IMPLICATIONS OF SARBANES-OXLEY ACT
SECTION 404
TO THE EFFECTIVENESS OF INTERNAL CONTROL

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Abstract: Financial crisis in many countries in the world since 1990 and the mid-1997 that evolved into economic crisis, a crisis of trust, and multi-dimensional crisis, which could effect the fall of the country's leaders establish in the Indonesian, shows that the financial system has a very strategic role in the economy, and has a significant correlation and positive with the economic system. This research find that the internal control model based on the Sarbanes-Oxley Act section 404 has the advantage than control models in the current conducted. SOA section 404 advantage is the inclusion of management asersi and public accountant atest in financial report, which requires the integrity of corporate management and public accountants as external auditors, because the asersi and atest should be based on the documents submitted and the results of assessment on the audit and internal control implementation. Thus if the model Sarbanes-Oxley Act is implemented then presented the financial report accountability will be more accurate.
1. Introduction

Financial crisis in many countries in the world since 1990 and the mid-1997 that evolved into economic crisis, a crisis of trust, and multi-dimensional crisis, which could effect the fall of the country's leaders establish in the Indonesian, shows that the financial system has a very startegic role in the economy, and has a significant correlation and positif with the economic system.

To prevent a similar crisis, the government has tried to apply a variety of instruments and policies that can overcome the instability of financial system. However, disruption of financial system instability always appears in similar form. As the crisis that occurred as a result of the breakdown of housing loans in the United States and the financial scandals at major corporation in the United States in 2001, and the emergence of crisis in Indonesian Century Bank, all of which could affect the financial system instability disorder that lead to economic system instability.

The emergency of new cases that lead to the instability of financial system. show that the application of the policy and instrument are generally carried out temporary and do not touch the root problem, that function only to keep the financial system instability will not develop into the economy system instability, or to reduce the liquidity pressure, and speed restoration of public confident to the economic system. Has been applied when the Sarbanes-Oxley Act (SOX or SOA) in the United States are also applicable to other companies that listing its share in the New York Stock Exchange, the preparation and delivery system of SOA financial reporting can affect the effectiveness of financial control, so that could be use as early detection of financial system stability problem.

Thus the implementation of instruments and policies developed based on SOA not only serves to prevent the development of financial system instability to economic instability, or reduce the liquidity pressure, and accelerate the recovery of public trust. But prevent the possibility of the emergence of financial scandals that could push the financial system instability. This concept is consistent with the opinion of Thomas Philipon, Assistant Professor of Finance and Charles Schaefer Family Fellow, NYU Stern, who revealed that "Crises will occur, the only question that really matters is how do you manage the crises and design an efficient ballout" (http://www.bi.go.id/web/id/publication/banking+financial staability).

The concept it appears that the government should not only focus on efforts to manage the financial crises does not develop into economy crises, but to prevent the emergences of phenomenon that can lead to financial crises, and one of these efforts is to apply the provisions of the Sarbanes-Oxley Act (SOA) section 404 which can improve the effectiveness of control systems. Whether in the form of internal control and internal audit, as well as external audit. With the framework as follows:
2. Literature Review

The emergency of various cases of financial scandals which occurred in large companies in the United States, such as the Enron scandals, Tyco International, and WorldCom (MCI) in 2001, has pushed the United States government passed a law designed to prevent and reduce the scandals in the preparation financial statements. The law in set on July 30, 2002, and was initiated by Senator Paul S. Sarbanes and Congressman Michaels G. Oxley so called Sarbanes-Oxley Act (SOX or SOA) which requires all public companies listing on the New York Stock Exchange to comply with this rule.

SOA is set to replace the old laws that are considered vulnerable to financial scandals, as Ingo Walter, Seymour Milstein Professor of Finance, Corporating Government and Ethics, NYU Stern (2009), that the “three years after enacting the Gramm-Leach-Billey Act, major firms, including those as WorldCom, were involved in corporate scandals historical large. This act also created the financial “godzillas” companies. That were too big to fall and too complex to regulate” (http://www.bi.go.id/publication/banking+stability+financial).

Ingo Walter of the opinion it appears that the regulations in effect at that time was less effective, so it's natural to be replaced with the new rules, are regulation are then applied to substitute the Sarbanes-Oxley Act (SOA). With it's main purpose is to: (1) to increase the independence and accountability of corporate boards, (2) to ensure fairness and accuracy of financial information, (3) to provide new guidelines for external auditors, (4) to minimize conflict of interest, and (5) to minimize the ban complaints. So SOA for the new regulations set by determining the certification of financial informations, the role and duties of audit committees, auditor external process, and a number of other issues concerning the acquisition and disclosure of financial information.

As the impact of these rule changes the companies in various parts of the world have to adjust some rules with the current provisions in the SOA. One of them is a provision related to SOA section 404 which come into force effective on July 15, 2006, on management assessment of internal controls, which requires companies to establish and manage the structures and procedures of internal control over
financial reporting, as well as conduct an assessment of the effectiveness of the internal control structure and procedures at each end of the fiscal year. In other words, the company must report the effectiveness of audit and internal control in the financial statements or internal control over financial reporting, together with the external auditors attest. Consequence of the implementation of these rules, then:

1. The financial statements must reflect all material correcting adjustments and express all material of-balance sheet transaction, and other relationship with unconsolidated. Beside that, the financial condition of the material change and the issuer's results of operations should be reported on a rapid current basis or real-time disclosure.

2. Annual report must contain an external control report, and the directors' responsibility for financial reporting. In the report, the directors are required to fully understand the truth and completeness of corporate financial information documents, including internal control. Understanding of the truth and completeness of documents and internal controls, should be reflected in corporate annual report.

Standards and reporting requirements of audit and internal control in financial reporting or internal control over financial reporting and external audit reports attest set by the Public Company Accounting Oversight Board (PCAOB), in the auditing standard No. 5 "An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements". As for the internal control framework, PCAOB recommends to use framework which has been prepared by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) which revealed that "internal control over financial reporting which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles" (John T. Bostelman, 2005, p.31).

In the established framework COSO, there are 5 (five) aspects of interrelated and can be applied at various levels and business activities:

   Covers all aspects and components in the company, such as: a) the integrity and ethical values, b) commitment to competency, c) management philosophy and operating style, d) organizational structure, e) delegation of authority and responsibility, and f) policy and the training of human resources. So the control environment and audit and internal control covers all aspects relating to corporate activities at various levels, the control environment can be used as a mirror of attitude, awareness and behavior of staff and management as a whole. Including board and audit committee.