Sarbanes-Oxley compliance

July 2025

The Sarbanes-Oxley Act (SOX) of 2002 is a US federal law which was introduced to enhance corporate governance and financial transparency, primarily for publicly traded companies. While it is a US regulation, its principles have influenced corporate governance frameworks globally, including India.

SOX introduced key provisions, including the establishment of the Public Company Accounting Oversight Board (PCAOB), strengthened penalties for corporate fraud, and laid out specific requirements for internal controls and independent auditor assessments.

Applicability of SOX in the US and Indian context

The following companies must comply with SOX Regulations:

- A public accounting firm
- While SOX is not mandatory for private firms, certain provisions may apply if they plan to go public or engage with SOX-compliant entities
- A company which has applied for registration under the Securities Act 1933 and has not withdrawn the registration
- Indian companies listed in the US
- All publicly traded companies in the US and their subsidiaries
- Subsidiaries of US companies operating in India may need to ensure SOX compliance for consolidated reporting
- Non-US companies listed on US stock exchanges or the ones which file reports with the Securities and Exchange Commission
- Indian firms seeking global investors are often required to adopt SOX-like practices to enhance credibility

Importance of SOX compliance

- **Corporate governance:** Strengthens accountability and transparency in financial reporting.
- **Financial transparency:** Helps in ensuring accurate and complete financial reporting and disclosures.
- **Investor confidence:** Reassures investors that financial statements are reliable and free from manipulation.
- **Internal controls:** Mandates companies to assess and improve their internal financial controls.

Implications of non-compliance

Non-compliance with SOX can lead to severe financial, legal, and reputational consequences for companies and executives.

Financial penalties: Failure to comply with SOX can result in substantial financial penalties for companies, with civil fines ranging from USD 50,000 to USD 2.5 million, as determined by the court of law. Executives found knowingly submitting false financial reports may be fined up to USD 1 million, and in cases of willful misrepresentation, penalties can reach up to as much as USD 5 million.

Criminal liability: CEOs and CFOs who certify inaccurate financial statements not only risk damaging their professional reputation but may also face severe legal consequences, including imprisonment for up to 10 years. If fraud is proven, these penalties become even more serious, with prison terms extending up to 20 years.

Loss of investor confidence: Non-compliance can significantly undermine an organisation's credibility, resulting in declining stock prices and a loss of shareholder trust. As confidence erodes, investors may choose to withdraw their funding, which can further jeopardise the organisation's long-term financial stability and growth prospects.

Regulatory actions: Regulatory bodies play a key role in enforcing SOX compliance. The Securities and Exchange Commission (SEC) has the authority to impose sanctions and can ban executives from holding leadership positions in the future if they are found to be non-compliant. Additionally, the PCAOB can initiate audits and conduct investigations into firms suspected of non-compliance.

Operational disruptions: Companies that fail SOX audits may be required to restructure their financial control frameworks, leading to increased compliance costs. Further, the legal proceedings and investigations that follow can divert management's attention away from core business priorities.

How Grant Thornton Bharat can help

We assist organisations in evaluating their SOX compliance frameworks, identifying potential gaps and implementing solutions for enhanced regulatory alignment. Leveraging industry-leading best practices, our team of seasoned professionals strengthens financial governance systems, ensures robust risk control mechanisms, and supports effective SOX 404 documentation and testing to reinforce compliance and operational efficiency.

- Conduct walkthroughs, design-level and transaction-level testing for validation
- Design/update detailed risk control matrices (RCM), process narratives, and flowcharts for structured risk management
- Detect gaps in financial and operational processes, recommending corrective actions for compliance and risk mitigation
- Ensure robust oversight mechanisms and adherence to SOX-mandated financial disclosure requirements
- Assess and enhance financial controls to prevent fraud and misrepresentations in financial statements
- Recommend security measures to protect financial data integrity and prevent unauthorised access

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