

Chapter – Codes and Standards on Corporate Governance

Various countries have appointed committees to suggest guidelines/Principals for improving corporate governance. Codes of corporate governance have been formulated on the suggestions of these committees. These codes contain guidelines for companies to strengthen their governance.

The Cadbury Committee 1992

The Cadbury Committee was the first committee to be constituted to report on the financial aspects of corporate governance. It was set up in 1991 under the chairmanship of Sir Adrian Cadbury. The Cadbury Committee, which reported in 1992, acknowledged that the financial scandals and abuse of power as exposed in the Maxwell case were some of the reasons behind the setting up of the committee to report on corporate governance matters. Hence, the formation of the Cadbury Committee can be seen as reactive rather than proactive. However, it is important to remember that Cadbury Report was compiled on the basic assumption that the existing, implicit system of corporate governance in the UK was sound and that many of the recommendations were merely making explicit and a good implicit system (Cadbury Report, 1992, pg 12, para 1.7). The Cadbury Report and its

accompanying Cadbury Code (1992) derived their names from Sir Admin Cadbury, the council of the Stock Exchange and the Accountancy Profession set about establishing the Cadbury committee, the committee on the Financial Aspects of Corporate Governance, which produced its report and accompanying Code of Best Practice at the end of 1992. The Cadbury Code was not legally binding on boards of the directors. Nevertheless, one of the rules in the Stock Exchange Yellow **Book** at the time of its publication was a statement of compliance with the Code. The result of this was that all companies, publicly quoted on the Stock Exchange, had to state in their **annual** reports whether or not they had implemented the Code in all respects. If they had not complied with the whole Code, then they were compelled to make a clear statement of the reasons while, detailing and explaining the points of non-compliance. The implication was that the companies' shareholders then had the opportunity of deciding whether or not they were satisfied with the companies' corporate governance Systems.

The Cadbury Report and its accompanying Code covered three general areas namely: the board of directors, auditing and shareholders. The Cadbury Report focused attention on the board of directors as being the most important corporate governance mechanism, requiring constant monitoring and assessment. However, the accounting and auditing h c t i o n were also shown to play an essential role in good corporate governance, emphasizing the importance of the corporate transparency and communication with shareholders and other stakeholders. Lastly, Cadbury's focus on the importance of the institutional investors as the largest and most influential group of shareholders has had a lasting impact. This more than any other initiative in corporate governance reform has led to the shift of directors' dialogue towards greater accountability and engagement with shareholders. Further, we consider that this move to greater shareholder engagement has generated the more significant metamorphosis of corporate responsibilities towards a range of stakeholders, encouraging greater corporate social responsibility in general. There is no denying about the substantial impact the Cadbury Code has had on corporate Britain and, indeed, on companies around the world. By the late 1990s there was strong evidence to show a high level of compliance with the Cadbury Code's recommendations (Conyon and Mallin, **1997**), partly due to the UK's comply or explain approach (as explained in appendix Comply or Explain).

Central to the final report's recommendations was that boards of all listed companies registered in the **IJK** should comply with the Code of Best Practice as stated out in the report. The code is given added weight by the disclosure requirement of the London Stock Exchange that companies must state in their **annual** report whether they are complying with the code or to give reasons for any aspects on non-compliance.

Code of Best Practice

At the time of publication of the Committee's final report Sir Adrian Cadbury said: The planks on which the code is based are the need for disclosure and for checks and balances. Disclosure ensures that all those with a legitimate interest in a company have the information they need in order to exercise their rights and responsibilities towards it. In addition, openness by companies is the basis of public confidence in the corporate system. Checks and balances guard against undue concentrations of power and make certain that all the interests which boards have a duty to consider are properly taken into account.

The wide recommendations consist of 19 points set under the headings of (1) The Board of Directors; (2) Non-Executive Directors; (3) Executive Directors; and (4) Reporting and Controls. The main points are summarized as follows:

The Board of Directors

1. The board should meet regularly, retain full and effective control over the company and monitor the executive management.
2. 'There should be a clearly accepted division of responsibilities at the head of the company, which will ensure a balance of power and authority, such that no one individual is vest with unfettered powers of decision.' Ideally the roles of Chairman and Chief Executive should be separated, although this may not always be practical, in which case there 'should be a strong and independent element on the board'.
3. The board should include non-executive director's 'sufficient caliber and number for their views to carry significant weight in the board's decisions'.

