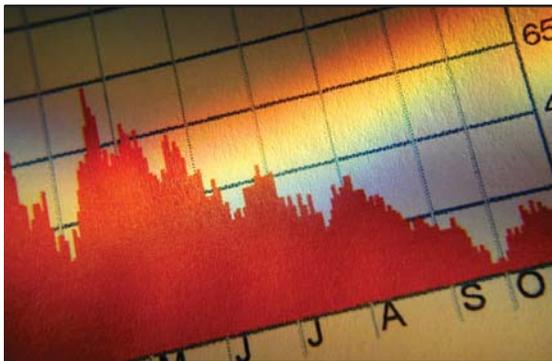


# Beyond Sarbanes-Oxley:

Using compliance requirements to boost business performance

*The business regulatory environment in the United States has changed. Public companies have new obligations to report on the effectiveness of their internal controls. Although these obligations have previously existed in a weaker form, the Sarbanes-Oxley Act (SOA) of 2002 has strengthened and broadened them.*



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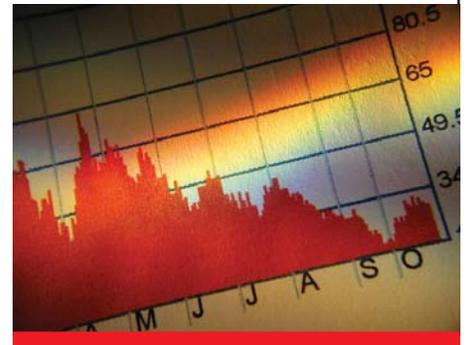
## Unique implications—and benefits—for retail

By now, retail executive officers are well aware of the SOA and its requirements to certify the accuracy of their financial reports and manage financial reporting risk. And no doubt they're also all too aware that retailers are susceptible to inaccuracy in a number of areas:

- ▶ Inventory counts are often imprecise
- ▶ Employee theft accounts for 48% of retail shrink's approximately \$15 billion per year
- ▶ Error rates in point-of-sale data can run as high as 30%
- ▶ There is increased scrutiny into trade accounting and subjectivity in determining account balances, including a number of issues around rights and obligations assertions between retailers and manufacturers and contract terms regarding returned inventory

More than 350 U.S. retailers are subject to Sarbanes-Oxley requirements. They're increasingly finding themselves needing to locate and authenticate vital information, a task that's complicated by a number of factors:

- ▶ Some 70% of U.S. retailers outsource inventory counts, primarily to gain third-party accuracy and to audit against employee theft
- ▶ Many retailers have fragmented computer systems as a result of building stand-alone systems
- ▶ Merger and acquisition activity has caused companies to merge multiple merchandising and financial reporting systems with different measurements, such as cost or retail method of accounting, data definitions, general ledgers, and accounting rules



But, while retailers may not welcome the new requirements of corporate governance and regulatory compliance, they can look forward to an important benefit from complying with SOA: vastly improved business performance throughout the organization.

## Turning Sarbanes-Oxley requirements to your advantage

The very nature of compliance requirements provides opportunities for business improvement. For example, optimizing business processes can greatly increase operational efficiency. And training workers across many borders, time zones, and locations is a logistical nightmare that can be alleviated with standard processes.

The requirements also provide an excellent opportunity for retailers to reexamine how compliance needs to be enforced across multiple functional areas, while prompting them to look at new ways of managing risk.

Technology is a key enabler for compliance and performance improvement, and the right enterprise information system is a critical component of any company's compliance architecture.

### How complying with Sarbanes-Oxley can boost business performance.

Compliance Investment	Performance Improvement
<ul style="list-style-type: none"> <li>▶ Executive certification of financial results and numbers</li> <li>▶ Controls around customer information to comply with Gramm-Leach Bliley</li> <li>▶ Enterprise-level risk management and mitigation</li> <li>▶ Establishment of performance metrics set against strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>▶ Executive visibility into store-level inventory</li> <li>▶ Ability to better execute 'opt-in' marketing and sales campaigns</li> <li>▶ Less reliance on high-risk 'gut decision' strategies</li> <li>▶ Alignment of corporate growth strategy with store manager activities</li> </ul>

## Enterprise Information Systems offer retailers new levels of visibility, control, and efficiency

In many ways, Sarbanes-Oxley is a wake-up call that gives retailers an opportunity to rationalize systems, standardize business processes, consolidate information, and ensure that this information is delivered to the right people in the right way.

The rise of automation and enterprise information systems has been a cornerstone of managing complex, information-driven businesses. These systems are key to corporate governance because they provide vital help in evaluating and addressing the many challenges of regulatory compliance.

