization within companies. Section 404 requires management to file a report on their assessment of the company’s internal controls. The report must state the responsibility of management for
establishing internal controls and for maintaining an internal control structure that is adequate for financial reporting (The Sarbanes-Oxley Act §404-a1, 2002).

On top of that, each registered public accounting firm that prepares and/or issues the audit report for the company must attest to, and report on, the assessment made by the management of the company: “An attestation made under this section shall be in accordance with standards for attestation engagements issued or adopted by the PCAOB. An attestation engagement shall not be the subject of a separate engagement” (The Sarbanes-Oxley Act §404-b, 2002, p. 45). Section 404 comes together with section 302 to be the most time consuming and costly new requirements under the SOA.

Nonetheless, they prove that the scandals over the past few years were not entirely the fault of the public accounting firms. Companies and executives need to take ownership over their business with the structure of their business to ensure the necessary internal controls are in place to avoid fraudulent activity.

Internal controls are a process designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, the effectiveness, and efficiency of operations, and the compliance with applicable laws. Some might assume that companies would have been doing this effectively already; however, after seeing the effects this section has had on companies and the amount of work it has taken for them to comply, it is clear that they have not been doing this to the best of their abilities. If they were, the compliance would not be taking so much time and costing so much money. It is crucial for companies to be doing internal control testing, and now it might be safe to say they finally are.

All accountants should know by now that ethics are the cornerstone of their profession and are necessary to acquire the publics’ confidence. As a result, all CPA’s
are required to be in accordance with the AICPA code of professional conduct.

Nowadays, it is also necessary for companies to issue a code of ethics for their senior financial officers under section 406. The SOA lists the following characteristics as ones that are reasonably necessary to promote: honesty, ethical conduct (personal and professional), full, fair, accurate, understandable disclosure in periodic reports, and compliance with applicable government rules and regulations. Ethics is something that should have always been stressed in the business world and is now being stressed, more than not, due to the unethical behavior of quite a few corporate executives involved in the recent scandals. Along with ethics comes ability. If a person is ethical but is not competent in their field, they are useless.

Therefore, the SOA requires each company to disclose whether they have one member of the audit committee who is a “financial expert”. A financial expert in this context is one who has an understanding of GAAP, financial statement preparation experience, experience and an understanding of the principles guiding the proper accounting for accrual, estimates, and reserves, has experience with internal accounting controls, and has an understanding of the audit committee functions (The Sarbanes-Oxley Act §407, 2002). The issuing company must also disclose to the public “on a rapid and current basis” all necessary information relating to material changes in the financial situation and operations of the company in a way that is easily understandable by an average investor (The Sarbanes-Oxley Act §409, 2002).

Analysts also have the ability to either positively or negatively affect a company’s performance. Hence, the fifth topic of the paper simply states that rules should be designed to effectively address conflicts of interest when research analysts recommend equity securities in research reports and public appearances. This is required to improve
the objectivity of research analyst’s reports for investors. This section seems to be mainly written to protect the research analysts from being fired for writing a negative opinion of a particular equity security or company; therefore, freeing the analyst to be honest without the fear of hurting his career or otherwise.

As one might have contemplated, with the increased scandals, the SEC received some criticism and accusations of not properly supervising the auditors and issuing companies. Consequently, in light of the passed scandals and other national misfortunes, the SOA increased the SEC’s appropriation funds to $776 million. $102.7 million was allocated to fund additional compensation, $108.4 million was allocated to be available for information technology, security enhancements, and recovery and mitigation activities resulting from the September 11 terrorist attacks, and $98 million of the allocated funds used to hire 200 additional employees. All this was done in an effort to improve the oversight of auditors and audit services required by the Federal Service laws and to advance SEC investigation and disciplinary efforts concerning such auditors and audit services (The Sarbanes-Oxley Act §601, 2002). Overall, these appropriated funds were allocated to strengthen the SEC.