Non-executive Directors

1. Non-executive or 'outside' directors as the committee's chairman preferred to call them, should 'bring an independent judgment to bear on issues of strategy, performance, resources including key appointments and standards of conduct'.
2. The majority of non-executive directors should be 'independent' of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding.
3. Non-executive directors should be appointed by a formal process and their appointment should be a matter for the board as whole. Appointments should be for specified terms and re-appointment should not be automatic.

Executive Directors

1. Directors' service contracts should not exceed three years without shareholders' approval.
2. Directors' pay and emoluments, including pension contributions and stock options and the amount and the basis for any performance-related element, should be fully disclosed and subject to the recommendations of a remuneration committee consisting mainly or wholly of non-executive directors and preferably chaired by a non-executive director.

Reporting and Control

1. It is the board's duty to present a balanced and understandable assessment of the company's position.
2. The board should ensure that an objective and professional relationship is maintained with the auditors.
3. The board should establish an audit committee which should consist of at least three non-executive directors. Originally the committee referred to the annual audit as 'one of the cornerstones of corporate governance'.
4. The directors should report on the effectiveness of the company's system of internal control.

5. The directors should report that the business is a going concern, with supporting assumption or qualifications necessary. (Geeta Rani & Mishra, 2008).

The Greenbury Report 1995

A particularly contentious aspect of corporate governance in recent years has been that of executive pay. In 1994-95 the seemingly endless escalation in executive pays, particularly in the newly privatized public utilities such as British Gas, caused a public outcry in the UK. It forced the British Prime Minister at that time, John Major, to denounce 'un-justifiable' increases in company executive pay in the House of Commons in November 1994. In response to such public concern, the Confederation of British Industry (CBI) recruited a committee of 11 top managers

(mainly chairmen) from UK leading companies such as British Petroleum, British Telecommunications, GKN, Boots and Marks & Spencer PLC to conduct an inquiry into directors' remuneration. The committee was chaired by Sir Richard Greenbury, executive chairman of Marks and Spencer and became known as the Greenbury Committee. Its brief report was: To identify good practice in determining Directors' remuneration and prepare a Code of such practice for use by UK PLCs.

The committee published its report on 17 July 1995 and its key themes were: 'accountability, responsibility, full disclosure, alignment of Director and shareholder interests, and improved company performance' (Directors' Remuneration: Greenbury 1995). The Greenbury Committee was formed after widespread public concern over what were seen as excessive amounts of remuneration paid to directors of quoted companies and newly privatized companies. 'Recent concerns about executive remuneration have centered above all on some large pay increases and large gains from share options in the recently privatized utility industries. These increases have sometimes coincided with staff reductions, pay restraints for other staff and price increases... there have also been concerns about the amounts of compensation paid to some departing directors' (Greenbury Report, 1995:9). The Greenbury Committee were keen to ensure that directors' remuneration was linked to company performance, and the committee did not seem to see a problem with high levels of pay per se, as long as they were justified on the basis of the company's financial results.

A key concern should be to ensure, through the remuneration system, that directors share the interest of shareholders in making the company successful. Performance-related remuneration can be highly effective in aligning interest in this way. In many companies, therefore, there will be a case for a high gearing of performance related to fixed pay. But there are two constraints on this. First, there will usually be a level of basic salary below which it will not be practicable to go. second, the requirements and priorities of companies vary. The gearing, which suits one company, may be quite unsuitable for another (Greenbury Report 1995,38).

The Greenbury Report also addressed the problem of departing directors whose performance had not been noticeably successful, but who still manage to leave the company with generous compensation for loss of office.

Compensation payments to directors on loss of office have been a cause of public and shareholders concern in recent times. Criticism has been directed at the scale of some of the payments made and at their apparent lack of justification in terms of performance. Some payments have been described, as 'rewards for failure' (Greenbury Report, 1995,45). When the Greenbury Report was published in 1995 it dealt specifically with the question of directors' remuneration and many of its recommendations were developed from the earlier Cadbury Report. The Greenbury Report recommended that the remuneration committee should consist exclusively of non-executive directors (the Cadbury Report had recommended wholly or mainly non-executive directors). These non-executive directors should have no personal financial interest, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business,

In all, the Greenbury Report contained some 20 recommendations, the key elements of which are summarized below:

