

SOX



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Sarbanes-Oxley Act

- 🐿 United States federal law that came into force in 2002
- 🐿 A.K.A.
 - 🐿 Public Company Accounting Reform and Investor Protection Act
 - 🐿 Corporate and Auditing Accountability, Responsibility, and Transparency Act
- 🐿 Enforces processes for financial record keeping and reporting for corporates
- 🐿 11 sections
- 🐿 Provisions apply to public companies; a few to private companies



- ❶ The law was a reaction to major corporate and accounting scandals
- ❷ The bill covers
 - ❖ Responsibilities of a public corporation's board of directors
 - ❖ Criminal penalties for certain misconduct
 - ❖ Requires the Securities and Exchange Commission to create regulations to define how public corporations are to comply with the law

Applicability



- ❶ SOX applies to
 - ❧ all public companies in the U.S.
 - ❧ international companies that have registered equity or debt securities with the Securities and Exchange Commission
 - ❧ the accounting firms that provide auditing services to them

Major Provisions



- ❶ Corporate responsibility
- ❷ Increased criminal punishment
- ❸ Accounting regulation
- ❹ New protections



Provisions

- ❶ Creation of a Public Company Accounting Oversight Board (PCAOB)
- ❷ Auditor independence
 - ❶ Restricts auditing companies from providing non-audit services for the same client
- ❸ Corporate responsibility
- ❹ Enhanced financial disclosures
 - ❶ Requires management to annually state responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting
 - ❷ Requires the independent auditor to provide an opinion on the effectiveness of the Company's Internal Control over Financial Reporting as of the reporting date
- ❺ Establishes standards of professional conduct for attorneys
- ❻ Periodic reporting of financial statements
 - ❶ Improper statements or certifying improper statements is penalised



- ❶ Potential criminal penalties
 - ❖ imposes harsher punishment for obstructing justice, securities fraud, mail fraud, and wire fraud
- ❷ Provides for complaints and anonymous tips
- ❸ Defines the codes of conduct for securities analysts and requires disclosure of knowable conflicts of interest
- ❹ Corporate and criminal fraud accountability
- ❺ Increase of white collar crime penalty
- ❻ Corporate fraud accountability

