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The Case for Global Governance

The EU 8th Directive and SOX

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Executive Summary

From the time of the Enron failure in 2001, more and more government focus has been placed on regulatory oversight of corporations. And with the acceleration of the global economy, the leading economies, including the United States and European Union, are embracing shared methods to assure investors and stakeholders (customers, suppliers, regulators, and rating agencies) that their corporations are in fact utilizing their assets in an appropriate manner. The 8th Directive of the European Union reflects the continuance of this common direction, as it supports similar goals of their US counterpart, the Sarbanes-Oxley Act of 2002. The new directive represents a big step towards corporate oversight on a global scale. With its primary goal of restoring investor confidence in the markets, it continues to establish itself as an important role in global governance efforts.

The significance of the 8th Directive lies in the fact that it affects all 27 EU member nations through a core set of uniform principals. It provides the basis for standardization of company audits across Europe (even with some variation for differences in each individual company).

Governance demands stronger roles

Through their common goals, both the 8th Directive and SOX establish the framework for stronger, more consistent corporate governance. Strengthening the role of the auditor and director are two important governance goals of both regulations.

Responsibilities of the Audit Committee

There are two main areas impacted by this legislation: Audit Committees and Board's relationship with the auditor. Public companies are now required to have audit committees with at least one member having credentials in Accounting and Finance. As a result, Auditor independence is enhanced by allowing auditors to speak openly to Board Directors who are not part of operating management of the company.

- **Director's relations with the auditor**

The 8th Directive proposes more changes around the board's relationship with the auditor. This includes public oversight of the accounting profession across all 27 member counties.

A comparative analysis of the 8th Directive and Sarbanes-Oxley

Issue	8th Directive	SOX
Audit Committee	Mandatory for listed companies. Must be independent and have at least one financial expert.	Same but requires whistleblower procedures.
Internal Controls	Requires audit firm report on material weaknesses on internal controls related to financial reporting.	Same but has more detailed requirements.
Public oversight of auditors	EU Member states appoints oversight board.	PCAOB oversees audit of public companies; audit standards, and independence of audit firms
Auditor Independence	Raises the possibility of total prohibition of non-audit services	Proscribes specific and requires audit committee approval
Firm and Partner Rotation	Provides for either audit firm or key partner rotation	Requires lead and concurring audit partner rotation every 5 years
Group Auditor responsibility	Group auditors bear responsibility for the audit of consolidated accounts.	None.

Source: Ernst and Young

Harmonizing Regulations

Globalization is viewed as a series of activities resulting from an increase in cross-border trade, such as communications, treaties, compliance protocols and travel. Globalization, defined as a percentage of GDP, continues growing in all regions of the world. ***Governance*** is the combined set of principles that applies to the frameworks and regulations implemented throughout organizations with internal controls and monitoring activities functioning in order to maximize the potential that globalization offers.

Capitalism continues its expansion throughout the world, even in countries that still retain elements of command and control in their economies (China for example). The combination of expanding capitalism and free trade requires global capital markets to fund infrastructure projects and other improvements necessary for the advancement of capitalism. If global capital markets are to flourish, some form of ***harmonization*** of regulations is needed, thus making the case for further alignment of regulations with common goals, and the EU 8th Directive and SOX have already started down that path. Soon, other jurisdictions will approach their governance agenda with the same spirit of reciprocity.

Given the interdependency of the global economy and capital markets, there are a number of reasons why supporting the harmonization of regulations is warranted. First, global standards will address common concerns across nations, and lead to better overall results. Adopting the International Financial Reporting Standards (IFRS) is a good example. Secondly, based on the interest of common markets, identical regulations simplify compliance for multi-national companies. And finally, the common goal that all investors have for greater transparency, which is the lifeblood of capital markets, is enhanced through improved financial disclosure and accountability.

In order for harmonization (it is still in its infancy) to realize its full potential, there is much more that needs done. Meanwhile management can't afford to wait; they face rigid time lines and penalties for non-compliance, further complicated by the multitude of regulations that can impact their businesses. A fresh approach to Governance, Risk and Compliance initiatives is needed to generate the maximum benefit overall. This effort needs planned in such a way that all the important elements across regions, regulations, risk areas and business units are successfully integrated together.

Best Practices for Global Governance

Through its years of experience in Risk Management, SPV has documented a series of best practices that satisfy many Governance, Risk and Compliance requirements, both nationally and on a global scale. SPV supports the continued harmonization of regulations and with its global presence, is well positioned to deliver cost effective and sustainable governance solutions covering the vast array of global regulations.

