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

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- The law was a reaction to major corporate and accounting scandals
- 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

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Applicability

- 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

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Major Provisions

- Corporate responsibility
- Increased criminal punishment
- Accounting regulation
- New protections

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Provisions

- Creation of a Public Company Accounting Oversight Board (PCAOB)
- Auditor independence
  - Restricts auditing companies from providing non-audit services for the same client
- Corporate responsibility
- Enhanced financial disclosures
  - Requires management to annually state responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting
  - 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
- Establishes standards of professional conduct for attorneys
- Periodic reporting of financial statements
  - Improper statements or certifying improper statements is penalised

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

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SOX Checklist

- Establish safeguards to prevent data tampering
- Record timelines for key activities
- Build verifiable controls to track data access
- Ensure safeguards are operational
- Periodically report effectiveness of safeguards
- Detect security breaches
- Disclose security safeguards to auditors
- Disclose security breaches to auditors
- Disclose failures of security safeguards to auditors

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SOX Controls

- Access
- IT Security
- Data backup
- Change management

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Process

Choose a framework → Assess risk → Establish data governance → Determine and implement controls → Create a least privilege policy → Regularly test controls → Prepare for the external audit

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SOC Reports

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

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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

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Companies Penalised under SOX

- Satyam – $10 million
- PW India - $1.5 million + $6 million
- Lehman Brothers –
- Ernst & Young -
- Merrill Lynch - $5 million in interest + $37.5 million penalty

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Thank You!

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