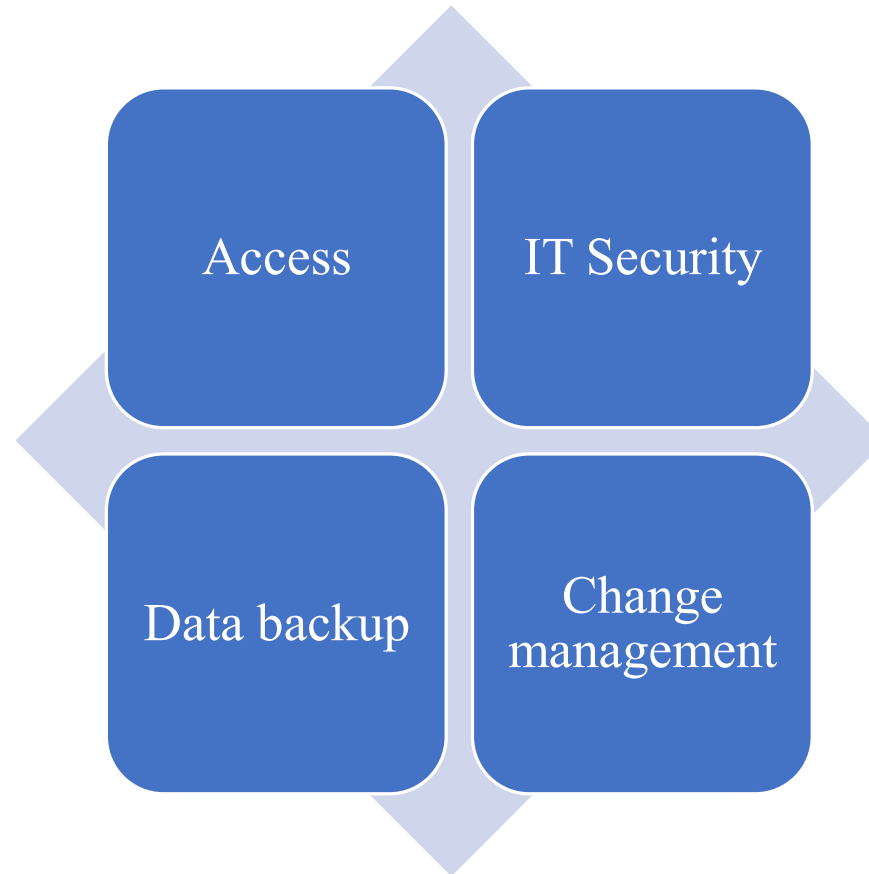
SOX Checklist



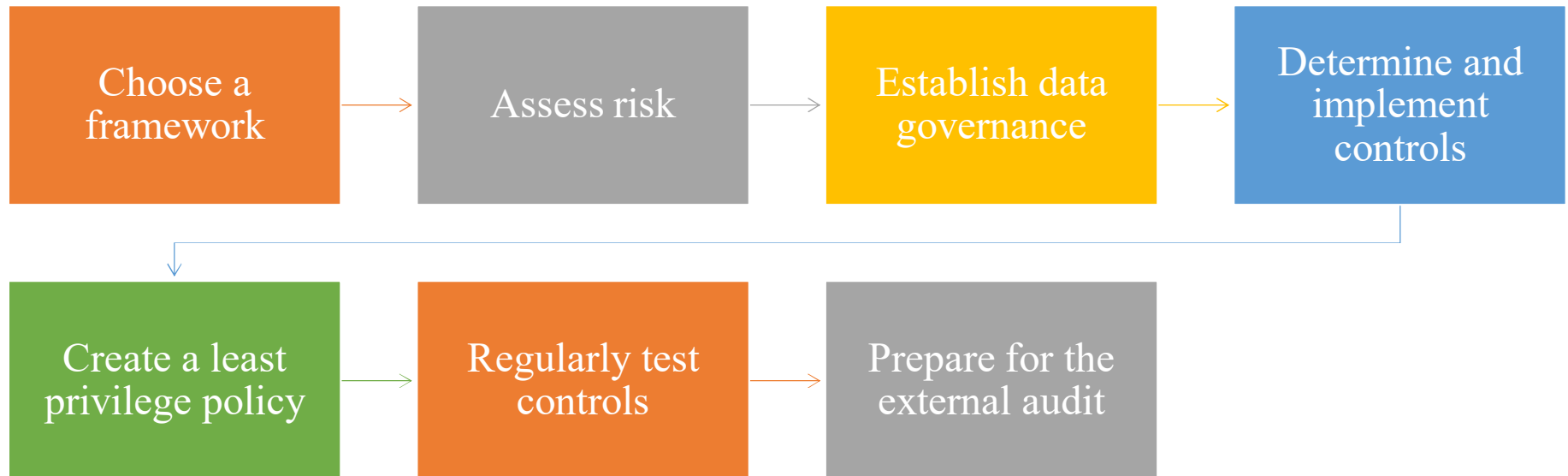
- ❶ Establish safeguards to prevent data tampering
- ❷ Record timelines for key activities
- ❸ Build verifiable controls to track data access
- ❹ Ensure safeguards are operational
- ❺ Periodically report effectiveness of safeguards
- ❻ Detect security breaches
- ❼ Disclose security safeguards to auditors
- ❽ Disclose security breaches to auditors
- ❾ Disclose failures of security safeguards to auditors



SOX Controls



Process



SOC Reports



- ❶ System and Organisation Control
- ❷ Formerly service organization controls report
- ❸ Verifies that an organization is following some specific best practices before outsourcing a business function to that organization



SOC Report Comparison

	WHAT IT REPORTS ON	WHO USES IT
SOC 1	Internal controls over financial reporting	User auditor and users' controller's office
SOC 2	Security, availability, processing integrity, confidentiality or privacy controls	Shared under NDA by management, regulators and others
SOC 3	Security, availability, processing integrity, confidentiality or privacy controls	Publicly available to anyone

Companies Penalised under SOX



- ❶ Satyam – \$10 million
- ❷ PW India - \$1.5 million + \$6 million
- ❸ Lehman Brothers –
- ❹ Ernst & Young -
- ❺ Merrill Lynch - \$5 million in interest + \$37.5 million penalty

Thank You!

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