

## **Chapter 1 - Conclusion**

### **1.1. Conclusion**

The Sarbanes-Oxley Act of 2002 commonly known as SOX mandates a comprehensive accounting framework for U.S. public companies. The SOX framework consists of accounting principles that must be practiced uniformly and transparently. Though this Act has several key provisions, Section 404 of the legislation is arguably the most contentious with cost implications. This is mainly due to section's ambiguity regarding the means for compliance, as well as the costs involved in remediating, implementing, and auditing control systems. Complying with Section 404, however, can have other benefits for the organization including but not limited to financial, legal, ethical and operational impacts.

The high compliance costs and new reporting procedures created an immediate need for effective training to streamline the new SOX procedures into regular accounting and reporting practices in the most effective and cost-efficient manner. Hence the natural question that arose is whether training has the intended impact in terms of reduction in costs and time required for implementation and audit. There is non-existent research on this; hence the current study is a preliminary but pioneering attempt in this direction.

The objective of this Research was to determine whether there is a positive impact associated with Sarbanes-Oxley Section 404 Training and overall Sarbanes-Oxley Implementation and Audit Costs in publicly-traded companies that need to comply with the provisions of Sarbanes-Oxley Sections 404(a) and 404(b). Also it assessed whether the type of company, revenue of the company, level of management, role in company, or professional background of the trainee affected the perceived impact of SOX training programs.

Several procedures like descriptive analysis, bivariate analysis, multiple comparisons and General Linear Modelling procedures were conducted. The source of data was responses collected via a questionnaire. . The sample set included US-based accountants and auditors who had participated in SOX training in the past 3 years. Using only one SOX training company to answer the questionnaire creates limits on the generalization of the questionnaire's results; however, the SOX Institute is the largest US SOX training company and their large sample sizes

were assumed to minimize any homogenous effects. This was also justified by analysis of descriptive statistics.

Results obtained from the analysis are as follows: 65 percent of respondents viewed training to have a positive impact on their job performance in one form or another. Also, nearly half of sample agreed to training contributing to better internal controls as well as lower audit fees in their organisation (though latter was to a much lesser extent). This was further backed by GLM findings according to which SOX Section 404 training has a significant impact on time and money required for compliance and value added. For smaller companies, the perception regarding this training is different than the larger ones. Based on extant literature and the above research finding, it can be concluded that since smaller companies have to bear disproportionately higher SOX compliance costs, the importance of training is higher for them.

## **1.2. Specific Contribution of Research to the field of SOX**

The study has pioneered establishment of preliminary but significant industry-wide empirical evidence regarding positive impact of Section 404 training on reducing costs of implementation and audit and adding value to the performance of individual as well as organisation. Specifically, the three findings with respect to perceived impact of SOX Section 404 training are as follows: Firstly, value-addition in the form of better understanding of SOX principles for the trainee, and implementation of better controls for organisation; secondly, reduction in time and money for compliance; and thirdly, Revenue of the company in question as well as the existing knowledge of SOX of the trainee being a factor of influence. Smaller companies who have to face a disproportionately higher compliance cost perceive a higher positive impact of training.

The training has emerged as an intuitive, statistically-backed solution for reducing the high compliance costs of SOX Section 404. Companies have more reasons than before to consider training a profitable investment, understanding that it has the potential to enhance efficiency of compliance of this Act.

### **1.3. Limitations of the Research**

This study attempts to enter an uncharted territory of understanding impact of SOX training in terms of costs and value added. It managed to establish pioneering evidence vis-à-vis objective. However, certain practical limitations can be pointed out in the context of current research.

1. Limited background literature related to the analyzed relationship between SOX Section 404 and corresponding training – Though, there is an abundance of literature on the operations of SOX and the effects of its implementation, the literature on the training needs for a successful and effective implementation of a comprehensive compliance program is limited. It can be attributed to recent origin of the Act, changes it has undergone since its inception and the phased (and not single-point) industry-wide deadlines for its compliance. Hence scope of conducting a secondary descriptive analysis to back up the findings was restricted.
2. Responses regarding quantification of impact of training on costs and money - The self-reported responses themselves have been assumed to be accurate for the purposes of this research; which can be debated. Moreover, the responses received were much lesser than were desired and anticipated for these questions. (Respondents falling in 'No answer/ Don't know' category) Note that the capability to answer such questions and degree of accuracy of responses is subject to the information the respondents have access to in their respective organizations. Typically, the higher-ups in the corporate hierarchy have a better view/perspective of the big picture. Despite this realization, only a few executives in top rung of the management (and not many) could not be interviewed, typically due to lack of their availability for this purpose.
3. Restricted Focus - While it may have been useful to assess the impact of SOX training on a company's overall SOX implementation and audit costs, given that SOX is very large in scope (66 sections across 11 titles), and given that implementation and audit costs for most of the titles (65 out of the 66) are not easily quantified, this research was focussed on the most controversial, yet tangibly quantifiable section of this Act, Section 404 with parts a. and b.

#### **1.4. Scope of Future Research**

The current research is a preliminary, yet pioneering work in the field of assessing impact of SOX Section 404 training vis-a-vis its compliance costs and value addition. It has been able to portray training as a justifiable solution towards the issue of notorious costs incurred by complying companies. However, there is scope of significant body of work in this field itself.

Respondent Sample for the primary data collection in this study has been justifiably taken from the SOX institute as being fairly representative. However, the sample can be sourced from other training institutes in US and possibly, other geographies (as all multinational companies listed in US exchanges need to comply with the Act). The results will reaffirm the truth in the above assumption and/or may bring better and more representative answers.

Further, SOX Act is a well-intentioned act mandated for all public companies and is here to stay. This warrants further research with respect to other provisions of SOX as well.