Case Study #3 XYZ COMPANY

Consider the following facts:

* 1. XYZ is a publicly traded company that has been cited three times in the past five years for ethics violations. Its board of directors vetoed an ethics code.
  2. The auditors of XYZ are Big 4 Accounting, L.L.P.
  3. The chairwoman of Big 4 personally knows the chairperson of the PCAOB and verbally informs him that Big 4 will be auditing XYZ and other publicly traded companies.
  4. Big 4 has a policy to retain working papers of its clients for five years.
  5. Recent cost-cutting measures at Big 4 have left Partner Smith as the sole partner on the XYZ audit. Smith has been its auditor for the past 10 years.
  6. XYZ informs Big 4 that the internal controls that Big 4 has designed and maintained are working well.
  7. Jones, a former partner of Big 4 who worked on the XYZ audit last year, is now its CEO.
  8. In addition to auditing XYZ, Big 4 does the bookkeeping and taxes for XYZ.
  9. Washington, also a partner at Big 4, specializes in valuation and has been retained by XYZ to value prospective companies that it is considering to take over.
  10. Johnson, another partner at Big 4, performs background checks on new employees of XYZ. Fees for this service amount to 3 percent of all fees that XYZ pays to Big 4.
  11. Last year, XYZ changed its accounting procedures from LIFO to FIFO and restructured its methods for determining the useful lives of its assets.
  12. Adams, the corporate attorney for XYZ, is involved in another case that will take much time and has asked his next door neighbor, Smith, to overlook certain issues that are material to the financial statements of XYZ.
  13. Jones, who just got married, has borrowed money form XYZ to purchase a vacation home in Florida.
  14. Two weeks ago, XYZ sold 3 percent of its shares to an Australian conglomerate that is interested in getting into the U.S. market.
  15. Smith’s wife plays bridge with the wife of the chairman of XYZ’s audit committee. Smith, being overwhelmed by the new laws affecting corporations, asked his wife to let the chairman’s wife know of the material changes in certain of XYZ’s accounting policies.

Discuss the Sarbanes-Oxley implications on the preceding facts. Cite specific provisions of SOX that are identified. Discuss areas where other violations could occur.