Comparison of the Views of Managers and Accountants on Sarbanes-Oxley Act

Name

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The US enacted the Sarbanes-Oxley Act in July 2002 following prolonged corporate scandals between 2002 and 2002 (Willits & Nicholls, 2014). The enactment of the Sarbanes-Oxley Act targeted sealing the loopholes that enabled the firms to conduct fraudulent financial activities and the restoration of the investors’ confidence in the financial markets. The act aimed at strengthening the internal audit controls by making the management guilty of the financial misstatements reported by their companies. The law demanded that the directors of the companies must ascertain the authenticity of their financial reports and be liable for any misconducts that occur in the process. Despite that the investors had on the Sarbanes-Oxley Act for reaffirming their trusts on the financial statements, it has received some contradicting views across the accounting and management regarding its impacts on the companies.

The management has lamented the impact of the Sarbanes-Oxley Act on their activities in the company citing it as time-consuming (Willits & Nicholls, 2014). Since the act requires the managers to ascertain the financial statements before their release, the directors have argued that it takes plenty of their time that they could have spent in improving the profit margins. Scrutiny of the financial reports is quite tiresome, and the managers have to conduct it keenly since they are a hefty penalty put on them for any error. Hence, the management is likely to give it much priority as compared to other activities within the organization.

Managers have further claimed that the Sarbanes-Oxley Act demands expensive audit layout that many companies can hardly afford (Ge, Koester, & McVay, 2017). They argue that the auditors use the act as a basis for requesting hefty charges from the companies. Small companies may not require complicated auditing procedures as compared to large corporations. However, the auditors have treated the firms similarly in conducting their activities towards compliance with the Sarbanes-Oxley Act.

The managers have further argued that Section 404 has undermined the accuracy of financial statements by it bars the companies from seeking advice from the auditor (Willits & Nicholls, 2014). The act, however, aimed at blocking the fraud that had occurred from the cooperation between the managers and the auditors. The companies have intentionally created financial misstatements through the advice of the auditors to prevent such frauds from emerging in public. Hence, the law has demanded that the auditors act independently without consulting with the firm’s directors to conceal the possible frauds that may have occurred in the report. Therefore, there has been a contrary view from the management as they claim that financial statement preparation is quite complicated that require the guidance of the auditors.

The managers have claimed that the Sarbanes-Oxley Act leaves too little room for judgment. They argue that the auditing internal control auditing process is a lengthy process that requires different consideration to conclude financial misstatements (Ge, Koester, & McVay, 2017). The view arises from a wide variation in the financial reporting processes followed by different companies due to their different structures. The managers thus find it quite unfair for the auditors to use the same internal auditing procedure to determine the occurrence of misstatements despite the variation in the processes taken by the firms.

Finally, some views have arisen attributing the enactment of the Sarbanes-Oxley Act as a law that will promote the existence of private corporations (Willits & Nicholls, 2014). It depicts that the management of some companies will decide to go private to avoid the strict internal control audits on the public companies as directed by the Sarbanes-Oxley Act.

References

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