



SCHOOL OF INFORMATION SYSTEMS, COMPUTING & MATHEMATICS
MSC MODELLING AND MANAGEMENT OF RISK

SOXA
THE WHY'S, WHEN'S AND HOW'S
GUIDED READING

FEBRUARY 2005

GUIDED READING

Corporate Governance

The first part of this paper gives the reader some essential information about modern Corporate Governance and its structure, mainly prior to the enforcement of SOXA. Historical facts are included in order to show the progress of the last few decades and how all these led to the current regulations. It concludes with the changes to Corporate Governance after the enforcement of SOXA for all US listed companies.

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Interesting Links

- www.findarticles.com
- www.cpaaudit.co.uk
- www.e521.com
- www.CIO.com
- www.corpgov.net

Corporate Failures

This part of the White Paper examines the unfolding of events that led to SOXA being launched in 2002. It mainly describes the two primary corporate scandals of Enron and WorldCom, along with the downfall of their auditing firm, Andersen. Such events not only shook the US market and quivered the investors' confidence, but damaged the reputation of auditors and created an overall climate of disbelief and suspicion. An overview is given on this preceding ambiance and the circumstances that were created to prepare the ground for a new and rigorous legislation.

Should the reader be further interested in such events, information can be retrieved from the following sources:

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- Anonymous, (February 2002), 'Enron: the world reacts', The Accountant, Issue 5979
- Anonymous, 'The Adelphia Fraud', www.aicpa.org
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- Anonymous, (26 June, 2002), 'Wall Street scandals at a glance', BBC NEWS
- Anonymous, (9 August 2002), 'WorldCom reveals new \$3.3bn error', BBC NEWS

Regulations in Europe and the UK

This section briefly presents the most up to date laws and regulations that are afoot in Europe with respect to Corporate Governance. There is a reference to regulations that have been issued in countries where similar events, such as the scandals in the US, have taken place. Special attention is paid to European and International Organizations, as well as to the European Commission. It is outlined that incidents that led to the requirement for SOXA are not only a feature of the west side of the Atlantic. Europe has similar events to exhibit and the European Union's suggestion regarding enhancement of Company Law is presented. A great proportion of this section is about regulations in the UK, their long tradition and their evolution through time. Several significant reports and codes are mentioned, as well as UK's further step towards a stricter regulation. An enactment that introduces an innovative reporting requirement and appears to be as strict to SOXA as it can lead to punishment.

Further information regarding regulations and events presented in this section can be retrieved from the following sources:

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Related Links

- www.Lassonime.it
- www.afg.asso.fr
- www.ali.org
- www.bis.org
- www.cacg-inc.com
- www.corporate-governance-code.de
- www.ecgi.org
- www.iasb.co.uk
- www.iosco.org
- www.oecd.org
- www.thecommonwealth.org
- www.dti.gov.uk/cld
- www.londonstockexchange.com

Accountability of senior officers

This section of the paper is giving a detailed analysis of the responsibilities of senior officers according to SOXA. The analysis is done by taking one section at a time showing the exact responsibility for the management and ways of compliance. New US Code laws and other additions are also mentioned in combination with information about the penalties for non-complied companies and officers.

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Financial Processes and Risk Controls

This section examines a company's financial processes and controls. It introduces the COSO's ERM framework and analyses its components and their effect in the company's performance. It explores from a critical point of view the consequences of adopting SOXA and particularly meeting with the requirements of section 404.

Moreover it focuses on the way SOXA deals with the principal risks through the applied ERM framework.

Finally, it presents the results of a number of significant surveys that help the reader understand the hidden benefits and the shortcomings of the rather new legislation.

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