How effective is Sarbanes-Oxley in the accounting profession – Is it accomplishing its Original Objectives?

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Abstract

This research paper explores the history and methodology of the Sarbanes-Oxley Act of 2002, how it has affected firms inside and outside the US, and if the provisions are effective in reducing accounting fraud. The research paper begins by providing a history of the incidents that led to the need for reform in the business world and how the Act was created and enacted. Then, the direct and indirect results of the Act will be discussed, from immediate effects to those that are still happening almost fifteen years after the sanction was passed. Fraud cases that have occurred after the Act will be examined – are they the result of loopholes in the regulation or deceitful business practices? Similar acts that were sanctioned in other countries and the significances of these laws will be studied. Finally, the authors will provide interpretations on the effectiveness of the law and provide suggested amendments.

Introduction

The U.S. Securities and Exchange Commission, or SEC, protects investors and ensures fair markets through laws and regulations that financial and accounting professionals are required to follow. These important rulings go through months of deliberation and approvals to improve the securities industry through public firms. One of the most prominent SEC regulations in relation to the accounting profession is the Sarbanes-Oxley Act. According to the SEC's official website, the Sarbanes-Oxley Act of 2002 (SOX) is a ruling to improve corporate responsibility, increase financial disclosures, and fight corporate and accounting fraud in public and privately held companies (Laws that Govern, 2013). The Act is comprised of eleven titles that enforce compliance involving auditor independence, corporate responsibility, financial disclosures, and corporate fraud. Almost fifteen years later, there is a multitude of analyses and criticism on Sarbanes-Oxley. Analysts want to know – when evaluating the objectives of the Act, is it as effective and beneficial as it was initially intended to be?

Existing research on Sarbanes-Oxley and its effects covers a spectrum of topics and hypotheses. Billions of dollars have been spent by companies on procedures to ensure compliance with the Act; many analysts are questioning if SOX has been cost-effective to firms. Other studies examine if SOX is as efficient as other, more natural forms of regulation; numerous economists believe that markets regulate themselves better than governmental rulings. Although the law addressed and mandated policies to decrease corporate and accounting fraud, there are still many fraud cases occurring almost fifteen years after its passing. This raises questions on the legitimacy of these provisions as well as the concept of the fraud triangle (rationalization, opportunity, and pressure) and how it affects an industry where ethics is such an important aspect. There has been extensive discussion on the varying effects of Sarbanes-Oxley on large companies versus small or mid-size public companies, who encounter more challenges with compliance. Because the law is so costly in terms of complying with certain provisions, many smaller firms with fewer resources to allocate to compliance are at a great disadvantage. In addition, the Act has resulted in unanticipated consequences on nonprofit organizations, the auditing profession, and foreign companies. Because

nonprofit firms are structured differently than for-profit companies, there is confusion on which elements of the Act are most practical to adopt. Internal and external auditing has been greatly affected by the titles of SOX. Interestingly, some economists also suggest that the Act decreases the attractiveness of the U.S. market relative to foreign firms.

This research paper will evaluate thoroughly the costs and effects of the Sarbanes-Oxley Act on public and private companies of all sizes in order to determine the value the Act has created since it was passed. Was the Act approved too hastily? Does it focus more on large corporations while ignoring the needs and resources of small or medium sized firms? Do the costs for compliance outweigh the benefits? What are the results of the Act on private companies and non-profit organizations? Do the provisions decrease the occurrence of corporate and accounting fraud? The information discussed will answer these questions and provide a clear response to determine if the Sarbanes-Oxley Act is effective in its efforts to reduce accounting fraud and improve corporate responsibility.

Research Methodology

Using a historical literature review approach, the paper will begin with an examination of the events in the U.S. corporate sector that led to a push for the Sarbanes-Oxley Act. By evaluating the situations that signaled a need for reform, it will be easier to understand the Act's objectives and evaluate what concerns have been resolved as a result of the legislation. The research will then create a logical discussion on the law's cost-effectiveness for firms, its general effects on the corporate culture of firms, the advantages and disadvantages of compliance for private companies and not-for-profit organizations, and how the frequency of corporate and accounting fraud cases have changed as a result of specific SOX clauses over the past fourteen years. Additionally, foreign legislation that is like Sarbanes-Oxley will be studied and compared. Finally, I will provide my opinion on the Sarbanes-Oxley Act's overall effectiveness and provide suggestions for future research and studies.