Continuing with this effort to improve the SEC and Corporate America, the SOA amends the Securities Exchange Act of 1934 by granting the SEC the power to reprimand any person by either temporarily or permanently denying that individual the privilege of appearing or practicing before the SEC. Justification for this reprimand is: not possessing the necessary qualifications to represent another person, not being of high integrity or character, having participated in unethical or unacceptable professional conduct, having willfully or having assisted in the willful violation of any provision of the securities laws, or the rules and regulations issued by the securities laws (The Sarbanes-Oxley Act §602,
Unacceptable professional conduct in this context is referring to reckless, negligent, and unreasonable behavior that may indicate a lack of competence or ability to practice before the SEC (The Sarbanes-Oxley Act §602-b, 2002). Evidently, the SEC holds ethics, ability, benevolence, and integrity at the top of their necessary qualifications list, as do accountants, and this section of the SOA is underpinning their values by presenting a setback for those few that do not live by those standards. The SEC also established rules setting minimum standards for the professional conduct of attorneys practicing before it (AICPA, 2005).

Another prospect for blame of the scandals was that large public accounting firms auditing practices were suffering because of the firms’ large size, due in part to consolidation with other firms. When developing any sound report, article, book, or law research is necessary to make valuable postulations. Therefore, section 701 of the SOA requires the Comptroller of the United States to conduct a study and report regarding the consolidation of public accounting firms since 1989. The GAO concluded that the consolidation of public accounting firms in the past had no direct correlation between the recent rises in audit fees, nor did it negatively affect the competitive nature of the business. The research conducted by the GAO “on quality and independence did not link audit quality and auditor independence to consolidation and generally was inconclusive” (Public accounting, 2003, ¶2). This study is significant because it ends the implications that being a large firm could have a negative effect on current and future business. The SOA also required the GAO to do a study and report on violators and violations, enforcement actions, and investments banks.

Thus far, the seven sections of the SOA have alluded to the need for increased accountability and corporate governance in the SEC, the public accounting firms, and in
most companies across the country. Continuing with that same theme, the last four sections of the Act directly deal with the importance of being accountable, and what happens to those that decide not to abide by the laws governing them.

Destructing, altering, or falsifying records in any federal investigation is a crime, and the SOA emphasizes this by increasing the penalties for this crime to up to twenty years in prison. As in the Arthur Andersen case, if a public company destroys audit records before five years after the audit, the responsible party can also be fined or imprisoned for up to ten years, or both.

The statute of limitations for securities fraud under the SOA is two years after the discovery of the fact amounting to the violation, or five years after the fraud is committed. In the past, the people responsible for bringing the fraud to the attention of the authorities have had to face their co-workers and were often fired or discriminated against for their honesty. Under the SOA, these “whistleblowers” are protected from such actions by an employer if they uncover the fraud.

Once the whistle is blown, and if the responsible person is convicted, penalties are handed out. Anyone who defrauds a shareholder of a publicly traded company can face a fine or up to twenty five years in prison. If a person commits wire or mail fraud, they can face up to twenty years in prison, and if someone violates the Employee Retirement Income Act of 1974, they might be handed a fine of $100,000, ten years in prison, or both. If a corporate officer certifies a financial statement knowing that it does not comply with all necessary requirements, that officer can face a fine up to $1,000,000, ten years in prison, or both. If the officer willfully certifies the financial statements knowing they are misstated they can be fined up to $5,000,000 or face twenty years in prison, or both.
Obviously, the purpose of the SOA is to deter corporate executives from committing these crimes. If a company is being investigated and an extraordinary amount of money is then after paid out, the SEC has the authority to put a temporary freeze on that money and place it in an interest-bearing account for a period up to forty-five days. This is done to make sure the money is available per the SOA. The SOA also requires the CEO of a company to sign the company’s Federal Tax Return.

Finally, the SOA can forbid, permanently or temporarily, a person who has committed a fraudulent act from serving as an officer or director of any company filing with the SEC. The SOA also increases the fines and prison sentences for unlawful acts in a number of other areas.