However, the proliferation of different systems across the enterprise has added complexity and driven up compliance costs and risks. Retailers seeking an effective way to manage their business while meeting compliance requirements need a business system that will provide them with:

- ▶ **Enterprise-wide visibility and accuracy**, which gives faster access to vital information, alerts retailers to errors, and gives managers insight to performance against objectives and plans on a daily basis, providing them with real-time monitoring of key changes in the business
- ▶ **Enhanced internal controls** that provide the people managing compliance efforts with the right tools to measure and deliver results and allow for consistent enforcement of policies and business practices
- ▶ **Increased operational efficiency** from automated and standardized processes and self-service applications that reduce errors, manual inputs and reconciliation, and ultimately, costs



### Enterprise-wide visibility and accuracy

Sarbanes-Oxley puts a new emphasis on transparency in reporting. As a result, you need to improve visibility and shift your focus from merely filing financial reports on time to reporting information that is accurate, verifiable, and meaningful.

You can't expect to gain transparency merely by accurate reconciliation and disclosure at quarter close. You need to understand the causes behind past successes and failures, you need visibility into your business as events unfold in real time, and you need to be able to forecast the future with reasonable accuracy.

To do all of this, you need current performance metrics measured against defined goals and objectives, which you can view by any business dimension of your choice, such as by department, product, or geography. A consolidated source of enterprise data with the ability to drill from summary reports to source transactions, using a single, unified data model, provides the key foundation for executive decision-making.

Many organizations are accomplishing this by consolidating their multiple systems, databases, and processes into fewer sources, providing superior review of data and better controls. Gaining this kind of enterprise-wide visibility into financial performance, risks, and underlying controls provides you with a key competitive advantage: it enhances agility for faster response to organizational and market changes.

With the ability to rapidly review and respond to variations and exceptions, this visibility will increase overall operational efficiencies and reduce or eliminate end-of-period surprises. A strong enterprise information system can consolidate information into one global management reporting system that provides a single accurate set of reports — even using multiple currencies and languages.

This global view of a company's performance can minimize points of failure by centralizing on a common data model and single instance. By reducing reconciliation efforts, it can also help you meet accelerated reporting requirements.

Above all, the right enterprise information system provides invaluable real-time business intelligence with operational, financial, and internal control key performance indicators. It should:

- ▶ Ensure management of timely, accurate, and relevant information
- ▶ Enable monitoring of financial results and underlying controls
- ▶ Increase management trust in information by providing complete drill-back from summary results to source transactions

**Ultimately, control systems are meant to discourage violation of policies, not substitute for voluntary good conduct. Thus, well-trained and informed employees are also a key element of control.**

## Enhanced internal controls

Section 404 of the SOA requires an annual evaluation of internal controls and procedures for financial reporting. Under this scheme, a corporation must document its existing controls that have a bearing on financial reporting, test them for efficacy, and report on gaps and deficiencies.

Effective control also enables you to avoid careless accounting practices, enforce compliance with business practices, achieve your business objectives, and alert yourself to the occurrence of discrepancies so that you can find and fix them.

Ultimately, control systems are meant to discourage violation of policies, not substitute for voluntary good conduct. Thus, well-trained and informed employees are also a key element of control. To ensure that your employees stay informed about your policies and procedures, you can use your business systems to set targets for skills and capabilities and monitor gaps against these targets. Then you can establish training policies to make certain that employees have knowledge of relevant company policies and procedures.

For example, new Federal Sentencing Guidelines require companies to communicate compliance standards throughout the company. Mandatory online courses for ethics and code of conduct, data privacy, and sexual harassment, for example, enable senior management to demonstrate that this communication and learning has taken place.

Business strategies, too, are hamstrung without the executive control required to implement them effectively. For large diversified companies, strategy development is no simple task, but it is easier if you start out knowing what you can and cannot control. Whether it be finance, treasury, manufacturing, interacting with customers, or leveraging your supply chain, control is vital to a successful strategy.

Finally, you must have the ability to detect breakdowns or non-compliance and be able to take corrective action before damage spreads. A simple error such as an incorrectly entered order can mean thousands or even millions of dollars saved or lost, depending on whether you can catch the error before the order is placed.

Standardization can benefit your company in many other ways. For example, many businesses are including embedded controls (such as enforcing procurement, expense, and travel policies) in everyday business processes through self-service applications. Leveraging built-in controls allows you to automatically monitor key financial application controls (such as segregation of duties) and certify financial reports with confidence, using drill-down from financial accounts to underlying process and control certifications and assessments.

Documenting your business processes and associated internal controls can also be used for global web-based training and compliance programs, which can help ensure consistent learning and measurement across the corporation and simplify the implementation of company-wide initiatives, policies, and procedures.

## Retailers report a wide variety of business benefits as a result of their compliance efforts.

Retailers across the U.S. are dealing with the myriad requirements of the Sarbanes-Oxley Act. Along the way, many of them are discovering that compliance delivers many benefits, including:

- ▶ Better overall IT governance
- ▶ Stronger enforcement of IT policies and procedures
- ▶ Increased accountability of business units implementing IT control standards
- ▶ Additional IT resources
- ▶ Tighter integration between disparate systems
- ▶ Improved security for both systems and applications
- ▶ Enhanced audit trails for computer applications
- ▶ Greater emphasis on data retention
- ▶ Reduced opportunities for fraud
- ▶ Improved documentation of processes
- ▶ Better communication of policies and procedures
- ▶ A keener focus on long-term strategic plans

## Increased operational efficiency

The new SOA regulations are driving business managers to find new ways to increase visibility and control without burdening the organization with additional overhead. The solution lies in implementing smarter systems to standardize processes that streamline the distribution of corporate information and provide an auditable trail for decision-making. Efficiency in this new environment requires consolidation of business functions and IT, which is increasingly important as globalization takes hold in retail.

