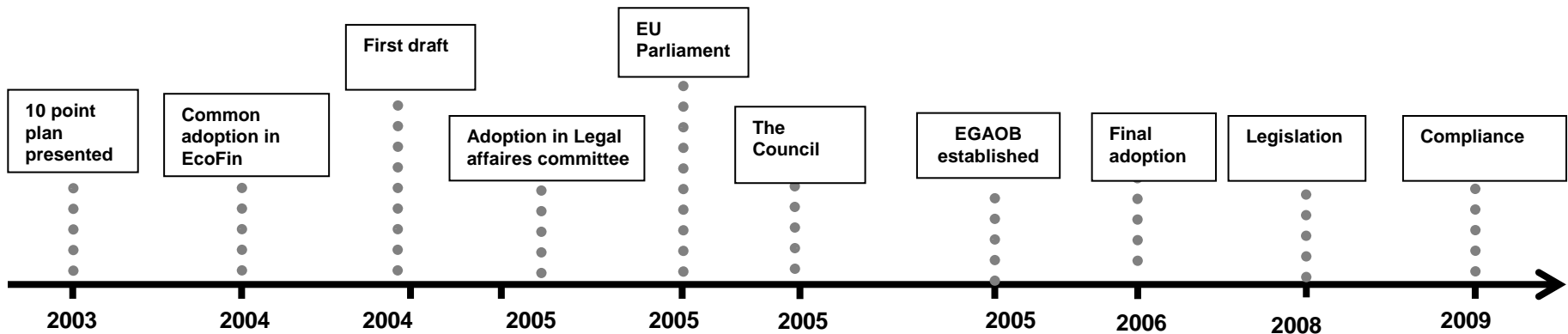


European Perspectives in Implementing
EU's 4th, 7th and 8th directives.
(EuroSox)

**Focus on Compliance,
Risk and
Corporate Governance
Perspectives**



EuroSOX Adoption Perspective



2003

10 point plan from The Commission on Corporate Governance presented as the 8th directive

2004

Common adoption in ECOFIN

16. march 2004

The first draft of the directive published

21. June 2005

Adoption in The Legal Affairs Committee

29. September 2005

EU Parliament adopts directive

11. October 2005

Political acceptance of adoption in The Council of Ministers

16. December 2005

EU established EGAOB.

26. April 2006

Final adoption of the 8th directive in The Council

14. July 2006

Changes in the 4th and 7th accounting directives

April 2008

24 month adoption period.

Source: www.eurosox.dk ©

- **4th directive 78/660/EEC**
 - Annual Accounts of specific type of companies

- **7th directive 83/349/EEC**
 - Consolidated accounts

- **8th directive 84/253/EEC**
 - Auditor and audit committee

- **Safeguard shareholders' investments**

- **Effective Corporate and IT Governance, internal controls and risk management**

- **Increase in disclosure requirements**

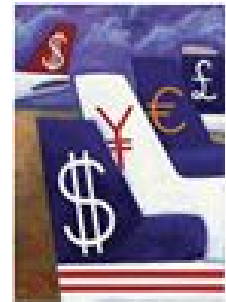
- **Establish audit committees**
 - Improving corporate governance.
 - Strike the balance between the benefits of additional requirements
 - Strike the balance between costs and burdens.



