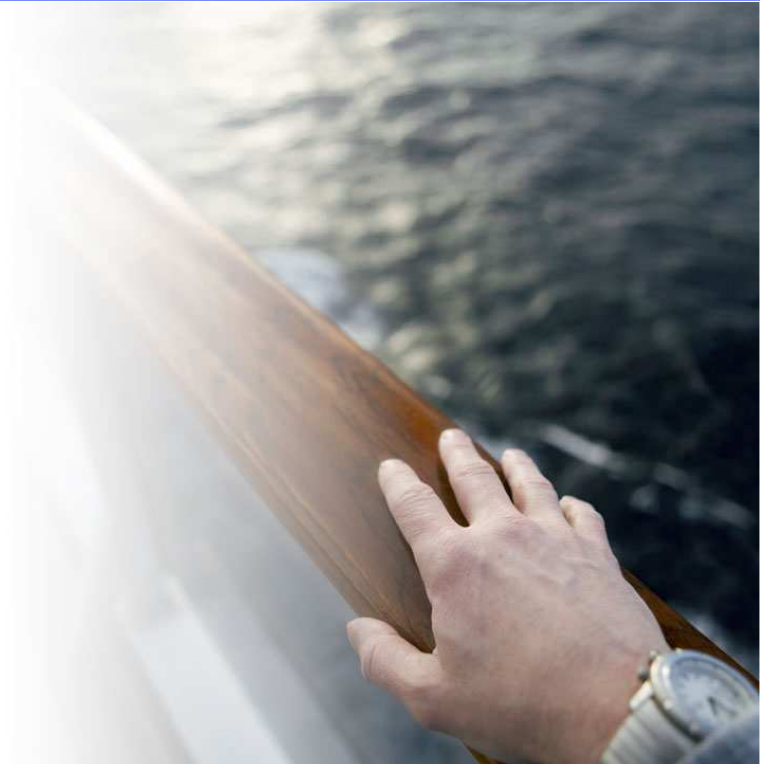




IBM Global Business Services

The Challenges of Managing Risk and Controls while Implementing Oracle e-Business Suite