The same efficient processes, people, and infrastructures that companies need to address ongoing compliance demands can improve a retailer's overall efficiency. This efficiency is born out of creating and enforcing reliable, repeatable processes for testing, monitoring, and certifying internal controls quarterly. Each process must have an owner to ensure accountability, process owners must be part of global operations, and all processes must be thoroughly documented.

Adopting self-service capabilities also improves operational efficiency by reducing manual input and errors, using automated routings and approvals to reduce paperwork and place controls at the time of the transaction, implementing role-based access to information, and mapping process to company policies.

### How is your company doing on its corporate governance efforts?

This check list gives you a quick assessment of your company's progress in achieving the three key components of any compliance and corporate governance effort.

- |                   |                                     |  |
|-------------------|-------------------------------------|--|
| <b>VISIBILITY</b> | <input checked="" type="checkbox"/> | Consolidate Global Financial Data                |
|                   | <input checked="" type="checkbox"/> | Provide Single Source of Truth                   |
|                   | <input checked="" type="checkbox"/> | Enable Real-Time Information                     |
| <b>CONTROL</b>    | <input checked="" type="checkbox"/> | Monitor Business Issues                          |
|                   | <input checked="" type="checkbox"/> | Integrate & Centralize Business Operations       |
|                   | <input checked="" type="checkbox"/> | Document Corporate Communications                |
|                   | <input checked="" type="checkbox"/> | Document Business Processes & Support Compliance |
|                   | <input checked="" type="checkbox"/> | Test and Certify Internal Controls               |
| <b>EFFICIENCY</b> | <input checked="" type="checkbox"/> | Automate Business Processes                      |
|                   | <input checked="" type="checkbox"/> | Integrate Technology & Applications              |

## Compliance: an investment that can produce excellent returns

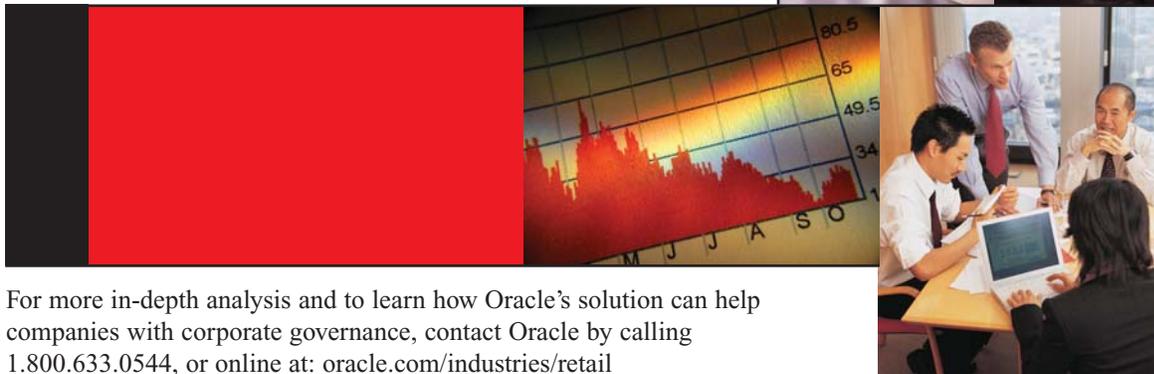
Controlling compliance costs is a necessary objective. But organizations that strive for excellence look beyond the expense for opportunities to turn their compliance efforts into strategic investments in the business.

Simultaneously addressing compliance, risk, and corporate performance management can help retailers build for the future, creating a risk-aware culture and achieving visibility at every level of the organization. This enterprise-wide visibility enables management to act with confidence on timely, accurate, global business information benefitting the bottom line. ■

### About Oracle

Oracle provides a solution that enables retail management, financial officers, and auditors to document, test, monitor, and certify internal controls and manage enterprise risk. It provides essential visibility into business process definitions, charts of accounts, organizational and financial statement structure, and documentation across business applications. And it efficiently documents, assesses, and tests internal controls, enabling you to build repeatable processes, for compliance and other business purposes.

Built on open, industry-standard technologies, Oracle's solution integrates with all enterprise business systems and monitors changes in key control points, such as segregation of duties. It automates audit activities, such as financial reporting and operational risk assessments, remediation plan implementation, and audit project management.



For more in-depth analysis and to learn how Oracle's solution can help companies with corporate governance, contact Oracle by calling 1.800.633.0544, or online at: [oracle.com/industries/retail](http://oracle.com/industries/retail)

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