

**Oracle's Compliance
Architecture:**
*A Roadmap to Sustainable Compliance
and Governance Best Practices*

*An Oracle White Paper
June 2005*

EXECUTIVE SUMMARY

According to Gartner Research, the growing complexity and interdependence of the global economy means that businesses will have to comply with more demands for compliance in the future, rather than less. If you're a London-based bank, that could mean compliance with local regulations such as the UK Combined Code and Freedom of Information Act, and with global regulations such as International Financial Reporting Standards (IFRS), and the New Basel Capital Accord. If you call Tokyo home, you've already felt the impact of *yukasboken honkokuho*, Japan's stringent new disclosure laws. And if you're an L.A.-based healthcare company, your sunny days are often overshadowed by compliance with Sarbanes-Oxley, the Health Insurance Portability and Accountability Act (HIPAA), and maybe even California's new Notice of Security Breach Law.

Although the thought of more regulations is daunting, the real challenge is that companies have tended to respond to each new compliance mandate as an individual project, rather than as part of a proactive compliance program based on sustainable processes. The human and financial costs of responding to each regulatory challenge with one-off solutions are simply not sustainable.

Oracle developed this white paper to help finance, IT, and compliance executives identify and eliminate the most common barriers to sustainable compliance. Some of those barriers may already be present in your organization, from manual internal controls and disparate information silos, to multiple financial, records, and document management systems. Even today, some 75 percent of companies still rely on multiple finance systems for their management and regulatory reporting, limiting visibility into financial results and exposing them to error, fraud, and the risk of non-compliance.

To break down those barriers, Oracle developed the industry's most advanced roadmap to sustainable compliance, the foundation of which is a comprehensive information architecture that combines data security, scalability, and reliability with integrated business and compliance processes, embedded internal controls, performance measurements, and content and records management. This white paper walks you through each component of Oracle's sustainable compliance information architecture, demonstrating the benefits of standardizing on an integrated solution that can help embed compliance into the very fabric of your organization.

According to Gartner, companies that continue to use an ad hoc approach to compliance will spend 10 times more than those who take a proactive approach to managing all their regulatory requirements. And with compliance costs for IFRS and Sarbanes-Oxley Section 404 averaging millions of dollars annually for most large corporations, a tenfold increase is more than reason enough to consider adopting Oracle's sustainable compliance architecture. But the benefits go beyond the financial: companies demonstrating a strong commitment to

compliance and corporate governance are winners with corporate boards, investors, credit rating agencies, and even employees.

So stop and take a few minutes to read what may be one of the most important documents on your desk in 2005: *Oracle's Compliance Architecture: A Roadmap to Sustainable Compliance and Governance Best Practices*.

CORPORATE GOVERNANCE: A GLOBAL FORCE

A company's reputation is its most precious asset, and it can be very hard to come by. Just ask Samsung, which finally broke into the ranks of *Fortune's* top 50 most admired global companies in 2004. According to Samsung chairman Kun-Hee Lee, the *Fortune* award wasn't just luck but rather the culmination of ten years of dedicated effort emphasizing quality over quantity.¹

"The proper governance of companies will become as crucial to the world economy as the proper governing of countries."

James Wolfensohn, President,
The World Bank

Although building a corporate reputation can take years of hard work, losing it can be incredibly easy. Just ask WorldCom, Parmalat, or Enron - all of whom destroyed billions of dollars of shareholder equity and decades of brand equity in just days once investors got wind of each company's involvement in massive financial fraud. Now even a whiff of potential scandal can ruin a company's reputation - and its market value.

Good corporate governance is becoming the lens through which external and internal stakeholders view a company's reputation, financial performance, and investment appeal. The following data points illustrate just how powerful a force corporate governance has become for investors and companies around the world:

- The world's three biggest credit rating agencies - Moody's, Standard & Poors, and Fitch Ratings - have all incorporated governance measures into their credit-rating methods.
- Big institutional investors on both sides of the Atlantic factor governance rankings into their investments, including Calpers and TIAA-CREF in the United States, Britain's National Association of Pension Funds, and 20 of the top 30 leading asset managers in Europe.²
- In a January 2005 study by the Economist Intelligence Unit and Oracle, 85 percent of executives and investors cited corporate responsibility as a central consideration in their investment decisions.³ Survey participants ranked ethical behavior of staff, good governance, and transparency of corporate dealings as the three most important aspects of corporate responsibility, with two-thirds citing brand enhancement and better staff morale as the primary business benefits of corporate responsibility.⁴

If you think corporate governance is just an American or European phenomenon, think again. In Indonesia, investors now pay a 17% premium for good governance. India, Russia and Mexico are all moving to aggressively enforce new codes of conduct to improve their legal, institutional and regulatory frameworks for corporate governance. And in 2004, Brazil was selected to host the 10th Annual International Corporate Governance Network Conference in recognition of its efforts to improve shareholder rights and corporate governance.