Compliance is reality in today's Oracle ERP world



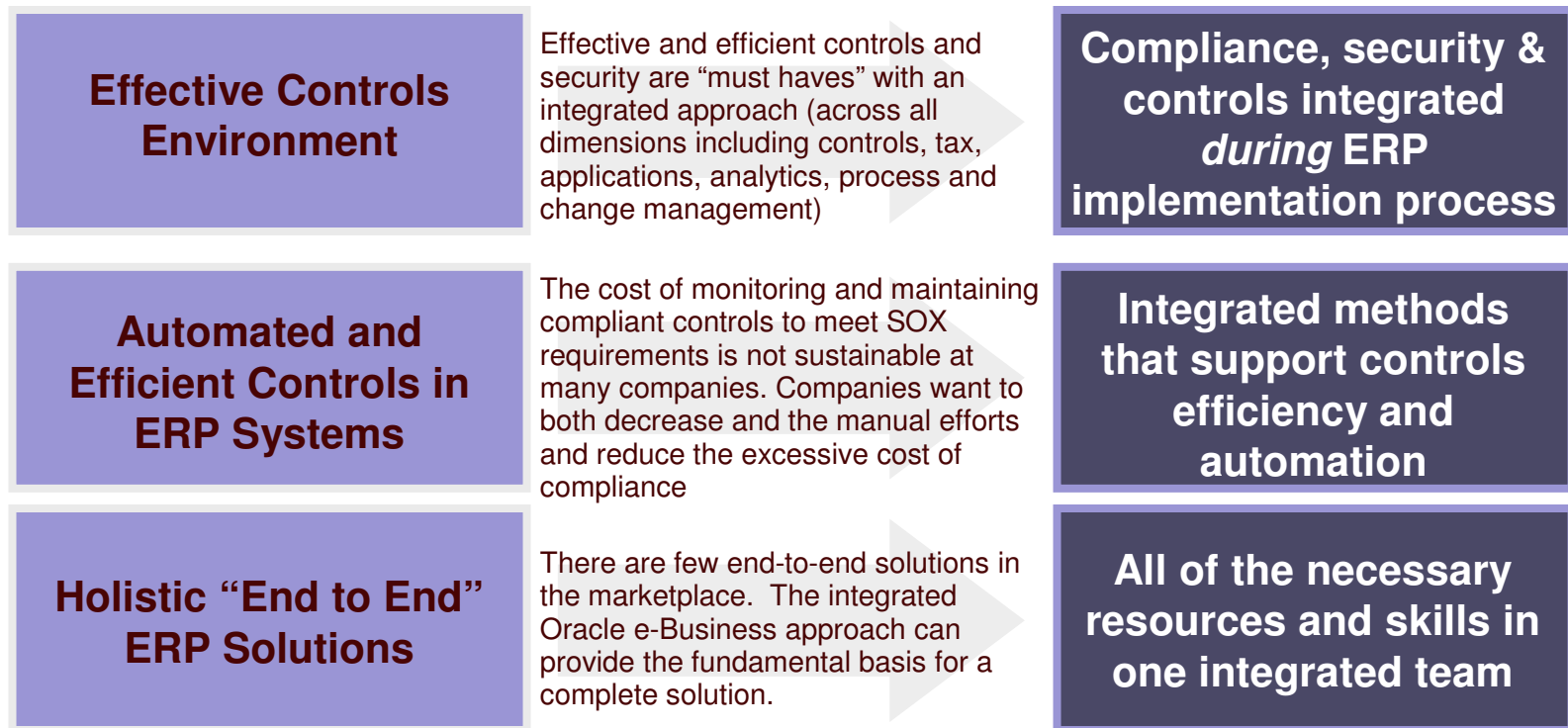
Today's Executives are Demanding Business Partners Who:

- Can handle global deployments
- Routinely manages large scale projects professionally
- Have a track record of success in truly partnering with Oracle
- Can combine application and technical expertise with a deep knowledge in industry and business process transformation
- **Can provide guidance to make compliance more efficient and sustainable**
- Can succeed with total integration of Oracle 11i and third party products
- Deliver projects that ensure realization of anticipated benefits
- Can advise on technology investments that are truly aligned with the business goals
- Can balance risk with cost – value for money
- Deliver credibility by keeping project on track
- Are willing to invest in the relationship!

The Marketplace seeks a more complete end to end ERP solution

Enterprise organizations need...

...so solutions must have...



Sarbanes Oxley changes the scope and magnitude of the ERP Implementation Process

Sarbanes Oxley (SOX)

- SOX makes appropriate controls and security a business imperative
- SOX 404 mandates that controls be designed and operating effectively the year in which system and process changes occur. If not, significant deficiencies or perhaps an adverse audit opinion may result
- SOX created a greater focus on tax and new tax reporting requirements, i.e. FIN 48
- Companies are no longer willing to accept the risk.

Compliance



Before Sarbanes Oxley, controls redesign would be postponed or ignored, as many companies chose to “accept the risk” on an interim basis.

Controls: Additional critical aspects supporting the need to integrate stronger controls in an ERP Implementation

1. Eliminate Redundancy and Reduce Cost

Process-driven ERP systems require controls to be applied throughout business processes. Poorly designed controls or misplaced controls result in redundancy and higher costs.

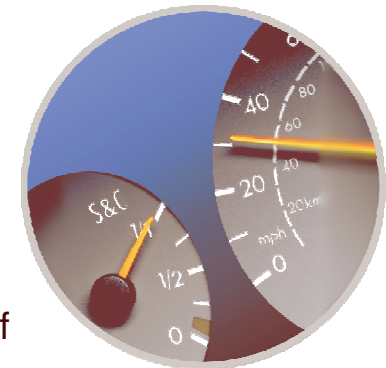
2. Manual Controls are Expensive and Inefficient

Existing key controls have deteriorated and are too manual. Organizations are experiencing high cost of controls and are looking to eliminate manual and redundant controls to reduce costs and improve process efficiency

3. Retrofitting Controls is Cost Prohibitive

The cost of rework for poor controls is exorbitant and can lead to a complete reimplementing of an ERP system that lacks controls. Improving financial controls in an ERP system must have controls designed and integrated throughout the organization. Given system configuration and employee training redundancies, redesigning controls at the end of an ERP implementation is inefficient, expensive and could result in reportable material weaknesses or deficiencies.

