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## What Is Sarbanes Oxley?

By Earl Powers

When the Enron and MCI scandals broke, it became clear to the US government as well as

everyone else that something needed to be done to prevent financial abuses from harming the public. A bipartisan team of legislators led by Senator Paul Sarbanes and Representative Michael G. Oxley put together the Sarbanes Oxley Act, also titled the Public Company Accounting Reform and Investor Protection Act of 2002, and more manageably called SOX for short. It was overwhelmingly passed by the House of Representatives, and the Senate voted unanimously to pass the Sarbanes Oxley bill.

The Sarbanes Oxley Act was signed into federal law on July 30, 2002. Its primary purpose is to protect investors by making corporate information released about accounting and finance more accurate and reliable. It addresses issues like the establishment of a public company, creation of an accounting oversight board, auditor independence, corporate responsibility, and enhanced financial disclosure.

According to President Bush, Sarbanes Oxley includes "the most far-reaching reforms of American business practices since the time of Franklin Delano Roosevelt."

That may be true, but it's also one of the most complex and difficult to understand reforms ever passed. It covers topics such as:

\* Personal loans by the company to executive officers or directors \* Financial report certification \* More timely insider trading reporting \* Strong limitations on insider trades \* Public reporting of top executive real compensation and company profits \* Auditing independence \* Personal accountability by the chief officers of the company, backed up by criminal and civil penalties including serious jail time and financial penalties on individuals who misstate financial statements and commit securities violations

You can see how a bill covering so many different topics might be seen as discouragingly complex

Understanding Sarbanes Oxley

## What Is Sarbanes Oxley?

There are a few things you can do to learn how Sarbanes Oxley works. First, read reviews and synopses of the Sarbanes Oxley Act on the SEC website; they give an excellent overview of what the law is about. Second, you can get training focused in several different ways on the part of Sarbanes Oxley you need to understand.

The main thing to understand about Sarbanes Oxley, though, is that it primarily affects how you do your accounting, and thus how you run your IT services. Electronic controls must properly manage your financial information, so that you have clear, easy-to-access real-time information on your company's finances. Corporate finances must be kept separate from executive finances, payroll, and other moneys. Auditing for accountability is crucial, so that if errors or misinformation enter the data stream you will be able to determine the source.

With Sarbanes Oxley, even if you were ignorant of what was going on in your accounting, if you are a major executive you will be both civilly and criminally liable for any errors released to the public, or the failure to release certain information in a timely manner. You must learn about Sarbanes Oxley, not just

to comply with more government regulations, but to protect your personal life.

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### **Sarbanes Oxley Training**

#### **By Earl Powers**

The Sarbanes Oxley Act is incredibly complex and affects several different parts of your corporation in different ways. In order to comply properly with it, you will probably need specific targeted training for what your CEO and CFO need to know about the Sarbanes Oxley training; what your IT department will need to do; what your Board of Directors should be reviewing; and how to oversee Sarbanes Oxley training in its entirety in your business.

That's a lot of Sarbanes Oxley training. Small and large corporations both should be concerned about getting training targeted to addressing Sarbanes Oxley. With smaller companies, generalized

## What Is Sarbanes Oxley?

Sarbanes Oxley training for everyone along with perhaps a specialized class or two for the IT department on SOX 404, and a class for the accounting department on how auditing and accounting procedures are affected. For larger corporations, more specialized classes may be necessary.

### Suggested classes for Sarbanes Oxley training

All affected personnel in the executive, accounting, and IT departments, as well as key middle management, should get overview training on the Sarbanes Oxley Act. You might consider having this sort of class before starting specialized Sarbanes Oxley training, and following up at the end of all classes with a debriefing meeting for the same personnel, so that special concerns can be brought up and addressed at the same time for everyone.

A course on understanding section 302 of the Sarbanes Oxley Act is a must for executive management. A good course on this section will teach you the following:

What you're really certifying. What disclosure controls and procedures are, and how they differ from internal controls. What steps you should take immediately to implement Sarbanes Oxley. What you should do long-term for Sarbanes Oxley. What you should do prior to signing off on financial reports.

Your IT department will need some serious training on SOX 404, the part about your internal controls over financial reporting. IT departments have proven to be critical to providing these controls, and they will need to understand what controls they should provide, what they need to change about their current IT practices, and what new software they may need to implement.

Your accounting department will probably need Sarbanes Oxley training in a variety of different areas, including SOX 404 and intensive instruction on what kind of auditing procedures they need to implement. In addition, you should consider having a full review of your accounting and auditing practices by a professional trained in Sarbanes Oxley requirements who can examine your entire financial management procedures and determine what Sarbanes Oxley training your company will need in order to comply with these new laws.

### After Sarbanes Oxley Training

As you have gathered by now, the Sarbanes Oxley Act is a very complex piece of legislation that will have a real impact on the way you do business for many years yet to come. After your initial implementation of [Sarbanes Oxley training], you should have someone in your organization tasked with

keeping up with new developments, and at least consider followup training every year. The full effects of the Sarbanes Oxley Act are impossible to predict, but if you get the best Sarbanes Oxley training available right now, it should have a minimal impact on your business.

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