Literature Review

In researching the Sarbanes-Oxley Act, its objectives, and its influence on firms across the United States, I noticed some overall trends in issues and theories that are most prevalent to determining the benefits of the legislation: the impact of SOX on corporate fraud, the compliance costs that firms (large and small) are now subjected to, and the indirect effects that the Act has on public, private, and not-for-profit companies. There are various research studies and conflicting conclusions that are important to review when examining the overall contribution that SOX has made to the corporate sector. Table 1 lists the research journals that were used as sources for the published research of this paper.

Table 1

Research journals:
Journal of Legal, Ethical, and Regulatory Issues
Review of Accounting and Finance
Journal of Economic Crime Management

Primary sources surveyed for the period 2002-2016

An important feature of the published literature on Sarbanes-Oxley in the period 2002-2016 is its diversity. The conclusions of the various research studies had many parallels and variances. Many of the older articles that were used provided initial reactions and effects of the legislation after its passing; the later articles discuss long-term outcomes and unintended results that were observed. Table 2 describes the seven major articles used in the literature review, the topic of study, and the research sites that were utilized.

Table 2

Study	Topic	Research sites
Gray & Ehoff (2015)	Fraud cases after Sarbanes-Oxley and Dodd-Frank	Sample of thirty accounting fraud cases that were discovered from 2010-2013
Alleyne & Elson (2013)	The impact of the Federal Securities Acts of 1933 and 1934 and Sarbanes-Oxley on corporate fraud	Corporate fraud statistics from the Association of Certified Fraud Examiners' Report to the Nation
Nezhina & Brudney (2012)	The effects of adoption of Sarbanes-Oxley on nonprofit organizations	Nationwide survey of 303,077 nonprofit organizations and in-person interviews of executives
Udeh (2012)	Changes in auditor litigations involving internal controls post-SOX	629 observations of U.S. publicly listed companies with internal control related frauds from 2000-2006
Millar & Bowen (2011)	Increases in audit fees for public firms after SOX	Audit fee data from 150 large firms and 150 small firms
Cherry (2004)	The impact of SOX Section 806 and SOX's whistleblower provisions	Comprehensive survey of state whistleblowing laws and independent research
Brickey (2003)	Penalties for corporate and accounting fraud pre- and post-SOX	Major corporate fraud prosecutions from 2002-2003

Published literature on Sarbanes-Oxley Act – 2002-2016

Corporate Fraud Cases that Lead to SOX

The Sarbanes-Oxley Act of 2002 was a direct response to incidents of corporate and accounting fraud that resulted in a loss of investor confidence in U.S. firms. To understand the purpose of the Sarbanes-Oxley Act and evaluate if it is achieving its objectives, one must first look at the circumstances that led to a push for the legislation. Jay C. Thibodeau and Deborah Freier examine the following auditing and accounting fraud cases in the text "Auditing and Accounting Cases – Investigating Issues of Fraud and Professional Ethics."

The former chief executive, chief financial officer, and general counsel of Tyco, a security systems company based in New Jersey, were found guilty of collectively pilfering $150 million from the organization and inflating company income by over $500 million in 2002. The executives were found to have frequently given themselves interest-free loans that were camouflaged as bonuses and were never repaid. The offenders accounted for these unauthorized bonuses using specific transactions and illegal stock sales. This accounting scandal was the result of unethical business practices and the various company benefit programs that enabled the culprits to justify their large payouts. To help appease the situation and those who were negatively affected by it, defrauded shareholders were awarded almost $3 billion in a class action settlement in 2007 (Thibodeau & Freier, 2014). Using special purpose entities, specific revenue recognition practices, mark-to-market (MTM) accounting, an unhealthy corporate governance structure, and a very dependent relationship between the company and its external audit firm, Enron was able to conceal billions of dollars in debt and keep the firm's perceived value high for years. By the end of the scandal, shareholders lost a total of over $74 billion dollars, and thousands of employees and investors lost their jobs and retirement benefits. On November 30, 2001, Enron filed for bankruptcy in what was the largest bankruptcy case in U.S. history at the time (Thibodeau & Freier, 2014). The demise of WorldCom in 2002 resulted from an uncovering of $3.8 billion worth of fraud. This fraud was disguised by releasing line cost expenses to the balance sheet and significantly overstating revenues with questionable entries that had no business justifications. The company also had deficiencies in their internal audit department that kept the audit committee and the external auditors unaware of significant problems in the company.

