

Week Five Reflection Summary

Name

Team A

ACC/ 290

Date

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Because of several accounting dishonor and many subsequent bankruptcies, the president and, Congress have put into effect important financial change by the creation of the Sarbanes-Oxley Act of 2002 ("Act"). Team A has examined the outcome of the Sarbanes-Oxley Act (SOX) on the level of aggressive versus conservative reporting behavior of public companies. The reason for this summary is to briefly analyze the impact the Act has on accounting.

SOX impose significantly bigger possible consequences on chief executive officers (CEOs) and chief financial officers (CFOs) who take on in monetary wrongdoing. Several teams have studied the effect of the Sarbanes-Oxley Act (SOX) on discretionary reporting actions of public companies. SOX went into effect to deal with the rising concern of investors about the integrity of firms' monetary reporting. Investors' support in monetary reporting was upset following scandals connecting once well-respected companies, such as Enron and WorldCom, and, inspectors such as Arthur Andersen.

Several recent studies investigate the impact of SOX on financial reporting. "Heflin and Hsu (2004) testify that the use of non-Generally Accepted Accounting Principles (non-GAAP) wages measures turn down significantly after implementation of SOX, and the probability that disclosed earnings meets or exceeds analysts' forecasts declined significantly after the new rules were implemented. Cohen, Dey, and Lys (2007) report a stable boost in accrual-based earnings management before SOX and a reversal in this increase following passage of SOX (GERALD J. LOBO2010)."

The Role

Since Section 404 extensively constrict liability principles for managers, administrators and auditors, the Internal Audit job plays a big responsibility in all three disclosures referred to above. The Standards require internal auditing to:

- Examine the reliability and integrity of monetary and working data and the means used to discover, measure, categorize, and convey such data;
- Examine the structures found to guarantee compliance with those policies, strategy, measures, laws, and regulations that could have a major influence on operations and reports;
- Review the measures of safeguarding assets, and confirm the existence of such assets.