Sarbanes-Oxley Act And Other Measures Against Accounting Scandals

In the wake of the corporate scandals like those at Enron, Tyco International and WorldCom that ripped apart the financial interests of thousands of shareholders and retirement plan investors, lawmakers and professional bodies decided to tighten the grip on financial reporting norms.

Sarbanes-Oxley Act is the response to the malicious accounting practices that had been going on before. It seeks to restore the public's confidence in the corporate governance ethics and financial reporting guidelines.

If the public's trust has been shattered it is an issue of concern especially as all along there had been as assurance of sound accounting and auditing practices. The Sarbanes-Oxley legislation establishes new standards for all US public company boards, management and public accounting firms.

Some of the main provisions of the Act are:
A new agency, the Public Company Accounting Oversight Board, shall monitor the role of auditors of public companies.
Henceforth, CEOs and CFOs shall certify that the financial reports are true and fair.
Stringent measures to establish greater auditor independence including bans on certain types of assignments and prior certification by the company's Audit Committee of all other non-audit work
Listed companies should have fully independent audit committees to review auditor-client interaction
Significantly longer jail sentences and heftier fines for corporate executives guilty of willful misstatements

Protection to employees providing information to OSHA within 90 days, to claim reinstatement, compensatory damages, back pay and benefits and reasonable costs.

The professional regulatory bodies have also embarked on a thorough exercise of revamping the auditing guidelines and acceptable accounting practices. It is not as if the auditors colluded with the perpetrators. But, insufficient mandate for making disclosures of certain types of transactions could have led to slippages despite the diligence and due care of the auditors. A famous judge commented," Auditors are like watchdogs; they are not bloodhounds".

The disclosure requirements mainly equip the auditors to report whether there have been shady or questionable transactions.

Therefore, disclosures are an integral part of the financial statements. They provide additional information on transactions that could have significant bearing on the understanding of the information contained in the statements. Disclosures also predicate that chief executives of corporate bodies apply the GAAP in preparing financial statements.

Common forms of disclosures are:
Additional information on account balances in the financial statements, primarily with respect to transactions with top management or their relatives
Supplementary tables and schedules
Financial impact of certain decisions

The main agencies that frame the disclosure requirements are the FASB, SEC and the IASB.

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http://www.topincometaxreturns.com/ar/tax-return-filing-preparation.php