Over 30,000 employees lost their jobs and investors incurred about $180 billion in losses. After filing bankruptcy, which also surpassed Enron as the largest filing in U.S. history at the time, WorldCom was acquired by Verizon Communications for $7.6 billion. The company's name has now been changed to MCI, Inc. (Thibodeau & Freier, 2014). These events also led to the investigation and eventual conviction of Arthur Andersen, one of the "Big Five" accounting firms. The firm was accused of destroying Enron auditing documents with intent to conceal evidence of misconduct as well as enabling client transactions that were disapproved by the Professional Standards Group. As the U.S. Securities and Exchange Commission cannot accept audits from convicted felons, Arthur Andersen was forced to surrender its CPA licenses and right to practice in late 2002. The conviction was later overturned; however, the negative connotation and lack of public trust was so great that the firm was unable to recover and never resumed business operations (Thibodeau & Freier, 2014).

The Act's Main Objectives

The Sarbanes-Oxley Act of 2002 was signed into law on July 30, 2002. The official purpose of the Sarbanes-Oxley Act is "To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes." (Sarbanes-Oxley, 2002). The legislation is arranged into eleven titles which are composed of sections that address specific issues. Title I established the Public Company Accounting Oversight Board, or PCAOB, a nonprofit corporation created to oversee the audits of public companies. The PCAOB establishes public auditing standards and enforces compliance with Sarbanes-Oxley as a whole. The standard for auditor independence is defined in Title II, which includes a mandatory rotation of audit partners and a section on conflicts of interest (Sarbanes-Oxley, 2002). Title III, Corporate Responsibility, explains that public companies are required to establish an audit committee. Corporations also are responsible for specific actions that relate to the financial reports, and any noncompliance will result in fines and penalties for executives. Title IV expounds on the enhanced financial disclosures that are now required in periodic reports; these disclosures provide a more accurate picture of a firm's financials than just the financial reports alone (Sarbanes-Oxley, 2002). Corporate and Criminal Fraud Accountability is addressed in Title VIII, which addresses the penalties for altering documents or securities fraud. Section 806 of Title VIII also provides protection for whistleblowers, including confidentiality and compensation for any damages incurred as a result of discrimination (Sarbanes-Oxley, 2002).

According to the SEC website, the rewards for whistleblowers derive from an investor protection fund that is comprised of monetary sanctions by securities laws violators. On November 14, 2016, the SEC announced that a reward of $20 million was given to a whistleblower that provided valuable information that enabled the SEC to initiate action against the wrongdoing organization. This was the third highest award since the whistleblower program was enacted in 2012 (SEC Issues, 2016). The remaining titles that compose the Sarbanes-Oxley Act address similar topics, including a section on corporate tax returns, penalty enhancements for white-collar crime, and studies and reports that provide more important information (Sarbanes-Oxley, 2002).

Impact on Corporate Fraud

The Sarbanes-Oxley Act greatly enhanced penalties for corporate fraud; the maximum terms and fines for securities fraud were doubled and the punishments for mail and wire fraud have quadrupled, according to Brickey's (2003) study. In addition, new statutes involving criminal conspiracy and whistleblower protection were put in place to help combat the deceitful corporate culture that many firms operate in. The legislation's increased penalties provide an influential incentive for individuals who are apart of major corporate investigations to enter into cooperation agreements with the government. These agreements usually provide a reduction in pending charges or an arrangement to not prosecute the witness in exchange for the witness's collaboration and inside information in the investigation (Brickey, 2003). Miriam Cherry emphasizes that the whistleblower provisions in SOX have many inherent limitations that potentially hinder employees who are trying

to expose fraudulent or harmful acts. Although it is clearly stated that retaliation against informants is prohibited, there are no detailed procedures that specify what employers must do when addressing a whistleblower complaint. A mentioned case that involves an investment firm demonstrates how a financial fraud report was ignored by upper management – this occurred after the passing of Sarbanes-Oxley. In addition to the vague rules on fraud reports, the legislation cannot address the issue of executives blurring the lines between acceptable and non-acceptable accounting techniques. Many cases of whistleblowers who seek compensation after retaliation are eventually sent to mandatory arbitration, which tends to favor the employer (Cherry, 2004).

