

# Best Practices - Corporate Governance

Effective corporate governance is gaining increased exposure throughout the nation. The impact of Section 404 and the Public Company Accounting Oversight Board standards has permeated beyond the public companies that must comply with the regulations to private companies as well. The media's coverage of recent international events, such as the Parmalat and Shell investigations, has prompted the review and implementation of improved, higher-quality corporate governance practices, risk management objectives, and better accounting and disclosure standards by public and private companies alike.



## Benefits of implementation

In addition to producing better financial reporting, implementation of these best practices establishes a system of accountability within the organization. This foundation protects the company's reputation, as accurate internal control representations are much more than implied promises. Investors, analysts, stockholders and underwriters will expect more transparency in a

company's financial reporting to demonstrate financial integrity. Additionally, these practices improve existing procedures by clarifying and specifying the company's goals, objectives and philosophies in business. Good corporate governance will also help companies who are seeking external financing, as investors will see this as protection for current and future shareholders. It may also provide protection from potential litigation.

As the second year of required compliance for public companies approaches, owners and executives of private companies should also be aware of how to improve management processes and implement best practices for future success. The Sarbanes-Oxley Act of 2002 addresses the quality and reliability of financial statements, complete disclosure and the responsibility of officers and directors, auditors and audit committees. Given these concerns, it is likely that shareholders, investors and bankers will require private companies to implement corporate governance standards similar to public companies.

## Implementing best practices

As the saying goes, "the tone starts at the top." Corporate governance best practices begin at the highest level of any organization. The owners, directors and management team members set the ethical and compliance tone by sending out a strong, clear message of operational and business expectations. The set tone influences behavior at all levels, even in areas that may not be subject to internal controls and reporting systems.

## The 10 essential corporate governance principles

While corporate governance principles vary from company to company based on the complexity of the organization, here are some guidelines that a company of any size, entity type, industry and status should follow:

- Specify and communicate management and oversight responsibilities - *Publish specific roles and responsibilities for the board and management members*
- Create a board of sufficient size, composition and commitment - *Boards must be able to fully execute and manage their responsibilities and be balanced with independent members*
- Adopt and actively promote a code of ethics and conduct - *Responsible decision-making must be enforced and encouraged at all levels*
- Ensure financial reporting integrity - *Structure the financial reporting system to include independent verification*
- Promote timely and balanced disclosure - *Making accurate and timely disclosures of all material matters is essential*
- Establish whistle-blowing procedures - *Facilitate disclosure of unethical conduct without penalty*
- Establish and maintain risk management oversight - *Create a system of oversight to improve internal controls and reduce risk*
- Encourage improved management effectiveness - *Set up a review system to measure management performance*
- Ensure fair and performance-driven executive compensation - *Remuneration should be based on individual performance benchmarks*
- Recognize the legitimate interests and rights of all shareholders - *Internal and external shareholders have legal and other obligations that must be recognized*

It is important to concisely articulate objectives, training opportunities and maintain frequent communication from the top down. Utilization of consistent terminology throughout the company's written plans and processes is also necessary. Finally, reinforcement of each individual's role in reaching the company's objectives and maintaining proper protocol is essential for best practice implementation success.

## How we can help

We assist clients in understanding and implementing corporate governance practices that comply with the requirements of the Sarbanes-Oxley Act of 2002, the regulations of the Public Company Accounting Oversight's Board, related SEC rules and the standards imposed by self-regulated organizations. We help clients prepare compliance disclosures in SEC reports and other public documents and advise on the best practices approach to corporate governance. We have provided this expertise to companies who have engaged independent auditors as well as to our own multi-disciplinary clients. We have also advised private companies on the adoption of certain compliance measures as a means of improving the value of the company or to prepare them for initial public offerings.



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