Controls



Controls: Additional critical aspects supporting the need to integrate stronger controls in an ERP Implementation (continued)

4. Automated and Preventive Controls

Automation is driving ERP technology integration initiatives and helping to optimize controls within key processes, resulting in improved process efficiency, cost reductions and effective compliance management.

5. Complete and Accurate Financial Information

Organizations have long recognized the value of an efficient control structure and its role in driving complete and accurate financial information. When a new ERP system is implemented, along with the customary process changes, controls (including security) must be revised to support the new business and system functions.

Controls



Finance aspires to simultaneously provide performance, growth and risk insight ... and most of these initiatives rely on IT

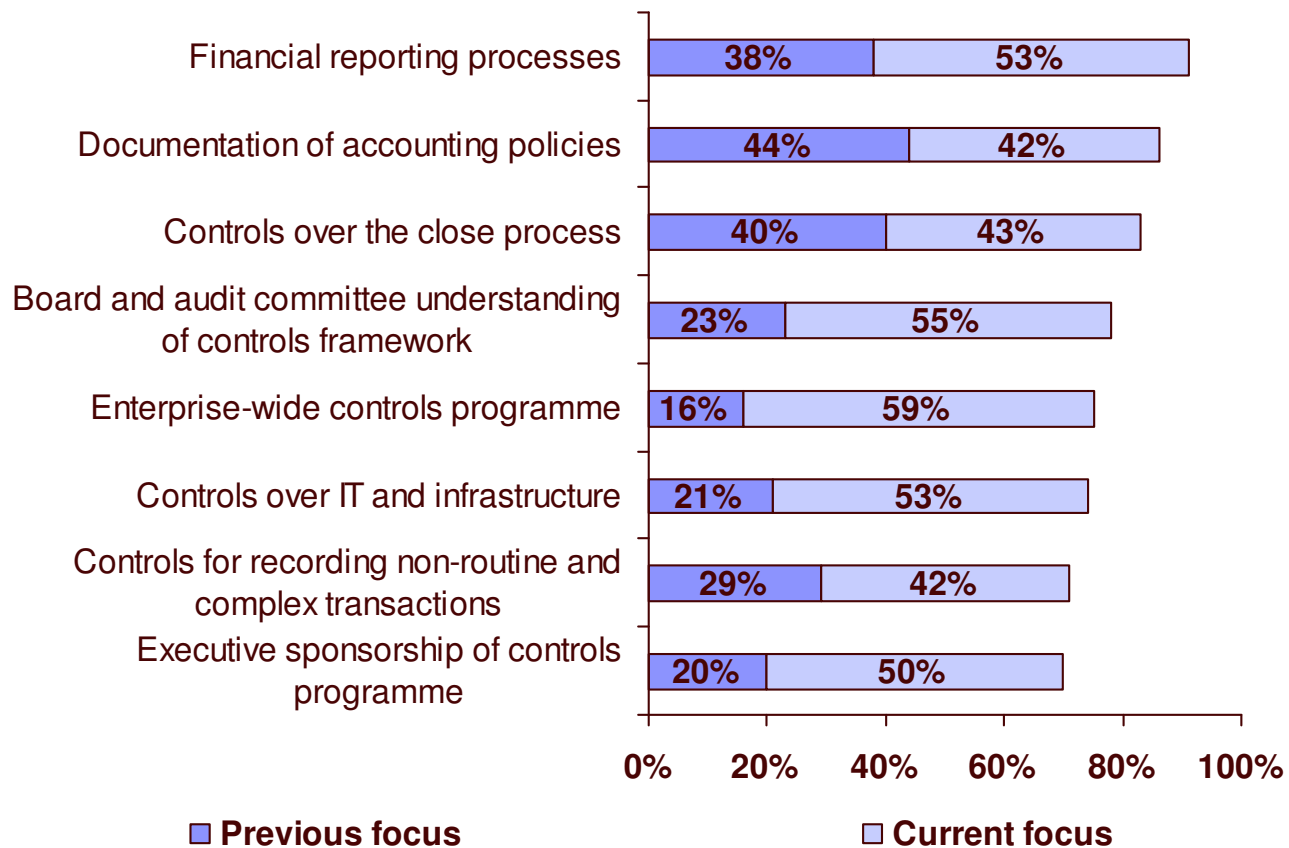
Finance's Top Areas of Importance



Source: IBM Business Consulting Services, The Global CFO Survey 2005 (870 responses globally)

Most organizations are addressing internal control areas

Internal Control Areas



Source: IBM Business Consulting Services, The Global CFO Survey 2005, over 800 global responses

What's Been Done so Far? The Effort is Huge

	<u>Fortune 100 CP Company</u>	<u>Fortune 100 Energy Company</u>	<u>Fortune 100 Insurance Company</u>
▪ Processes documented	10,000+	15,000+	22,000+
▪ Discrete controls defined	50,000+	50,000+	40,000+
▪ Systems identified	250+	400+	250+

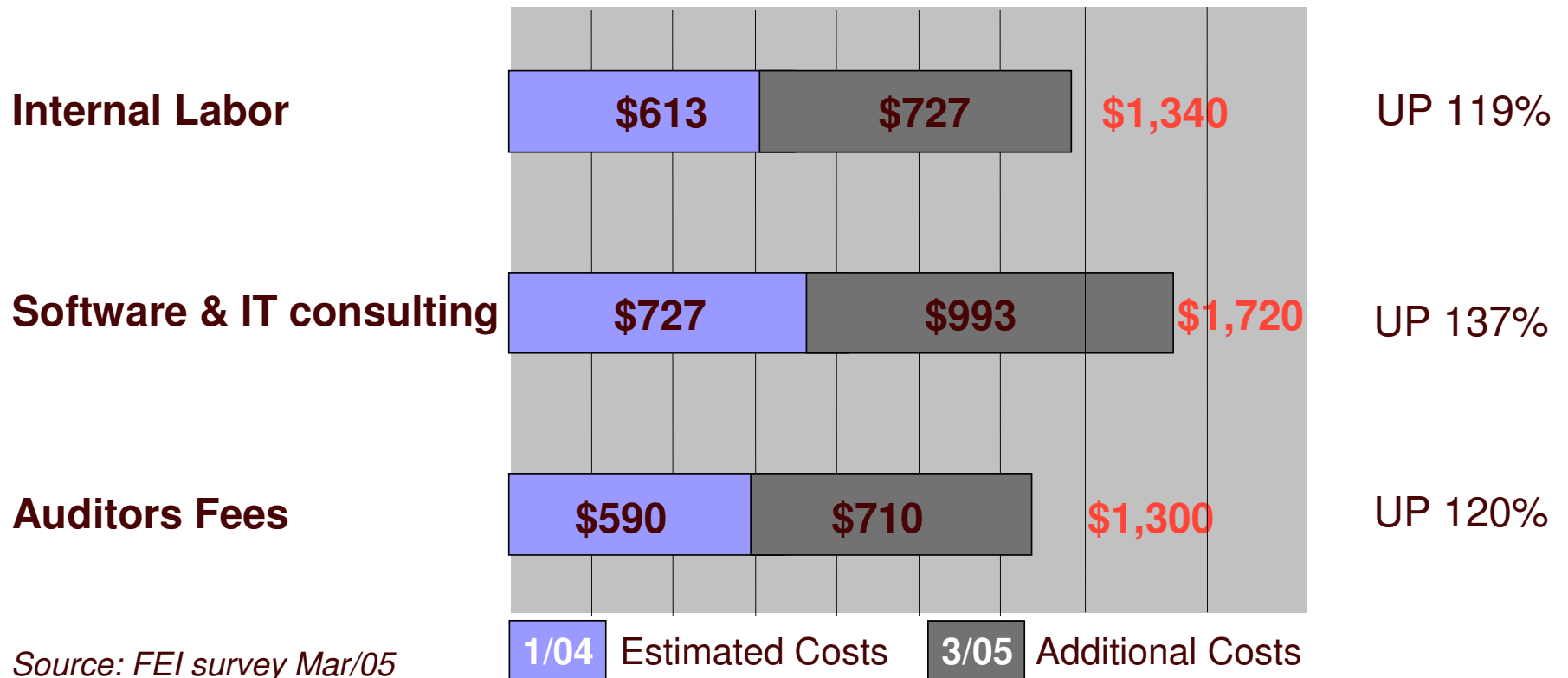
“As part of management's attestation process, the survey showed that companies are documenting internal controls for 92% of total revenue.” -- Financial Executive Institute (July 2004)