Part of the Act's attempts to reduce corporate and accounting fraud include the standardization of specific accounting practices. This is accomplished, in part, by the Public Company Accounting Oversight Board (PCAOB); the PCAOB sets quality control and ethics standards for external auditors. There has been controversy as to whether the Board can achieve its objectives due to the importance of the individual appointed as chair (Cherry, 2004). Beverley Alleyne and Raymond Elson examine the history and statistics of corporate fraud in the United States both before and after the Sarbanes-Oxley Act of 2002. The authors reference published fraud statistics from the Association of Certified Fraud Examiners and compare SOX with the Securities Acts of 1933 and 1934, which was implemented after the Stock Market Crash of 1929 to address fraud in securities markets. According to a 2007 Global Economic Survey by PricewaterhouseCoopers, there was a drastic increase in the number of companies reporting fraud in 2007 as compared to 2003. In addition, the number of financial restatements almost doubled from 2004 to 2005 – representing about 8.5% of publicly traded companies in the U.S. (Alleyne & Elson, 2013). The largest category of fraud is occupational fraud, which consists of asset misappropriations, fraudulent financial statements, and corruption. This type of fraud accounts for losses of about $600 billion per year. Fraudulent financial statements are the costliest form of occupational fraud with a median loss of $4.25 million per scheme. The data analysis shows that the percentage of overall occupational fraud occurrences increased after the enactment of SOX; however, the median dollar loss declined tremendously (Alleyne & Elson, 2013).

When delving further into the various subcategories of occupational fraud, the authors find that the occurrence of cash and noncash misappropriation had a short spike in frequency, but later declined. It is also relevant to mention that cash misappropriations account for about 93.4% of all asset misappropriation cases. Cash schemes such as cash larceny and skimming increased in median cost but decreased in the number of schemes, suggesting that higher amounts of cash are stolen in a smaller frequency of cases. These schemes were increasing sharply prior to 2002; after Sarbanes-Oxley, there was a negative trend in occurrence. The percentage of other fraudulent disbursement incidents showed a continuous drop after the implementation of SOX (Alleyne & Elson, 2013). It is significant to not only examine the frequency of white-collar crime and fraud cases, but to also study the type of criminal. Studies show a very strong correlation between the amount of responsibility an individual has within a company and the amount of loss the company will experience. Although both management and employees are capable of committing fraud, the amount of money lost from fraud schemes involving managers is five times higher than losses associated with employee fraud. The research data supports the theory that Sarbanes-Oxley provisions were effective in significantly reducing the number of frauds committed by management and employees after 2004. When comparing the gender of criminals, the 1933 SEC Act decreased the frequency of fraud cases in males but increased the frequency in females.

After the 2002 Sarbanes-Oxley Act, there was an opposite effect where the male cases increased in percentage and the female cases decreased. Age is also a factor to consider when studying these fraud cases. The highest occurrence of fraud is committed by people between the ages of 41-50. The highest median dollar loss resulting from fraud is attributed to people over the age of 60. The authors' findings show no difference before or after Sarbanes-Oxley in the amount of fraud incurred by various age groups. After examining the report findings, the authors concluded that in their

opinion, the Sarbanes-Oxley Act is effective in detecting and preventing corporate fraud (Alleyne & Elson, 2013).

