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This document contains excerpts from an online graduate-level accounting course I wrote. The goals of the course lectures are to be supplemental to the text, casual, and conversational.

Sarbanes-Oxley Act of 2002

The effects of fraud can be nearly insignificant in the grand scheme of things, involving relatively small amounts of money and affecting few people, or they can be far-reaching, involving millions of dollars and affecting not only countless people but also the entire economy. Throughout this course, you will learn about many types of fraud, how each type is committed, who the perpetrators are, and how to prevent, detect, and investigate them. There is an abundance of information available to those of you who are interested in delving into the world of fraud prevention and investigation, and I've made much of it available to you via links and Doc Sharing.

Probably the most important and influential step the government has taken to prevent fraud is the implementation of the Sarbanes-Oxley Act of 2002, often referred to as SOX. You can find the entire text of SOX in Doc Sharing. Senator Paul Sarbanes and Representative Michael Oxley were the pioneers and main architects of the Act that was created in response to some well-publicized fraud cases. I'm sure all of you have heard of Enron, WorldCom, and Arthur Anderson; but it's important to know that there were many other fraud scandals that hastened the creation of SOX. I have included a diagram in Doc Sharing that illustrates the numerous fraud cases that have been uncovered in the years prior to SOX. Click here to see the chart . It's "busy" and a bit difficult to follow, but it will definitely help you understand how fraudulent activity really infiltrated Corporate America in recent years.

In addition to instilling tight internal controls on accounting practices and financial statement reporting, the implementation of SOX was meant to increase investor confidence. After a plethora of major frauds came to light, many corporations involved went bankrupt or were in serious financial trouble. When investors lost money—sometimes an entire life savings (and retirement!)—some in turn lost confidence in the system and the market. This led to market instability and a downward spiral from economic boom to fear of recession. Though there were a number of factors that contributed to the market losses, one of them was definitely the effect of fraud. Hopefully, with the controls of SOX now in place, there will be fewer victims of fraud and consumers will regain confidence in the system.

All publicly traded companies must now be in compliance with SOX. Because it requires strict adherence to thorough, detailed rules and regulations, SOX makes auditors and executive management accountable for their actions and for all financial reporting. It requires responsible parties to sign off on details of financial reports, which not only shows due diligence, but also covers corporations in the event an accountable person commits fraud. There are eleven "titles" within the act, but six sections that are strongly related to compliance. Those are: 302, 401, 404, 409, 802, and 906. For a summary of each of these sections, you may refer to http://www.soxlaw.com/index.htm. This site explains, in plain English, an outline of SOX, what each of the above sections involves, and how it relates to the accountability of those who produce and audit financial reports. You will find that link, among others, in Doc Sharing.

Citations are in the course, but I removed them for the purposes of this document.