Dow Chemical Co. surveyed about “30,000 different internal systems ... spent about 100,000 man-hours getting its controls in order” -- Wall Street Journal (17 October 2005)

The above data was mirrored in an E&Y survey, published in March 2005, suggesting that at least 75% of companies with revenues over \$1 billion tested at least 500 controls, with the largest companies testing between 50,000 - 100,000!

What's Been Done so Far? The Costs

Comparison of Estimated Compliance Costs



Total estimated costs = \$4.36M (Mar '05) versus \$1.93M (Jan '04)

More SOX Experiences and Lessons Learned: The Compliance State

- **Many companies who believed they had standard ERP systems found that these were in fact modified by individual business units --- hence no standard system or set of controls.**
- **Trend towards outsourcing has complicated life for many companies, now forced to seek SAS70 or S5900 audit reports from their service providers --- and needing to influence the scope and timing of such reports.**
- **Internal audit is taking an increasing share of the testing responsibility for 404 compliance, and this is expected to grow further in subsequent years**
 - Yet the skills are often no longer resident in Internal Audit as most such functions have become focused on operational improvement rather than financial compliance.
 - More than 50% of companies expect to increase the size of their Internal Audit functions by at least 25%, *with an average 50% increase for all companies under \$1 billion in revenue.*
- **There are demonstrated benefits to compliance:**
 - 55% have enhanced financial processes
 - 40% have made systems enhancements

Source: Adapted from "Emerging Trends in Internal Controls: U.S. Listed Foreign Private Issuers, Initial Survey", by Ernst & Young, March 2005

More SOX Experiences and Lessons Learned: The Price of Poor Controls

- **Companies reporting internal control deficiencies have an increased risk of misstating financial results**
 - **This causes cost of equity to increase by approximately 1%**

- **Conversely, the cost of equity capital DECREASES by about 1.3% when the external auditor confirms the correction of internal control deficiencies**

- **This study “provides evidence that internal control risk matters to investors and that firms reporting strong internal controls or firms that correct prior internal control problems benefit from lower costs of equity capital ...”**
 - **“ ... weak internal controls allow or introduce both intentional and unintentional misstatements into the financial reporting process ... the quality of accounting systems [including] internal controls have an effect on firms’ real decisions ...”**

Source: “The Effect of Internal Control Deficiencies on Firm Risk and Cost of Equity Capital”, Profs. H. Ashburn-Skaife, D. Collins, R. LaFond, and W. R. Kinney Jr., April 2006

Lessons Learned : An Example of How to 'Win' from SOX Compliance

“At Eli Lilly, we view Sarbanes-Oxley as the financial equivalent to our Good Manufacturing Practices requirements ...

the residual benefit, in my view, is being able to understand process flows better, understanding where there's opportunities to test and retest the way we're doing business, and to look for opportunities to streamline transactional operations and, hopefully, identify redundancies in our processes looking for the key controls, stepping back and identifying where we could possibly make improvements ...

critical [for] people to understand that compliance was a business issue and it wasn't just a financial exercise.”