Gray and Ehoff (2015) took a different perspective on their research on the effectiveness of SOX in relation to fraud. Instead of comparing demographical statistics, the authors selected and studied thirty different accounting fraud cases that were discovered from 2010 to 2013 and derive from a variety of industries. The objective of this research was to compare the effectiveness of both Sarbanes-Oxley and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Dodd-Frank was passed as a response to critique that SOX alone was not enough to improve financial stability of the United States (Gray & Ehoff, 2015). Some of the earlier cases discovered in 2010 involve JP Morgan, Quest, Koss, and LocatePlus. JP Morgan's fraud, one of the biggest banking scandals of the time period, only resulted in a few employees losing their jobs. This could signal to other fraudsters to continue committing schemes because the loss of a job with the deceitful financial benefits is more advantageous than the loss of a job without any financial perks. Although SOX mandates adequate internal control, the cases discovered in 2011 (such as Citicorp, Sony, and Fannie Mae) show that a lack of adequate internal controls were the cause of fraud. This could be an indication that the provisions were either not deemed "significant" enough to implement or not thorough enough to prevent this type of incidents. Citicorp stated that Section 404 of SOX, which discusses improved internal control, was considered too expensive to implement (Gray & Ehoff, 2015).

The fraud cases discovered in 2012 – 10 years after the implementation of Sarbanes-Oxley – include corporations such as Groupon, Bank of America, and Adobe. A negative tone at the top, data breaches, and weak internal controls were causes of these scandals. Walmart, Target, Bitcoin, and the Small Business Administration were companies with frauds discovered in 2013. By this time, it becomes apparent that the existing regulation is not enough to deter the increasing amount of cyber-fraud activities resulting from the spike in technology sophistication. This issue may be more suited for forensic accountants and auditors to develop expertise designed to identify and prevent these types of fraud cases (Gray & Ehoff, 2015). The overall case study results show that despite the provisions set to prohibit and prevent fraud, it appears to be increasing. There were 528 embezzlement cases discovered in 2012, which ranked as the highest number of occurrences since 2007. It is suggested that Sarbanes-Oxley may have just improved the fraud identification process, so the amount of cases being reported creates an illusion that more fraud activity is occurring. With technology continually evolving, additional legislation and better enforcement of existing regulations are needed to address the continuing accounting fraud in the U.S. (Gray & Ehoff, 2015).

After examining the various literatures and research conclusions, we believe that there are a couple factors and limitations that make finding a true conclusion about the correlation between Sarbanes-Oxley and fraud more difficult than it appears. Predominantly, most of these studies do not take into consideration the transition period involved. As with any new regulation that is put into place, there must be time for companies to adjust their internal policies, procure resources for compliance, and provide education to their employees, executives, and external related parties who are affected by the change. We think that ignoring that aspect can skew some results of fraud occurrences in the early years after 2002. Furthermore, there were no official policies in place before 2002 that provided employees with a safe, efficient way to report potential fraud occurrences. Without an official whistleblower legislation or procedure, is there any way to have an accurate statistic on the number of fraud cases discovered before Sarbanes-Oxley was implemented? It can be assumed that the hostile environment that a whistleblower was susceptible to would sweep a lot of cases that could have been discovered under the rug, therefore providing an illusion that fraud cases have increased after the Act was passed. Furthermore, the fraud cases that resulted from increased technology use and globalization in U.S. firms are not sufficiently addressed by a legislation that was passed in the early 2000s. While the provisions for corporate and accounting fraud may have been

effective in the first few years after implementation, there is a need for revision to address these changes.

The Costs of Sarbanes-Oxley Compliance

Millar and Bowen (2011) addressed the audit fee costs of Sarbanes-Oxley on both small and large-sized publicly traded companies. Small firms are defined as companies with market capitalizations between $300 million and $1 billion. The sample of small firms consists of representation in the energy, industrial, health care, information technology, and telecommunication services industries. The large firm sample, which contains firms with market capitalization over $4 billion, represents the same industries. The authors conclude that both small and large firms had incurred increased audit fees as a result of SOX. This is attributed to the audit fee being a complex equation composed of factors such as the complexity of the audit, firm financial performance and attractiveness, and the influence of firms on the auditors. Small firms also had a larger increase in audit fee burden, with an increase of 0.110 percent of revenue compared to 0.035 percent for large firms. (Millar & Bowen, 2011). Because SOX does not distinguish between larger and smaller-capital firms, it requires all public companies to comply with the laws regardless of organizational structure or resources available. Grinberg (2007) explains that because larger corporations have more complicated business models, they more than likely already had many of the mandated Sarbanes-Oxley controls in place. Smaller, less complex firms had to completely revamp their budgets to account for installation of these additional internal controls.

