



# The Directors' Handbook

By Thomas J. Dougherty

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**REVIEWED BY R. TRENT GAZZAWAY**

**C**ONGRATULATIONS — you have been chosen to serve as a director for a public company. Your new role is a career milestone. But before you pop open the champagne and start the celebration, I encourage you to consider exactly what your responsibilities will now include.

The Sarbanes-Oxley Act celebrated its first birthday on July 30, 2003. While response from chief executive officers and boards of directors has been mixed, the message is clear. The world of corporate governance has forever changed. Boards must adhere to new standards and new levels of oversight related to their conduct as corporate governors.

The act was originally created to address the mounting accounting debacles that plagued the United States in 2002. Now, one year later, boards of directors and, in particular, audit committees, are coming to terms with the expanded expectations regarding their responsibilities and duties. Corporate governors now sense a greater need to understand and evaluate internal controls and perform detailed reviews of financial statement disclosures in SEC filings. Audit committees are now taking greater ownership of the relationship with the company's external auditor. In addition, there are now new requirements for audit committee composition and independence, and there is a heightened level of concern regarding director and officer liability.

Without a doubt, Sarbanes-Oxley constitutes the greatest change to corporate gov-

ernance since the Securities Exchange Acts of 1933 and 1934. Along with that change comes the need for comprehensive resources to help wade through both the confusion and the fear of the unknown.

The 2003 edition of *The Director's Handbook*, by Thomas J. Dougherty, presents in clear, simple language the requirements for boards of directors, including the effects of the Sarbanes-Oxley Act. The handbook provides guidance on important topics such as creating an audit committee charter, executive compensation arrangements, crisis management, and director and officer insurance.

Chapter 3 of the handbook serves audit committee members as a useful primer on their new responsibilities. A best practice audit committee checklist that defines key accounting terms and liquidity, leverage, and receivables ratios may be especially useful. Moreover, a sample audit committee charter and an overview of Regulation Fair Disclosure, essential topics for any board to review and understand, are included in the appendix.

Dougherty, a partner with the law firm Skadden, Arps, Slate, Meagher & Flom LLP, is highly qualified to infuse with clarity (and even humor) the sometimes dry topic of the



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role of a board of directors. Over the past 20 years, Dougherty has been active in many of the major contests for corporate control, as well as other court and SEC challenges to both company disclosures and officer/director conduct. His experience lends practical knowledge to a topic that might otherwise be a purely academic review.

In my role as national director of Grant Thornton's corporate governance advisory services, I have had the opportunity to meet with boards of directors and audit committees of both public and private companies across the country. During these meetings, the same question is always asked: How has Sarbanes-Oxley changed the roles of directors and audit committee members?

While external auditors and accountants can provide in-depth material and knowledge, no conscientious board should be without a comprehensive primer. *The Director's Handbook* fits that need well. It is a vastly educating, and at times amusing, book that lends practical knowledge to a complex topic. Boards that haven't already discovered the value of this resource may find it soon becomes a necessary addition to their reference library.

With the ever-changing world of corporate governance, no resource can claim to have every answer to every question; however, as a starting point for new and existing board members, this one is worth packing along on the trip to your next board meeting. As Dougherty writes in his preface, "This little book may be just slightly more readable and germane to directors' work than the shredded in-flight magazine." Take his advice, and bring it along. ■