***-- Arnold Hamish, Chief Accounting Officer, Eli Lilly & Co.,
Business Finance webcast, 20 July 2005***

Lessons Learned : Critical Success Factors and ‘Wins’

- **Senior management commitment, setting the right “tone at the top” and corporate priorities**
- **Effective project planning & resourcing, constant project management, and CEO/CFO emphasis**
- **Effective “scoping” to recognize areas of higher risk, such as judgmental accounting matters/processes**
- **Development of an effective framework & documentation methodology, both with respect to the compliance process but also reporting and accumulating deficiencies**
- **Process & systems documentation was found to require significant amounts of updating**
- **Auditors (and companies) finally seem to have some stability and understanding with regards to the rules they need to follow and compliance practices**
- **Replace manual controls with automated controls**
- **Eliminate fragmentation of financial systems: multiple ERPs, consolidation work, spreadsheet jockeying**

“SOX is the best thing that’s ever happened to this company” --- CFO of a \$1.5 billion revenue global electronics company, April 2006

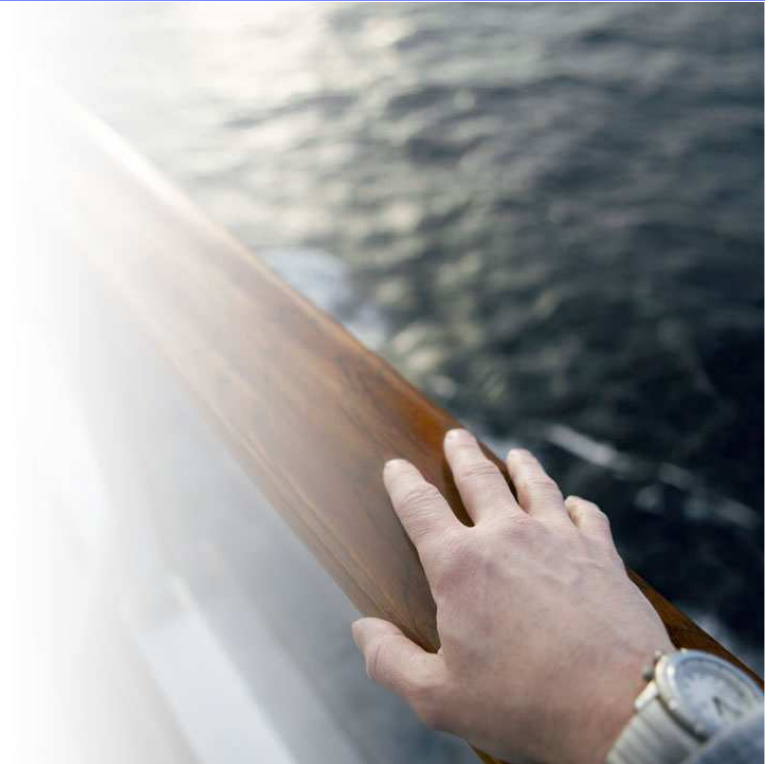
10 Questions CFOs Should Ask

1. **Have we increased our budget, time & dollars, to reflect the experiences of others?**
 2. **How will we leverage and align the SOX project with other regulatory-driven initiatives?**
 3. **How strong is our Program Management Office? Is it seen as a Program?**
 4. **Have our business unit CFOs truly accepted accountability and champion compliance within their units?**
 5. **Is our scope coverage, whether by location, system, process, business unit, appropriate BOTH for SOX purposes and also to leverage business benefit?**
 6. **Have we integrated reviews of IT controls with related business/process controls?**
 7. **Do our people understand what's expected of them, when it comes to documenting, testing, etc.? Related, do they have the requisite skills and training?**
 8. **How will we sustain what we're putting in place (or have put in place), and at lower cost?**
 9. **Am I visible enough in supporting & driving this project? Is our CEO? The Board? Have we *demonstrated through our actions* that this is a priority?**
- and finally*
10. **Are we sending the right signals as the 'Tone at the Top?'**



