Name:

University:

Course:

Tutor:

Date:

Corporate Accountability 550

# The Relative Merits of the Sarbanes-Oxley Act and the UK Code of Corporate Governance as Mechanisms for protecting the Interests of Stakeholders in Publicly-Quoted Companies

## Increased Transparency and Accountability:

The SOX Act and the UK Code of Corporate Governance have continued to gain a lot of popularity due to their ability to facilitate the detection of fraudulent activities and unethical financial and governance practices which being perpetrated by the management and directors of public corporations. For instance, all the nine section of SOX's fourth title are focus on ensuring that the reporting of financial transactions and the preparation and presentation of financial reports complies with the concept of adequate financial disclosures (Plessis et al, 2010).

Adherence to these principles ensures stakeholders are always provided with accurate and reliable information which can enable them to ascertain the stability of the companies they have interest in (Burns, 2004). On the issue of accountability, the eighth title of the Act specifies various punitive measures which ought to be taken against those convicted of intentionally manipulating the financial records of public corporations in order to continue deceiving stakeholders (Plessis et al, 2010).

Similarly, the UK Code of Corporate Governance addresses the issue of good leadership and accountability in public companies under sections A and C of the provision. For instance, the Code makes it clear that the management of all public companies should exhibit high levels of efficiency and effectively since this is the only way they can become equally responsible and committed in overseeing the success, both short and long-term, of these entities (FRC, 2012).

Initiating and Maintaining Good Corporate Governance:

Corporate governance is a term used in reference of principles, structures, activities and systems which dictate the manner in which organizations are run and governed (Burns, 2004). Moreover, corporate governance addresses the nature of relationships existing between the management, directors and all stakeholders of a given entity. It is only through ensuring that good corporate governance provides the foundation of the operations and leadership of public corporations that that the welfare and interests of all investors and other stakeholders can continue to be protected (Plessis et al, 2010).

Section 404 of the SOX Act addresses the issue of good corporate governance by making it mandatory for all public corporations to put in place highly functional and effective internal controls to govern the behaviors and actions of those holding positions of power in such entities (Shadad, 2008). The controls also ought to render guidelines and procedures for all financial reporting, recording and presentation activities. Section E of the UK Code of Corporate Governance also highlights the need to ensure good corporate governance takes root in public corporation by explaining how such firms should strive to maintain concrete understanding and relationship with their investors and other stakeholders (FRC, 2012).

Auditors Independence:

Section 303 of the Sarbanes-Oxley Act focuses on ensuring that the auditors of public corporations' financial statements won't experience the problem of conflict of interest as they continue purporting their activities.  The section proposes tough actions to be taken against auditors, managers and directors who are found guilty of colluding to mislead stakeholders by providing materially misleading information to them (Shadad, 2008). The UK Code of Corporate Governance addresses the issue of auditors' independence under Section C where directors and managers of public corporations are required to maintain appropriate and professional relationships with auditors (FRC, 2012).

Bibliography

Burns, J., 2004, *The Journal Report: Corporate Governance: Is Sarbanes-Oxley Working?* The Wall Street Journal (online), Retrieved from http://online.wsj.com/ad/article/ironmountain/SB108750495035740487.html

FRC, 2012, *The UK Corporate Governance Code*, Financial Reporting Council, Retrieved from http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx

Plessis, J., Bagaric, M. & Hargovan, A., 2010, *Principles of Contemporary Corporate Governance*, Cambridge: Cambridge University Press.

Shadad, H., 2008, *Innovation and Corporate Governance: the Impact of Sarbanes-Oxley*, Journal of Business and Employment Law, V. 10, No. 4, pp. 955-1008, retrieved from https://www.law.upenn.edu/journals/jbl/articles/volume10/issue4/Shadab10U.Pa.J.Bus.&Emp.L.955%282008%29.pdf