1. Remuneration Committees should consist only of non-executive directors. This should avoid pay being determined by directors with a direct financial interest. Remuneration committees should:
 - i). Publish an annual report giving full disclosure of all the elements (basic pay, bonuses, share options, pensions and so on);
 - ii). Relate incentives to demanding performance targets, in order to 'align directors' and shareholders' interests;

- iii) Explain pay policy to shareholders and justify any unusual or exceptional awards;
 - Have the committee chairman attend AGM to respond to shareholder's
 - iv) questions.
2. Long-term incentive schemes to be approved by shareholders.
 3. Discounted share options. No longer should directors be awarded share options at a discount to the prevailing market price (Geeta Rani & Mishra, **200k**).

The Hampel Report 1998

The Hampel Committee was created in 1995 to review implementation of the findings of the Cadbury and Greenbury Committees. The Hampel Committee published its report in 1998. Most of the recommendations in the earlier reports were then published in 1998 by the London Stock Exchange as The Combined Code: Principles of Good Governance and Code of Best Practice. The Combined Code (although redrafted since its original publication) is the currently applicable code of best corporate governance practice for UK listed companies. The recommendations of Hampel were along similar lines and on similar issues to Cadbury. An important contribution made by the Hampel Report was the emphasis attributed to avoiding a prescriptive approach to corporate governance improvements and recommendations. The Cadbury Report highlighted the importance of focusing on the spirit of corporate governance reform and Hampel reinforced this by stipulating that companies and shareholders needed to avoid a 'box-ticking' approach to corporate governance. The Hampel Report emphasized the need to maintain principles-based, voluntary approach to corporate governance rather than a more regulated and possibly superficial approach. This is typical of the UK approach to corporate governance and accounting as opposed to the US style of legislation, the rules-based approach. Indeed, the report stated:

'Good corporate governance is not just a matter of prescribing particular corporate structures and complying with a number of hard and fast rules. There is a need for broad principles. All concerned should then apply these flexibly and with common sense to the varying circumstances of individual companies. This is how

the Cadbury and Greenbury Committees intended their recommendations to be implemented ... Companies' experience of the Cadbury and the Greenbury Codes has been rather different. Too often they believe that the codes have been treated as sets of prescriptive rules. The shareholders or their advisors would be interested only in whether the letter of the ride had been complied with-yes or no, A 'yes' would receive a tick, hence the expression 'box ticking 'for this approach' (The Hampel Report, 1998, p. 10, paras 1.1 1-1.12 emphasis added).

In some ways (such as the role of institutional investors in corporate governance) Hampel could be interpreted as being less demanding than Cadbury. **Indeed**, there is a widely held perception that the report represented the interest of **the** company directors more than those of shareholders and that much of the positive impact from Cadbury Report was diluted by the Hampel Report. Certainly, in the area of corporate social responsibility and corporate accountability to a broad range of stakeholders, there was a significant change in fact between the Cadbury Report and the Hampel Report. The Hampel Report clearly felt the need to redress the balance between shareholders and stakeholders and made strong statements on these issues. For example, the Hampel Committee stated that:

The importance of corporate governance lies in its contribution both to business prosperity and to accountability. In the **UK** the later has pre-occupied much public debate over the past few years. We would wish to see the balance corrected. Public companies are now among the most accountable organizations in the society., which strongly endorse this accountability and we recognize the contribution made by the Cadbury and Greenbury Committees. But the emphasis on the accountability has tended to obscure a board's first responsibility - to enhance the prosperity of the business over time. (The Hampel Report, 1998, p.7, para. 1.1, emphasize added) (Solomon and Solomon, 2004).

An important contribution made by the Hampel Report related to pension **fund** trustees, as pension funds ate the largest group of investors. Pension fund trustees were targeted by the report as a group who needed to take their corporate governance responsibilities more seriously. In particular, pension funds (and their trustees) were encouraged by the Hampel Committee to adopt a more long-term approach to institutional investment, in order to avoid short-termism for which UK

companies are notorious. Pension funds were highlighted as the main culprits in placing short-term pressure on their investing companies. This discussion in the Hampel Report has been instrumental in encouraging an overhaul in the pension fund trustee's role, culminating in the recent Minors Review of the trustee's role and responsibilities (Myners, 2001).