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Recent IBM CFO Study Findings



Lesson Learned: Finance is bogged down in Compliance & Reporting



- Compliance & Reporting bogged down in structural complexity
 - Multiple “sources of the truth” – multiple systems, multiple versions per system – giving rise to manual data reconciliations and reliance on intuition
 - 80% have not pursued enterprise-wide process standardization or expanded best practices across the enterprise.
 - Technology and platforms remain fragmented: 70% have not rationalized their systems
- “Lots of data. Not a lot of information” -- *CFO, North American Software Firm*
 - 9% are excellent at gathering, interpreting and conveying information that drives profits
- Organizations often turn first to technology before fixing broken processes
 - May complicate the standardization of processes, master accounts, etc.
 - May ultimately sub optimize the ultimate benefit of technology investments

Indirect Lessons: Foundation of Common Processes, Simplify

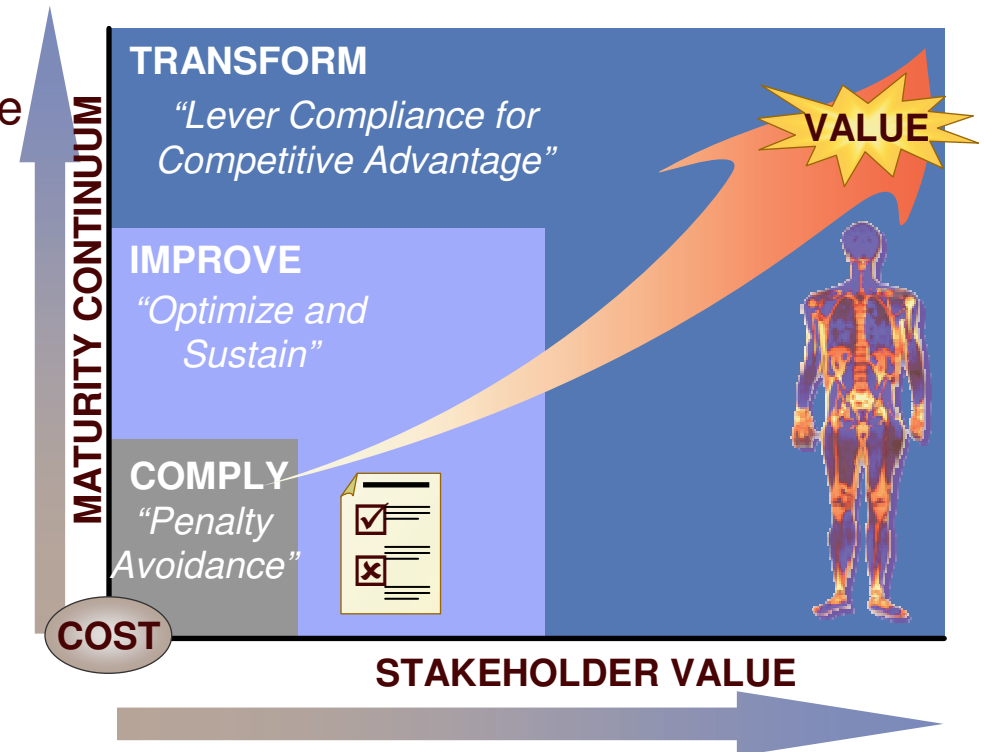
- Drive toward common processes & standards, consistency of data across the enterprise and timely communication across the enterprise

- GOAL → Create a “single source of the truth”

Oracle's DataHub strategies can be integrated into a Compliance Architecture that allows for multiple legacy environments feeding to and being managed by a single source of the truth such as the Customer Data Hub