Effects of the Sarbanes-Oxley Act

The SOA was passed with good intentions. Nevertheless, the act has its critics. The most common negative criticism of the SOA is the amount of time and money that is needed to comply with the many laws it establishes. Most companies are having a hard time finding the physical and monetary resources necessary to fully comply with the Act.

On the other hand, others say the Sarbanes-Oxley Act was and is needed for the accounting profession as business continues to grow in all areas. As fraud becomes more prevalent and continues to be unveiled in our society and our financial system, laws and regulations need to be created, updated, and improved to keep up with the updated and improved frauds and unethical practices. The SAO is not just a law for the accounting profession or another page in the course of history, but a positive action taken by a profession as a whole that must continue to prove to the public that many accountants are credible, trustworthy, competent, accurate, and honest professionals. Unfortunately, society seems to dwell on the negative in the world rather than on the positive.
Although their skepticism is probably well-founded, it is apparent that the ethical accountants in our country outweigh the unethical. However, the actions of the few careless or immoral seem to override those of the many ethical and moral people when it comes to the opinions of today’s society; hence, the need for the Sarbanes-Oxley Act. The Sarbanes-Oxley Act is needed to act as a reminder to all CPAs that there should not be decisions made from personal judgment, but rather, decisions made based on professional judgment, the AICPA code of professional conduct, and Generally Accepted Accounting Principles. All accounting reporting decisions should be made to clearly portray the financial institutions pecuniary position for all external users. The continued implementation of the Sarbanes-Oxley Act will hopefully restore the trust of the public and provide reasonable assurance that there will be harsh consequences for unethical and dishonest practices.

“All Good Things Take Time”

In the past, there must have been much controversy with every new law in the accounting profession. The older CPAs must have had the hardest time dealing with the changes. After all, most people do have a hard time dealing with change. Likewise, with the inception of the Sarbanes-Oxley Act, many of the people who are used to doing things a certain way are having a hard time finding time to complete the new and costly requirements and tasks. However, the younger accountants—who are not attuned to a certain way of doing things—are having an easier time fitting the “extra” work into their schedules and are coping with the Sarbanes-Oxley Act better because the work is not extra to them, they know no different. With that being said, in years to come we will most likely continue to hear complaints of the increased work load, but as new accountants move into the companies, the complaints will likely die down and the
economy, companies, employees, and, most importantly, investors will have a greater sense of security in the accuracy of the work which is being done. Yet, as our country continues to shift from the Christian principles it was founded on towards secular beliefs, we are going to have an ongoing struggle with ethical issues, such as honesty and doing what is “right”. As management of companies increasingly receives pressure from today’s financial markets to meet analyst’s expectations, the ethics and morals of individuals are continually being challenged.

We should not be doing what is “right for me” or what is “right for you”, but we should be doing the universal professional right. As children are brought up in schools that do not teach about God or a concrete values system, questions will go unanswered and the future generations will lose sight of a well-grounded moral right or wrong. And in effect, the accounting profession and professions alike are going to continue to run into the dilemma of pulling weeds. We are going to have to stay ahead of the game and produce new fertilizers that kill the weeds before they kill the flowers.

Conclusion

In conclusion, the Sarbanes-Oxley Act is much needed, and it will continue to prove to be effective by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws and thereby protecting investors (Sarbanes-Oxley Act 2002). The SOA should be looked at with confidence, in order to continue to improve and optimize the public’s opinion of corporate America and the accounting profession, while at the same time working to improve the economy as a whole.

Some may continue to argue that the SOA is too strict and that it has too many superfluous regulations, noting that the majority of the companies in America were doing business honestly. My answer to them is, as Ronald P. Schantz Jr. says, “we are all one
decision away from disaster,” and the SOA helps to push us in the direction of making the right decision. Rules are not always made because the majority of people are doing something wrong; rules are made to protect the majority of people from those few that are doing the wrong. To cut a long story short, now is the time, if never before, for the slipshod to become the scrupulous in the accounting profession.
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