Overall, the firm value of many large companies increased after Sarbanes-Oxley; for smaller companies, the Act had the opposite effect (Grinberg, 2007). The provisions of Sarbanes-Oxley created such a concern for certain organizations, a niche emerged in the market for consulting firms that specialize in assisting mid- to small-sized companies with new compliance costs. Lord and Benoit is one of the top corporate governance consulting firms in the U.S. that provides a framework for compliance that is geared for a company's size while being more affordable and less intrusive. Robert Benoit's study finds that the average cost of complying with *Section 404(a): Management Assessment* for small firms is $53,700 annually. Aligning with other research findings, the cost range varies according to certain industries and the overall environment of the firm. The literature then asks the readers to consider if the additional costs are worth the investor confidence, (perceived) increased efficiencies, and fraud prevention (Benoit, 2008).

According to an article by Tysiac (2012), the tenth anniversary of the Sarbanes-Oxley Act was "celebrated" by a debate in congress on its benefits and costs. CEOs of private biotech companies claimed that the high costs of SOX compliance make many biotech firms reluctant to go public. There was also debate over the steep decline of U.S. public offerings – was that an unintentional result of SOX or a loss of investor confidence? Despite dubbing SOX a "typical, knee-jerk reaction" by Congress, many representatives and firm executives can agree that some parts of the act are more effective and beneficial than others (Tysiac, 2012). Sarbanes-Oxley added many financial burdens to U.S. companies – from increased internal control costs to greater audit fees. Smaller organizations have limited resources that are being diverted from innovation and growth, putting the firms at a competitive disadvantage. Considering this information, I can understand why many small firms are contemplating whether to go private. Executives should not have to worry about the future continuance of their company because their annual revenues may not be adequate to cover the additional costs of a legislation that seems to be tailored to and created for large corporations. We see the need for amendments to assist smaller-sized companies with the costs of SOX compliance.

Indirect Effects on Auditor Litigation

Discussing effects of Sarbanes-Oxley – intended and unintended – raises questions about auditor litigation resulting from internal control fraud. A study by Udeh (2012) provides information on whether auditor litigation after SOX has increased or decreased. The research concludes that generally, the probability of auditor litigation has increased after Sarbanes Oxley.

Auditors of companies listed in the New York Stock Exchange are less likely to be subjected to litigation compared to those whose firms are not listed. Also, the probability of litigation decreases for firms who are accelerated filers. The researcher emphasizes that external auditors have a greater need for professional skepticism and a more thorough audit, regardless of testing (Udeh, 2012).

Indirect Effects on Nonprofit Organizations

Besides the two provisions that discuss whistleblower protection and the prohibition of record destruction/alteration, nonprofit and private organizations are not legally required to follow Sarbanes-Oxley. Over the past decade, many analyses have been conducted on the Act's effects on U.S. public companies; private companies, however, were not studied as methodically. A systematic study by Tamara Nezhina and Jeffrey Brudney (2011) provided insight on how the voluntary adoption of Sarbanes-Oxley affected nonprofit organizations. The most commonly reported benefits of SOX implementation for the sample were better financial controls (27.3%), a reduced risk of accounting fraud (24.3%), an increase in the board of directors' effectiveness (21.1%), and an overall enhanced firm reputation (9.95%). In contrast, the most frequent costs that were incurred encompassed increased external audit fees (36.5%), longer/more frequent audit committee meetings (19.4%), the reallocation of resources to administrative departments (14.8%), and more resources allotted to CEO and board training (13.8%). These results show a trend that the costs of SOX adoption happen almost immediately, while the benefits amass more slowly (Nezhina & Brudney, 2011).

