Week 1 – DQ 2

The Sarbanes-Oxley Act of 2002 has been described as the most far-reaching legislation affecting business since the passage of the 1933 Securities Act. What are the specific portions of the legislation that affect the external audit profession, and how do they affect the profession? How does the legislation affect the internal audit profession? What are some activities that are implied in the legislation, as well as activities that will likely emerge as companies implement various provisions of the act? Do you believe the legislation enhances the power and prestige of the audit profession, or alternatively, does it decrease both the power and prestige of the profession? Explain.

Response #1

The Sarbanes-Oxley Act of 2002 has been described as the most far-reaching legislation affecting business since the passage of the 1933 Securities Act.

What are the specific portions of the legislation that affect the external audit profession, and how do they affect the profession? How does the legislation affect the internal audit profession?

Section 301 talks specifically about The Audit Committee and what that means to a company. This section discusses how the auditing firm is limited in its relationship with the organization being audited so that there is a distinct responsibility to report fairly and without biased the findings of the audit. It also changes how some companies use to use audit firms for internal contractual suggestions, other non audit related services and those types of things are no longer accepted.

There are many more compliance regulations for management and auditors to adhere to in order to confirm segregation of duties, controls, and accepted processes that minimize risk to the company.

What are some activities that are implied in the legislation, as well as activities that will likely emerge as companies implement various provisions of the act?

Full disclosure is one item that can vary by industry or business activity but is always necessary in order for auditors and investors to obtain the full picture of business activity within the period. There is still a tendency to want to leave out negative findings or embellish positive findings to look better rather than stating facts and leave the analytical realm be what it will be. While this item implies a company disclose any material information that could potentially change a decision it also leaves interpretation wide open in some cases.

Do you believe the legislation enhances the power and prestige of the audit profession, or alternatively, does it decrease both the power and prestige of the profession? Explain.

I think the power and prestige comes with how an auditor or auditing firm present the legislation requirements within auditing a business. Power and prestige are relative to how a person feels about being audited and how well or not well audits are commenced. These are not really value-added activities but they do add value in the long run and are a necessary evil to safeguard customers, consumers, and investors.

Response #2

The Sarbanes-Oxley Act of 2002 changed audit services by making it unlawful to perform services for a public company and the following non-asset services for clients which include internal audit services, legal services and expert services unrelated to the audit, and actuarial services to name a few. Before the Sarbanes-Oxley Act of 2002 auditors were responsible for the functions of quality control standards and independence standards through the American Institute of CPAs which the authority was given to the PCAOB through the Sarbanes-Oxley Act. Section 302 of the Sarbanes-Oxley Act of 2002 also states a public company's CFO and CEO must prepare a statement with the audit report certifying

the appropriateness of the financial statements. Bottom of Form I believe the legislation did what was necessary to help prevent fraudulent acts. The Sarbanes-Oxley Act of 2002 raised penalties on companies for falsifying or misleading financial reports. Some of the penalties include imprisonment up to 10 years and fines up to $500,000. The power and the prestige of the audit profession to me would be enhanced because the Sarbanes-Oxley Act of 2002 better protects the investors and stakeholders within a company. The stricter regulations help to improve the work performed by auditors and allow a company to have a better picture of their financial standing within the company.

Response #3

The Sarbanes-Oxley Act of 2002 made it illegal to perform audit services for a public company AND provide bookkeeping, appraisal or valuations, actuarial services, management, legal services, or investment advice. SOX established auditing and independence standards which had been previously left to auditors themselves through self regulatory functions of the AICPA. Internal audit departments are now subject to internal controls as is management. Executives of the company can now be held liable for fraud which will increase supervision and control. Sections 302-305 lay out the responsibilities of CEO's and CFO's and the penalties for failing to comply. Because of the heavy penalties, including jail time and having to reimburse the company for any bonuses paid if fraud is found, management has no choice but to set up heavier internal controls and be more involved in the audit process.

SOX brought the audit profession back to a level of power because the legislation calls for heavy penalties on those who are caught being fraudulent and places more burden of responsibility on the auditor. However, I don't think the prestige of the audit profession has yet returned since the industry has been plagued with scandal, but it is a step in the right direction.