The impact of the Combined Code (and its predecessors) on UK company directors and institutional investors has been far-reaching, especially in the area of investor relations and shareholder activism. In a decade, corporate attitudes towards their core investors have been transformed from relative secrecy to greater transparency. Similarly, the attitudes of the institutional investors have been transformed from relative apathy towards their investee companies' activities to an active interest. As was the case for Cadbury and Greenbury, the Hampel Report could also be seen as reactive rather than proactive as further significant UK corporate failures arose from weak corporate governance structures between the publication of the Cadbury Report and the Hampel Report. One of these was a fall of the major UK bank, Baring's, that created shockwaves through the corporate and financial communities throughout the UK and, indeed, across the world.

The Smith Report 2003

The UK Government in response to the Enron scandal commissioned this committee, inter alia, with the aim of examining the role of the audit committee in UK corporate governance. This report was published in 2003. The main issue dealt with in the report concerned the relationship between the external auditor and the companies they audit, as well as the role and responsibilities of companies' audit committees. The creation of audit committees was a recommendation of the Cadbury Report and represented a clear means of monitoring company directors' activities. In the case of Enron, the failure of the audit committee and internal audit function was one of the principal causes of the company's collapse. Improvements in this area represent one way of keeping a check on the production of reliable and honest accounts. Nevertheless, some have suggested that the report has not gone far enough. It has been suggested that a more prescriptive approach would have been preferable which would, for example, prevent auditing companies offering other professional services, such as consultancy or IT services or to client companies

that they audit. However, the Smith Report preserved the UK tradition of a principles-based approach, attempting not to create a 'one size fits all' set of rules for listed companies. This would be counterproductive as not all companies would be in a position to comply (Geeta Rani & Mishra, 2008).

OECD Principles

The Organisation for Economic Cooperation and Development (OECD) was one of the earliest non-governmental organisations to work on and spell out principles and practices that should govern corporate in their goal to attain long-term shareholder value. The OECD Principles were oft-quoted and have won universal acclaim, especially of the authorities on the subject of corporate governance. Because of the ubiquitous approval, the OECD Principles are as much trendsetters as the Codes of Best Practices associated to the Cadbury Report. A useful first step in creating or reforming the corporate governance system is to look at the principles laid out by the OECD and adopted by its member governments. In sum, they include the following elements:

The rights of shareholders: The rights of shareholders include a set of rights to secure ownership of their shares, the right to full disclosure of information, voting rights, participation in decisions on sale or modification of corporate assets, mergers and new share issues. The headlines go on to specify a host of other issues connected to the basic concern of protecting the value of the corporation.

Equitable treatment of shareholders: The OECD is concerned with protecting minority shareholders' rights by setting up systems that keep insiders, including managers and directors, from taking advantage of their routes. Insider trading for example, is explicitly prohibited and directors should disclose any material interest regarding transactions.

The role of stakeholders in corporate governance: The OECD recognises that **there** are other stakeholders in companies in addition to shareholders. Ranks, bondholders and workers, for example, are important stakeholders in the way in which companies perform and make decisions. The OECD guidelines lay out several general provisions for protecting stake holder's interests.

Disclosure and transparency: The OECD lays down a number of provisions for the disclosure and communication of key facts about the company ranging from

financial details to governance structures including the board of directors and their remuneration. The guidelines also specify that independent auditors in accordance with high quality standards should perform annual audits.

The responsibilities of the board: The OECD guidelines provide a great deal of details about the functions of the board in protecting the company

The OECD guidelines are somewhat general and both the Anglo-American system and the Continental European (or German) system would be quite consistent with **them**. However, there is a growing pressure to put more enforcement mechanisms into those guidelines. The challenge will be to do this in a way consistent with market-oriented systems by creating self-enforcing procedures that do not impose large new costs on firms. The following are some ways to introduce more explicit standards:

- Countries should be required to establish independent share registries. All **very** often, newly privatised or partially privatised firms must dilute stock or should not fail to register shares purchased through foreign direct investment.
- Standards for transparency and reporting of the sales of underlying assets need to be spelled out along with enforcement mechanisms and procedures by which investors can seek to recover damages.