Best Practice Recommendations

Take a strategic approach to GRC – improving corporate governance by taking a strategic approach ensures that the benefits of the program are meaningful and long lasting. This entails setting the tone at the top and having all managers taking ownership of the process. Once this takes place the fundamentals of managing risk and internal controls to meet laws and regulations begin to fall into place.

Integrate GRC across the organization – It no longer makes sense to take a fragmented approach to GRC as it duplicates costs and limits the potential benefits. Integrated GRC recognizes risks across the enterprise and considers multi-national regulations in establishing its priorities for remediation.

Build the GRC program at the business process level – developing a risk matrix (as a working document) that takes each relevant business process, defines the associated risk with controls designed to mitigate the risk and execute a series of tests to ensure the effectiveness of each control, and finally mapping it to each regulatory requirement in which the control applies.

Perform the Risk Assessment – implement a process to analyze and quantify the magnitude of each risk within the risk matrix. A scoring system should evaluate the severity, the likelihood and potential for discovery for each risk identified. A collaborative body meets to assign risk ratings, with the top scores receiving the highest priority and resources for remediation.

Harmonize business processes and reduce key controls – by streamlining business processes and documentation across organizational business units, there is a significant advantage to reducing the number of key controls needed to validate the effectiveness of the control environment. This is especially beneficial for large multinational companies that operate similar business units across continents and regulatory environments.

Use automation for efficiency and greater reliance – Automated controls, such as programmed credit checks during sales order processing, are more reliable then manual controls and have a higher degree of reliance placed on them, assuming the integrity of the underlying technology and change process. Automation supports the best practice of implementing solutions that ensure long-lasting and sustainable benefits are achieved.

Sustainable Benefits

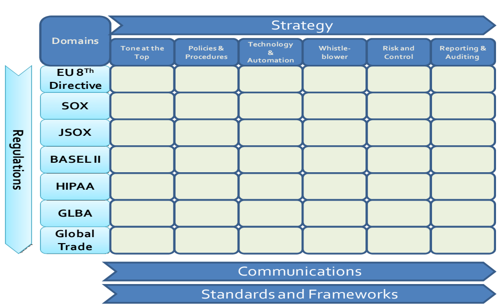
Researchers have conducted surveys over the last few years noting that many investors are willing to pay a premium for companies that are well governed. Lower-risk investments are seen as a safe-haven and as surveys have shown, companies with a lower risk rating *and* a reputation for stability and profit growth will achieve an even greater premium.

Another competitive advantage for well governed companies is that they typically can raise capital at lower costs then their poorly governed competitors. The major financial rating services consider good governance, risk and compliance practices when forming their assessments.

There are a host of other major benefits as well, ranging from the ability to attract and retain higher caliber talent, improved management decision making, protection of intellectual property, ability to respond to and recover from crises and disasters and improved brand image and industry reputation.

Implementation Model

SPV's implementation model, shown below, begins with an enterprise wide view of all GRC regulations and requirements and then incorporating professional expertise, established methodology and proven technology solutions together into an integrated solution. As a result, SPV America's clients can more confidently protect their assets and much better positioned to meet strategic goals.



AuditProof™ –a major part of SPV's integration strategy includes the proprietary methodology AuditProof™ – a holistic risk management portfolio that safeguards business environments. It functions as the best practice approach for creating processes and controls governing the General, Application and Internal Business Controls over your ERP system. AuditProof™, ensures Change Management, Logical Access and Risk Matrixes are working effectively, leading to successful audit conclusions.

Summary

As the global economy expands and becomes more interdependent, it means new standards and harmonization of regulatory requirements across regions will follow. A GRC strategy can generate real benefits but an integrated approach is essential. This approach requires real expertise in order to deal with the ever changing set of regulations, business challenges and opportunities presented. SPV America has demonstrated creative leadership in its Risk Management services, and with its integrated approach and Auditproof™ methodology, can deliver comprehensive and sustainable Governance, Risk and Compliance solutions for multi-national companies around the globe that increases efficiency, reduces costs and leads to sustainable compliance.

About SPV America

Since 1999, SPV America has been a leading provider of business and technology **risk consulting services** throughout the United States and has broken recently into the European market with a comprehensive array of GRC Products and Services. SPV Americas has a full-suite of GRC Services to include: Internal Audit-, Regulatory e.g. Sarbanes Oxley, 8th EU Directive, CFR21 Part 11, GLBA consulting services and IT Security products and are used successfully by our international and domestic clients. No matter if its complying with the new European 8th directive, or need guidance on streamlining your US Section 404 compliance process, or more effectively secure your SAP and IT systems, SPV America has proven solutions to all GRC requirements. Find out more by visiting our web site at: **www.spvus.com.**