

CORPORATE GOVERNANCE IN THE SARBANES-OXLEY WORLD

Since the passage of the Sarbanes-Oxley Act of 2002, publicly traded companies have struggled to interpret and implement corporate governance policy to diminish the risk of fraud by increasing internal controls. These steps are important not only to protect the organization and adhere to the law, but also to renew investor and public confidence. The now infamous accounting scandals in the corporate world caused many investors to become distrustful of the companies in which they had formerly invested. Restoring the public's trust is now a major campaign for each and every company subject to the provisions of the Act. Investors must feel confident that organizations have improved the accuracy and reliability of corporate disclosures pursuant to the securities laws. These disclosures will also increase the accountability of corporate leaders to shareholders.

However, to truly change the actions within an organization, corporate culture must change at all staff levels. For this to happen, executives, directors and auditors must set the tone at the top and lead by example. Their ability to instill a culture of integrity is critical, because the new requirements hold chief executive officers and chief financial officers personally accountable for their company's financial statements. Corporate leaders are now realizing more than ever that the U.S. government is serious about restoring the public's confidence in public company financial reporting.

Good corporate governance includes the following elements:

- Principals/Philosophies
- Leadership
- Ethics
- Security and shareholder protection
- Vision and direction
- Values
- Shared purpose

Principals and philosophies a cornerstone to corporate governance because they establish the culture of the company. Creating this structure also helps to enforce other key elements of good corporate governance. Leadership must enforce and motivate the principals and philosophies of the company.

The organization must make a commitment to the ethical behavior of all management and employees, and communicate this strongly within the organization through enforcement at the top and not just words on paper. If done effectively, these actions not only re-enforce security and shareholder confidence, but also create a shared purpose for the company. The company can then more easily provide vision, direction and values through leadership.

Different committees and the Board have specific and overlapping corporate governance functions. The Board of Directors is an integral part of the corporate governance function. The Board's mandate under corporate governance is to ensure that management carries out the principals and philosophies of the organization in accordance with the way it does business and the way it represents itself to the public. The Board also provides the leadership for the rest of the corporation to follow.

Specific functions of the Board are:

- Management Succession
- Understanding, reviewing and monitoring the implementation of strategic plan
- Understanding and reviewing annual operating plans and budgets
- Focusing on the integrity and clarity of financial reporting
- Nominating directors and committee members and overseeing effective corporate governance
- Evaluating the effectiveness of the audit committee

The audit committee works closely with management while remaining appropriately independent to ensure that sufficient questions are raised. They also act as the liaison between the Board and the external auditors and are assigned the responsibility for ensuring that management has implemented a strong internal control environment. In addition, the audit committee addresses any critical accounting issues and ensures compliance with applicable rules and regulations.

Specific functions of the audit committee are:

- Understand Risk Profile
- Engaging and evaluating outside auditor
- Critical accounting issues
- Internal Controls
- Compliance
- Review and discuss Financial Statements
- Oversee Internal Audit
- Communication
- Hiring outside auditor personnel

The corporate governance committee is an important link between management, the Board and the shareholders. The corporate governance committee is mandated to ensure that the Board and the other committees are evaluated, independent as necessary and are following and supporting the corporate governance principals and philosophies of the corporation. This link is important because it provides independent review of the Boards actions and abilities.

Specific functions of the corporate governance committee are:

- Recommends Nominees for Board
- Recommends appointments to committees
- Monitor and safeguard independence of the Board
- Oversee and review the process for providing information to Board
- Develop and recommend a set of corporate governance principles applicable to the corporation
- Oversee the evaluation of the Board and management

Overall, corporate governance should be an integral part of the daily workings of any company. The more complex the company, the more important these corporate governance principals and philosophies are. In many cases it is in the best interest of the organization to consult with an accounting firm that is well-versed in identifying weaknesses in the organization, and to make recommendations on internal control improvements to reduce the risk of fraud. Without corporate governance, many companies have difficulty maintaining the necessary ethical culture to remain competitive and vibrant for many years in today's business environment. Strong corporate governance should be encouraged by Board members, management and company stakeholders to protect the company and its shareholders.