¹ Hjelt, Paola. "Global All-Stars: There's a New No. 1," *Fortune.com*, March 7, 2005.

² "Europe's Old Ways Diet Fast," *BusinessWeek*, May 17, 2004.

³ "The Importance of Corporate Responsibility", The Economist Intelligence Unit, January 2005.

⁴ *Ibid.*, p. 2.

“I have come to view strong corporate governance as indispensable to resilient and vibrant capital markets. It is the blood that fills the veins of transparent corporate disclosure and high-quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure.”

Arthur Levitt, Former SEC
Chairman

Although businesses are motivated to adopt good corporate governance practices to appeal to investors and consumers, they are also motivated by fear of noncompliance. The U.S. Department of Justice has indicted more than 200 executives since Congress passed the Sarbanes-Oxley Act in 2002, and activist shareholders on the other side of the Atlantic are also putting pressure on boards and management to adhere to stringent new corporate governance codes enacted by 21 European countries since early 2000.⁵

Faced with demanding regulators and investors, it's not surprising that companies are opening up their checkbooks to invest in technologies that can improve financial transparency and disclosure. AMR Research estimates that global spending on compliance initiatives will reach \$80 billion between 2005 and 2009, with \$5.8 billion of that total to be spent by companies in 2005 on SOX compliance programs.⁶

Although you might think that your company's portion of that \$80 billion may be small, it begins to add up when you consider that most companies today must comply with multiple regulations, from financial reporting mandates such as Sarbanes-Oxley (SOX), International Financial Reporting Standards (IFRS), and the new Basel Capital Accord (Basel II); to the dramatic increase in privacy laws like HIPAA, California Bill 1386, and the EU Data and Privacy Act; to industry-specific regulations mandated by standards bodies such as the U.S. Food and Drug Administration, the International Standards Organization, and others.

If your company has to comply with SOX or IFRS, you've probably done much of the initial heavy lifting when it comes to building a sustainable compliance architecture, completing tasks such as documenting business processes and controls, and streamlining the financial reporting and close processes. Now is the time to leverage that effort by investing in a comprehensive technology architecture that can deliver the control, visibility, and efficiency you need to support any compliance or governance mandate that comes your way.

Oracle can help you support governance and compliance best practices with a comprehensive information architecture that combines data security, scalability, and reliability with integrated business and compliance processes, embedded internal controls, performance measurements, and content and records management. Using these technologies can help you build a sustainable compliance architecture able to embed compliance into the very fabric of your organization, so you can drive down the cost of regulatory compliance and strengthen your reputation for financial transparency.

THE THREE STEPS TO SUSTAINABLE COMPLIANCE AND GOVERNANCE

Leading CFOs recently surveyed by *CFO Magazine* and Capgemini cited the changing regulatory and legal environment as the principal external force

⁵ Nyberg, Alix, "Fraud Squad," *CFO Magazine*, April 1, 2003.

⁶ Reilly, Kevin, "AMR Research Estimates Sarbanes-Oxley Spending Will Reach \$5.8 Billion in 2005", AMR Research, November 12, 2004.

driving change in their finance and IT organizations. These same CFOs confirm that funding for finance and IT transformation is becoming more accessible, as boards and CEOs now understand the importance of embedding compliance and good corporate governance into a company's systems, processes, and practices.⁷

Smart companies have seized the opportunity presented by compliance to invest in best practice business processes and unified information architectures that can help preserve investor trust, drive down the cost of ongoing compliance and governance, and enhance shareholder value. The following three steps provide a technology roadmap your company can follow to build a sustainable compliance architecture able to meet the regulatory and competitive demands of the new era of corporate governance.

Strategy: Enforce corporate and regulatory policies and improve workforce governance.

Checklist:

- Automate internal controls
- Ensure accuracy, reliability and security of information
- Enforce accountability for compliance across the organization

Step #1: Strengthen Financial Discipline and Governance Best Practices

Eight trillion dollars. That's the amount of money investors lost after global stock markets collapsed in the wake of the Enron and WorldCom scandals.

In the U.S., regulators have tried to restore investor confidence by strengthening internal controls and financial transparency through strict enforcement of Sarbanes-Oxley, especially Sections 404 and 302. The United Kingdom has taken a similar approach with its Combined Code, requiring companies to have an "embedded" internal controls system that monitors environmental, ethical, and social risks in addition to traditional business risks. Australian regulators have also adopted a similar governance code that requires boards, CEOs, and CFOs to be responsible for the systems and controls used to manage financial risk.