- The discussion of stakeholder participation in the OECD guidelines needs to be balanced by discussion of conflict of interest and insider trading issues. Standards or guidelines are needed in both the areas.
- Property rights and their protection.
- Internationally accepted accounting standards should be explicitly required and national standards should be brought into alignment with international standards.
- Internal company audit functions and the inclusion of outside directors on audit committees need to be made explicit. The best practice would be to require that only outside; independent directors be allowed to serve on audit committees.

These standards seem to be too heavily influenced by the Anglo-American tradition and may really be necessary in most countries. A study by the Center for European Policy Studies noted that the wider the distribution of shareholding the greater is the role of the market in the exercise of corporate control. Hence there is a greater need for corporate governance procedures in this type of economy than in one where shareholding is relatively concentrated. The report went on to note, however, that financial market liberalisation increased privatisation and the growing use of funded system to support pension rules driving European countries toward more explicit and more comprehensive rules on corporate governance. In short, globalisation is forcing convergence of different systems into an open and internationally accepted set of standards.

The reason why it is important to take note of the trends toward convergence is that many people have cited the European experience as proof that corporate governance issues apply to only countries that follow an Anglo--American tradition, such as India, for instance. Recent history would seem to show that without sound corporate governance procedures, including the larger institutional features mentioned earlier, economic crises in developing countries are likely to become more frequent. Many developing countries face rather stark choices: either create the type of governance procedures needed to participate in and take advantage of globalisation, run risk of severe (and frequent) economic crises or seek to build

defensive walls around the economy. It should be noted that the last option usually entails the risk of keeping out investors and new technologies and lower growth rates dramatically.

Another consideration in the debate over corporate governance system is the risk that individual firms face. Unless a company is able to build the kind of governance mechanisms that attract capital and technology, they run the risk of simply becoming suppliers and vendors to the multinationals (A.C.Fernando, 2006).

Sarbanes-Oxley Act, 2002

corporate America has been blotted with many scandals in the recent times. Despite the fact that there have been differences between the recent scandals and the earlier ones, there is a common thread running in between them. The common thread is that governance matters, that is, good governance promotes good corporate decision-making. The recent Sarbanes-Oxley Act is a step in this direction, which codifies certain standards of good governance as specific requirements. The Act calls for protection to those who have the courage to bring frauds to the attention of those who have to handle frauds. But it ensures that such things are not left to the individuals who may or may not choose to reveal them, it is better for the corporations to appoint an officer with the responsibility to oversee compliance and ethical issues. Unless corporate governance is integrated with strategic planning and shareholders are really willing to bear the additional expenses that may be required, effective corporate governance cannot be achieved.

The Sarbanes-Oxley Act (SOX Act), 2002 is a sincere attempt to address all the issues associated with corporate failures to achieve quality governance and to restore investor's confidence. The Act was formulated to protect investors by improving the accuracy and reliability of corporate disclosures, made precious to the securities laws and for other purposes. The Act contains a number of provisions that dramatically change the reporting and corporate director's governance obligations of public companies, the directors and officers.

Important provisions contained in SOX Act are briefly given below

Establishment of Public Company Accounting Oversight Board (PCAOB):

The SOX Act creates a new board consisting of five members of whom two will be certified public accountants. All accounting firms will have to register themselves with this Board and submit among other details, particulars of fees received from public company clients for audit and non-audit services, financial information about the firm, list of firms' staff who participate in audits, quality control policies, information on civil, criminal and disciplinary proceedings against the firm or any of the staff. The Board will conduct annual inspections of firms, which audit more than **100** public companies, and once in **3** years in other cases. The board will establish rules governing audit quality control, ethics, independence and other standards. It **can** conduct investigations and disciplinary proceedings and can impose sanctions on auditors.

The Board reports to the SEC. The Board is required to send its report to the SEC annually, which will then be forwarded by the SEC to the Congress. The new board replaces the old one, which was funded by fees collected from public companies based on their market capitalisation.

Audit committee: The **SOX Act** provides for a "new improved" audit committee. The members of the committee are drawn from among the directors of the board of the company but all are independent directors as defined in the Act.

The audit committee is responsible for appointment, fixing fees and oversight of the work of independent auditors. The committee is also responsible for establishing and reviewing the procedures for the receipt, treatment of accounts, internal control and audit complaints received by the company from the interested or affected parties;

The SOX Act requires that registered public accounting firms should report directly to the audit committee on all critical accounting policies and practices and other related matters. Conflict of interest: Public accounting firms should not perform any audit service for a publicly traded company if the CEO, CFO, CAO, controller, or any person serving in an equivalent position was employed by such firm and participated in any capacity in the audit of that company during the one year period preceding the date of initiation of the audit.