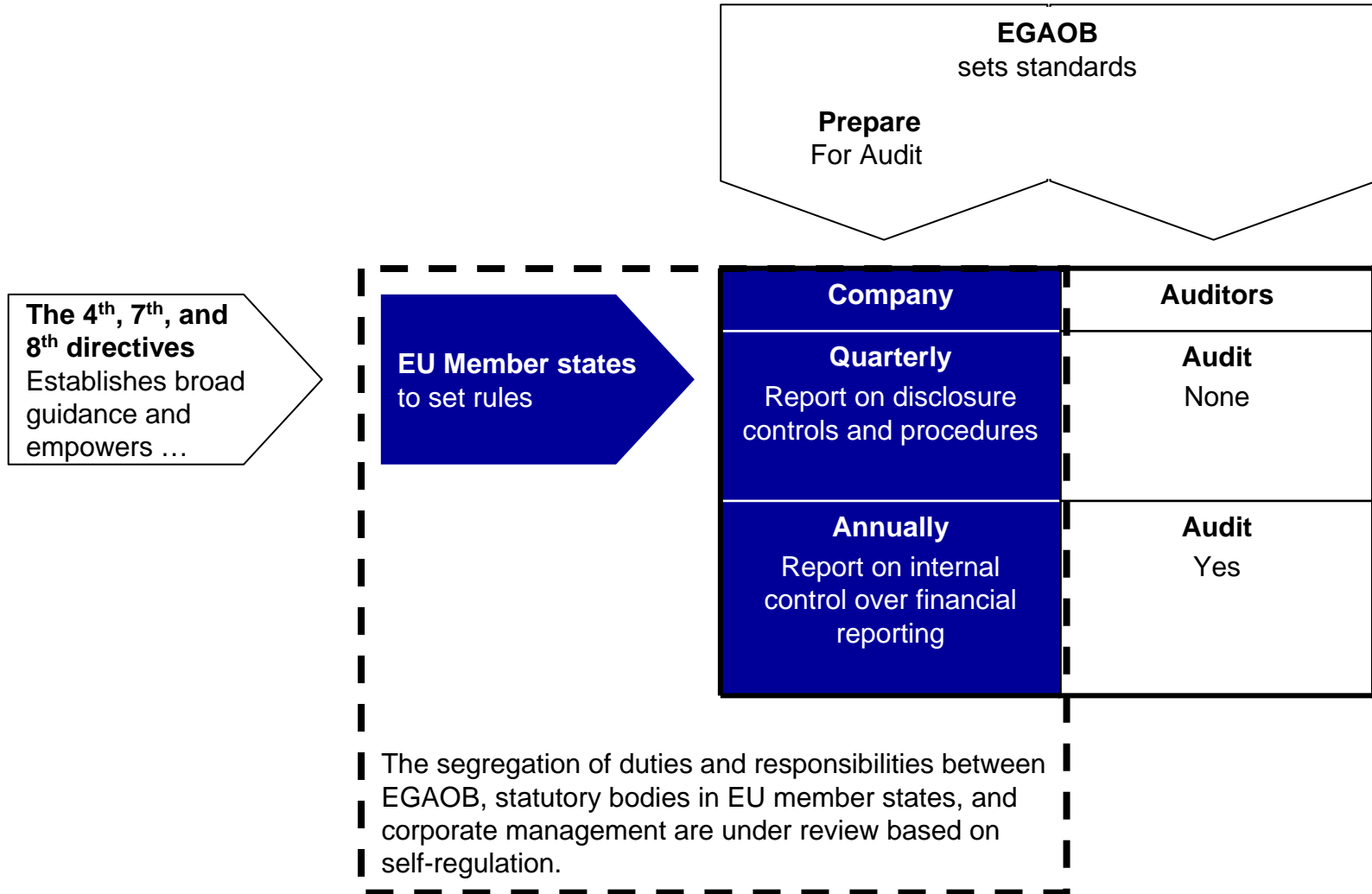
- **Changes in the 4th and 7th accounting directives of 14th July 2006, form the basis of EuroSox.**
 - Publicly traded companies must disclose risk management activities in the annual report
- **The disclosure must contain information and methods with regards to:**
 - Principle elements of the risk management system
 - Principle elements in implementing internal controls initiatives
 - Exemptions related to national regulations
 - Description of the Corporate Governance codex
- **Companies with consolidated annual report must**
 - Disclose information on established systems to mitigate risks & control initiatives.
- **The directives results in an intensified disclosure from management. A full certification from the auditors is still not in the compliance pipeline. However, the management is responsible to disclose a report that reflects a 'true picture' of the situation in the company.**



- **Indicate the Corporate Governance codex the company will follow.**
- **State the dimensions of the Corporate Governance codex that is observed (comply or explain)**
- **Describe the internal control environment and risk management initiatives**
- **Following companies have to comply.**
 - Companies noted on the stock exchange
 - State owned (public interest) and Public limited companies that in two consecutive fiscal years fulfill the following criteria:
- **2.500 employees**
- **Balance sheet of 5 billion dkk or**
- **Net revenues of 5 billion dkk.**



A Proposed Model perspective



Member States Adoption Perspective

Adoption of the directives
in 25 member parliaments

28.09.2005: Acceptance by European parliament and European council (compromise proposal to the 8. EU directive)
A final adoption of the EU directives are approved in the 2 nd and 3 rd quarter of 2006.
The period of transformation in national law will be 24 months according to article 53, § 1 (modification proposal of EU parliament)
Adoption of the changes to the 4th and 7th directives
Full Compliance

4Q 2005		
	2-3Q 2006	
		2Q 2008
		3Q 2008
		2009 Accounts

Based on current publications by the EU parliament. An exactly timeframe can be presented once the EU directives are adopted in a final version by the member states.



- **PCAOB**
- **COSO**
- **Rule based**
- **USGAAP**
- **Comply or die**
- **Certification**



- **EGAOB**
- **Turnbull, COSO.**
- **Principal based**
- **IFRS**
- **Comply or explain**
- **No Certification?**

- **COSO**

- Integrated internal control framework for compliance related to financial reporting
 - business ethics, effective internal controls and corporate guidance
 - provide a baseline to establish a control structure
 - identifying financial reporting good practices and references

- **COBIT**

- Source for good practices for governing IT
- Control objectives for IT largely based on ITIL
 - Manage changes
 - Define and manage service levels
 - Manage the configuration
 - Manage problems and incidents
 - Monitor the process



- **ITIL**

- Library of books that documents best practices for IT service management.
- The IT Governance Institute (ITGI) recommends using CoBiT and ITIL

- Obtain management buy-in and ownership at all levels of the organization
- Incorporate directives (EuroSox) in management/governance processes
- Identify/Verify Internal Controls and IT Governance
 - Design and effectiveness of operational and IT internal controls environment
 - Establish a clear risk management policies and control strategies
 - Prepare a report for the company's risk management, including significant risk areas.
 - Report includes procedures and action plans to eliminate, reduce, divide or accept risks.

Understand the Compliance issues and monitor continuously

- Avoid audit committee overload
- The documenting process is time consuming
- Avoid extensive and complex controls
- Implement standard execution of tests





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