Indirect Lessons: Evolve from Automated Controls → Support Real Time

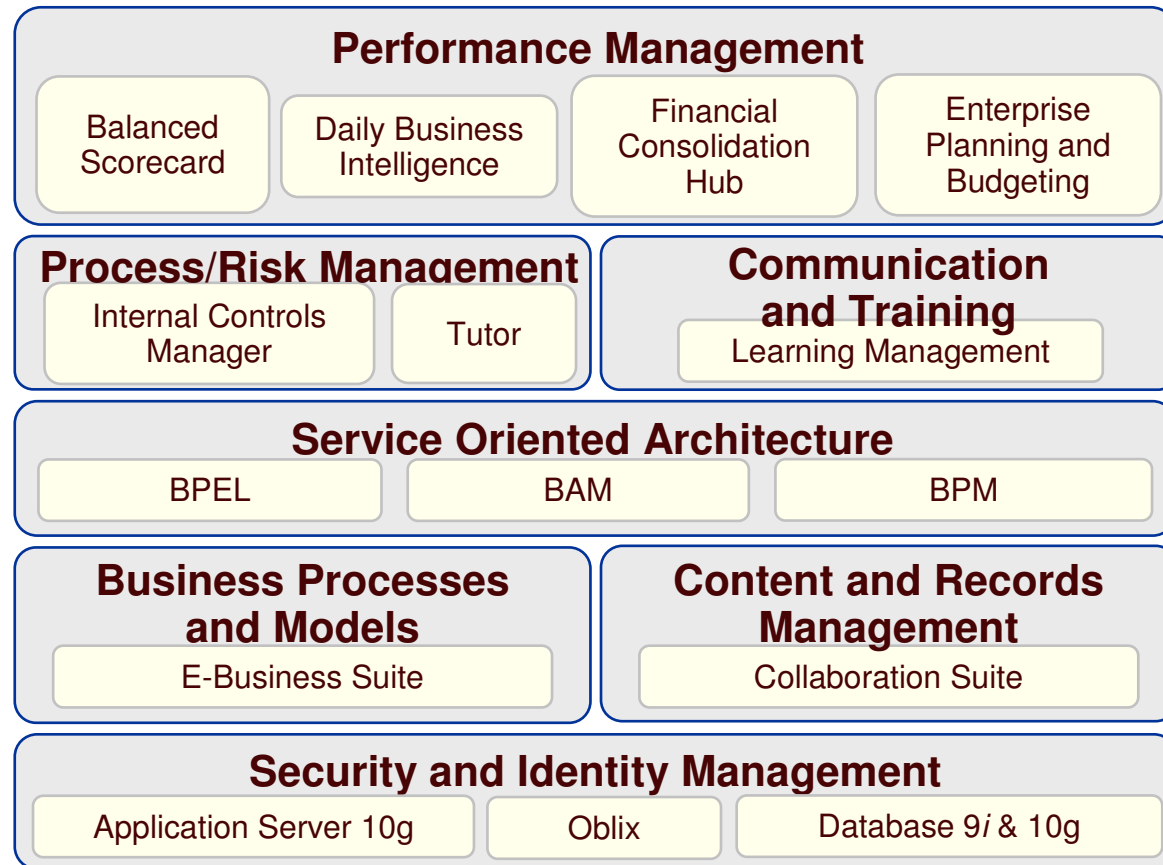
- Maturity Curve: Finance organizations have evolved from the “Comply” level to the “Improve” maturity level by automating controls, changing culture, process management, etc.
- Automated controls and “single source of the truth” allows:
 - Automated alerts and analytical tools
 - Real-time dashboards covering workflow monitoring
 - Management tools
- Information arising from automated controls can be used in predictive modeling to support proactive risk strategies



Oracle's Analytics and Business Intelligence tools can be integrated into a Compliance Architecture that allows for an improved reporting environment

Oracle Compliance Architecture

Delivering Sustainable Compliance



Fundamentally, it is not just Internal Controls Manager.....it is a Compliance Architecture that needs to be addressed across the enterprise and may include additional 3rd Party Tools that address your specific needs.

Questions and Contact Information



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