Audit partner rotation: The SOX Act provides for mandatory rotation of the lead auditor, coordinating partner and the partner reviewing audit once every 5 years.

Improper influence on conduct of audits: It will be unlawful for any executive or director of the firm to take any action to fraudulently influence, coerce, manipulate or mislead any auditor engaged in the performance of an audit with the view to rendering the financial statements materially misleading.

Prohibition of non-audit services: Under the SOX Act, auditors are prohibited from providing non-audit services concurrently with audit financial review services. Non-audit services include: (i) book-keeping or other services related to the accounting records or financial statements of the client; (ii) financial information system, design and implementation; (iii) appraisal or valuation services, fair opinions; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services or expert services unrelated to the audit and (ix) any other service that the board determines, by regulation, is impermissible. However, the board has the power to grant exemptions. The Act also allows an accounting firm to "engage in any non-audit service including tax services", if it has been pre-approved by the audit committee of the firm concerned.

CEOs and CFOs required to affirm financials: Chief executive officers and chief finance officers are required to certify the reports filed with the Securities and Exchange Commission. If the financials are required to be restated due to material non-compliance "as a result of misconduct" of the CEO or CFO, then such CEO or CFO will have to return bonus and any other incentives received by him back to the company. This applies to equity-based compensation received during the first 12 months after initial public offering. False and/or improper certification can attract fine ranging from \$1 million to \$5 million or imprisonment up to 10 years or both.

Loans to directors: The SOX Act prohibits US and foreign companies with securities traded within the US from making or arranging from third

parties any type of personal loan to directors. It appears that the existing loans are not affected but material modifications or renewal of loans and arrangements of existing loans are banned.

Attorneys: The attorneys dealing with the publicly traded companies are required to report evidence of material violation of securities law or breach of fiduciary duty or similar violations by the company or any agent of the company to the Chief Counsel or CEO and if the Counsel or CEO does not appropriately respond to the evidence, the attorney must report the evidence to the audit committee or the Board of Directors.

Securities analysts: The **SOX Act** has a provision under which brokers and dealers of securities should not retaliate or threaten to retaliate an analyst employed by the broker or dealer for any adverse, negative or unfavourable research report on a public company. The Act further provides for disclosure of conflict of interest by the securities analysts and brokers or dealers whether

- a) The analyst has investments or debt in the company he is reporting on.
- b) Any compensation received by the broker dealer or analyst is "appropriate in the public interest and consistent with the protection of investors".
- c) The company (issuer) has been a client of the broker or dealer.
- d) The analyst received compensation with respect to a research report based on investment banking revenues.

Penalties: The penalties prescribed under SOX Act for any wrongdoing are very stiff. Penalties for wilful violations are even stiffer. Any CEO or CFO providing a certificate knowing that it does not meet with the criteria stated may be fined up to \$1 million and/or imprisonment up to 10 years. However, those who "wilfully" provide certification knowing that it does not meet the required criteria can be punished with a fine of \$5 million and/or with prison term up to 20 years. These heavy penalties are bound to be a deterrent for wrongdoers.

Very importantly, the SOX Act provides for studies to be conducted by the Securities and Exchange Commission or the Government Accounting Office in the following areas:

- i) Auditor's rotation.
- ii) Off-balance sheet transactions.

- iii) Consolidation of accounting firms and its impact on the accounting industry.
- iv) Role of Credit Rating Agencies.
- v) Study of violators and violations during the years 1998-2001.
- vi) SEC enforcement actions over the past **5** years.
- vii) Role of investment banks and financial advisers,
- viii) "Principle-based" accounting.

The SOX Act would certainly enhance accountability levels for directors, officers, auditors, security analysts and legal counsel involved in the financial markets. It would have far reaching implications worldwide particularly in areas of audit. The Act targets specifically publicly traded companies and do not distinguish between the US and non-US companies- It applies to all companies with a listing in the US.

But the most important aspect of the SOX Act is that it makes it clear that a company's senior officers are responsible for the corporate culture they create, and must be faithful to the same rules they set out for other employees. The CEO, for example, must be ultimately responsible for the company's disclosure, controls and financial reporting (A.C.Fernando, 2006).