Similar Legislation

In Japan, the Financial Instruments and Exchange Act of 2006 (FIEA) is the main legislation that regulates securities firms in the nation. The main provisions of the law include registration and regulation of broker dealers, disclosure responsibilities, and internal control requirements. FIEA is often called J-SOX, because its passing was spurred by corporate scandals and its internal control portions are like those found in Sarbanes-Oxley. The law officially became effective in April 2008 (Financial, 2006). China passed the Basic Standard for Enterprise Internal Control in 2008 in efforts to enhance the quality of financial reporting. This legislation, also known as C-SOX, contains supplementing guidelines that require companies to produce an annual report on the effectiveness of internal controls as well as demand accounting firms to issue an auditor's evaluation on internal controls. Organizational structure, social responsibilities, corporate culture, information systems, and internal informal communication are also topics that are addressed (Basic, 2008).

Discussion and Conclusions

After evaluating the causes, objectives, and provisions of the Sarbanes-Oxley Act of 2002, as well as the various research data compiled to determine its effectiveness on U.S. public and private firms, the researchers have reached a professional conclusion on if the legislation has been effective to the accounting profession in the United States. Frankly, my original research paper question is a close-ended inquiry that requires a "yes" or "no" answer; however, one cannot simply give a one-word retort when the legislation incorporates so many different provisions and touches a myriad of companies, employees, and investors. Researchers believe that overall, Sarbanes-Oxley is accomplishing its original objectives. The titles require certain procedures and measures that provide an increase in investor confidence in public organization's financial statements. Specifically, the establishment of the PCAOB and the sections on corporate responsibility and corporate and criminal fraud accountability are viewed to be some of the most functioning segments of SOX. There are limitations on the legislation; however, a lot of these stem from the simple fact that human error and fraud cannot be eliminated by a set of rules and regulations.

There are certain subdivisions of Sarbanes-Oxley that I believe should be considered for amendments. The principal matter that I have concerns about is the cost of the law for smaller organizations. The legislation, which was considered an immediate reaction to billion-dollar

accounting scandals, was naturally created to be suited for those firms that have thousands of shareholders and more assets at stake. These companies have the extensive resources needed to fully comply with the Act while also maintaining capital for investments and daily business operations.

The small- to mid-sized organizations are sometimes forced to unfortunately choose between compliance (where the consequence of not complying is penalties and fines) and investing that wealth back into the company. We believe that there should be an amendment created to address the problems that smaller firms face when fulfilling the provisions of SOX. The researchers also think that the Act should have amendments to address the ever-growing increase in technology. Technology makes accounting easier and faster; it also makes fraud easier to carry out and conceal. SOX was created and enacted in 2002, almost fifteen years ago as of today. The number of fraudsters who are skilled in information technology has increased significantly in that period. To help decrease the occurrence of corporate and accounting fraud, this technology spike must be a major concern of lawmakers regarding an additional amendment for the legislation.

In conclusion, the researchers believe the Sarbanes-Oxley Act is a critical legislation in the accounting profession and the United States business sector. Past studies have provided data that elaborates on the benefits and disadvantages of the law. The benefits, which are sometimes slower to manifest, outweigh the cons that firms incur. With a few amendments and revisions, the researchers believe that it can be even more effective in accomplishing the objectives that were originally set. For future study, researchers are interested to see more thorough research on how compliance of certain sections of the Act positively and/or negatively influences private companies and non-profit organizations. Researchers absolutely believe that many of the sections of SOX could have progressive results on these companies that are not mandated to follow the law; specifically, the segments that involve enhanced internal controls and reduced probability of fraud. However, only cumulative studies can corroborate whether the potential benefits will outweigh the definite costs. Researchers also want to observe more results on the amount of fraud due to technology advances that has occurred in the past decade. As mentioned before, Sarbanes-Oxley does not take this aspect into consideration due to the time period in which it was enacted. Observations of business news stations and websites show that fraud resulting from heightened technology is prevalent in today's business world. Studies on technology fraud before and after SOX could provide the insight needed to initiate the push for related amendments.

Finally, a study on the topic of auditor litigation pre- and post- Sarbanes-Oxley would be very useful. Auditor litigation has always been a sensitive subject; auditing only provides reasonable assurance of fairly presented financial statements, but investors (some who have little to no accounting knowledge) put a lot of capital at risk relying on the auditors' opinions. The new auditing standards of SOX were put in place to mainly benefit investors. Research on auditor litigation and how it has changed in the past decade could provide insight to whether amendments need to be made to protect accounting firms as well.

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