



Fireside chat with Megan Zietsman
Impact of the Sarbanes-Oxley Act
Summary of discussions | 29 November 2021



Corporate reporting and governance: Impact of the Sarbanes-Oxley Act

On the eve of the twentieth anniversary of the Sarbanes-Oxley Act (SOX), we reflect on the lessons and impact of SOX on the financial reporting ecosystem.

Setting the scene

The US response to Enron and corporate failures was regulation of financial reporting which gave rise to the Sarbanes-Oxley Act (SOX) in 2002. SOX took a broad view from the outset and acknowledged the interdependent roles in the financial reporting ecosystem. SOX provisions consider the roles of management, audit committees and auditors and the importance of internal controls over financial reporting, overlaid with a liability regime. It also established oversight of external audit through the establishment of the Public Company Accounting Oversight Board (PCAOB).

Several countries have implemented SOX-type measures, however, not many have taken as holistic an approach as was done under SOX.

This fireside chat focused on the impact of SOX on the financial reporting ecosystem and lessons learnt as we approach the 20th anniversary of SOX.

Panel of speakers

Lwazi Bam, Chief Executive, Deloitte Africa

Megan Zietsman, Former Board Member of the Public Company Accounting Oversight Board (PCAOB)*

Anne Muraya, Managing Partner: Responsible Business and Public Policy, Deloitte Africa

**Megan Zietsman expressed views in her personal capacity based on her personal experience and not the views of any particular organisation.*

Supporting materials

Recording of the event



Thought leadership: Why did Sarbanes-Oxley (SOX) stand out?





“Targeting just one participant in the (financial reporting) ecosystem is never going to be as effective as looking at the entire ecosystem and the inter-relationships that exist within it.”

Megan Zietsman, commenting on the holistic approach of SOX

A holistic approach to the financial reporting ecosystem

One of the distinguishing traits of SOX is that it takes a holistic approach to reforms across the participants of the financial reporting ecosystem and acknowledges the co-dependencies across the participants. For example, the auditor’s ability to perform a quality audit is contingent on the quality of financial reporting and effective internal controls, which is the responsibility of management. The audit committee is responsible to oversee that management is fulfilling those responsibilities. Zietsman believes that focusing on one participant exclusively or disproportionately in relation to the others would disrupt the optimal functioning of the ecosystem.

Accordingly, SOX provided for a package of reforms that looked at the ecosystem holistically and recognised the inter-related roles of the main participants in the financial reporting ecosystem across preparers (management), audit committees and auditors. Such reforms included:

- Increased accountability for **preparers**, including CEO and CFO certification of annual and quarterly reports along with criminal penalties for knowingly false certifications
- A prominent emphasis on internal controls, requiring **management’s** assessment on the effectiveness thereof and **auditor** attestation of management’s assessment
- Establishment of the PCAOB as a **regulator** to provide oversight of external auditors
- Independent **audit committees** to be charged with the oversight of financial reporting and controls, a requirement for financial expertise in the composition of the audit committee, and provisions relating to pre-approval of audit and non-audit services

Weighing the costs and benefits of SOX

S404 of SOX pertains to management’s assessment of the effectiveness of internal controls and the auditor’s attestation thereof. It is arguably one of the more debated provisions of SOX, due to the incremental costs it bears on companies.

In considering whether the costs of implementing SOX was outweighed by the benefit, Zietsman stated that it was difficult to definitively arrive at a conclusion as many of the benefits of SOX were intangible and not easily quantifiable. She however believes that SOX has had a clear positive impact on the financial reporting ecosystem and strengthening of the audit profession. She is of the view that SOX propelled the audit profession into an improved state of audit quality. SOX honed management’s focus on internal controls over financial reporting, elevating the emphasis on fraud in the control environment.

Whilst the implementation costs of SOX can be significant, they are justifiable when balanced against the paramount importance of protecting investor interests and the public interest - this underscores the need to invest in systems that allow for high quality financial reporting to make sound investor decisions.

Coherent accountability and enforcement regime

SOX provided for a clear accountability and enforcement regime for ecosystem participants. Zietsman believes that the “teeth” in SOX have contributed to driving better compliance with the provisions and raising the bar on accountability.

SOX as a model for other jurisdictions

Whilst SOX was designed for a US context, Zietsman believes that the foundational concepts and principles of SOX can be applied across other jurisdictions, centred on driving accountability and responsibility across all ecosystem participants. How it manifests in other jurisdictions will depend on the particular country.

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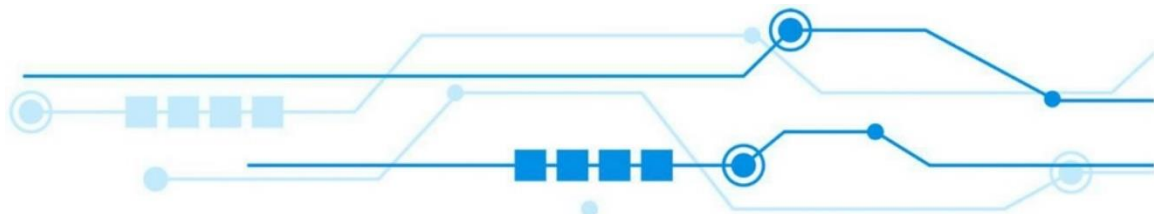
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This summary is based on a virtual event with the same title that was hosted by Deloitte Africa on 29 November 2021. Speakers included:

- Lwazi Bam: Chief Executive, Deloitte Africa
- Megan Zietsman: Former Board Member of the Public Company Accounting Oversight Board (PCAOB)
- Anne Muraya: Managing Partner, Responsible Business and Public Policy, Deloitte Africa





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