Despite regional variations, almost all countries are united in their agreement that companies must provide investors with the highest quality financial information based on internationally-recognized accounting standards, and audit and regulatory enforcement. To restore and maintain investor trust, companies must strengthen financial discipline and governance best practices by automating internal controls, ensuring accuracy and reliability of information, and enforcing accountability across the entire organization.

Automate internal controls

According to the Institute of Internal Auditors, 92 percent of U.S. public companies identified gaps in their internal control frameworks during the documentation phase of Section 404.⁸ Of those, 526 companies were actually forced to disclose material weaknesses in their internal controls in 2004, with 70 percent of those disclosures attributed to problems with financial systems and procedures, such as weaknesses in the financial close process, account reconciliation, or inventory processes. The remaining 30 percent of weaknesses

⁷ CFO Research Services and Capgemini, "Compliance: Finance's Bridge to the Enterprise", November 2004, pp. 4- 5.

⁸ Taub, Stephen, "Internal Auditors Find Control Gaps", *CFO.com*, May 26, 2004.

were attributed to personnel problems, from poor segregation of duties, to inadequate staffing, training, and supervision.⁹

As of April 2005, nearly 8% of the internal control assessments filed during the 2005 annual report season received “adverse opinions” according to *Compliance Week*, and *Fortune* estimates material weakness disclosures could affect as many as 20 percent of all listed companies. Shareholders in the United States have been quick to capitalize on these disclosures: more than 40 percent of all securities fraud class action lawsuits filed in 2004 were tied to internal control allegations, second only to revenue recognition allegations.¹⁰

A leading enterprise resource planning (ERP) solution such as Oracle E-Business Suite offers a rich set of automated internal controls that enable companies to enforce their business rules in every transaction. Until Sarbanes-Oxley hit the scene, most companies tended to turn on only 30 to 40 percent of the controls embedded in their finance systems, preferring to handle many internal controls manually. However, most auditors will agree that application controls are significantly easier to test and validate than manual controls. Companies that take this opportunity to turn on the remaining controls within their business applications will be able to integrate internal controls into day-to-day activities as well as reduce the scope of future testing activities.

Ensure accuracy, reliability and security of information

In today’s environment, IT systems are a critical component of nearly every business process, and the accuracy and reliability of information is heavily dependent on the reliability of a company’s IT systems and controls. With the emergence of new regulations like Sarbanes-Oxley, executives need to rethink the security of their IT systems, as well as how they manage, access, protect, and retain information of all kinds, from transactional data and electronic documents to email, voice mail, instant messages, and calendars.

Surveys conducted by *CFO Magazine* and the CFO Executive Board in late 2004 show that CFOs rank security and integrity of data security as a top priority, and place IT controls at the top of their lists for remedial Section 404 work.¹¹ To ensure compliance, companies must now regularly assess who has rights to what data, whether or not these rights violate the principle of separation of duties, that new users accounts are created with the correct rights and user accounts are removed upon employee termination, and that these rights are consistent across the entire IT infrastructure.

Enforce accountability for compliance across the organization

Creating sustainable corporate governance and compliance best practices starts with the right “tone at the top” at the board and executive levels. That means

⁹ “January Internal Control Report: Adverse Opinions Emerge”, *ComplianceWeek*, February 3, 2005.

¹⁰ Taub, Stephen, “Accounting Issues Drive Securities Lawsuits”, *CFO.com*, August 4, 2004.

¹¹ .¹¹ CFO Research Services and Capgemini, “Compliance: Finance’s Bridge to the Enterprise”, November 2004, pp. 4- 5;¹¹ “The IT Compliance Challenge: Ensuring Effective IT Controls for Sarbanes-Oxley Compliance”, Corporate Executive Board, November 10, 2004, p. 2.

making sure that everyone in the organization understands management's commitment to responsible business practices and ethical behavior, then reinforcing that commitment so that it is ingrained in the company's DNA and daily decision-making processes.

Creating a culture of compliance also means that employees must be trained on the company's latest governance and compliance policies and best practices, and be continually assessed on their understanding of those policies and practices. Failure to do so can have dramatic consequences: lax internal controls and a culture of fraud were at the heart of the massive scandal at Dutch supermarket giant Ahold that resulted in criminal investigations by Dutch and U.S. authorities, and a market cap loss of 80 percent. And in the United States, personnel problems were responsible for 30 percent of the internal controls weaknesses disclosed by public companies in 2004, ranging from segregation of duties to inadequate staffing, training, and supervision.¹²

To address the human side of compliance, companies are turning to online learning and survey tools to keep their workforce up-to-date on their corporate governance and compliance programs, and make employees aware of the penalties for non-compliance. Sempra Energy, for example, requires all employees to complete Web-based compliance training on SOX and internal controls, as well as topics such as the Foreign Corrupt Practices Act, anti-trust laws, state-specific energy regulations, and other environmental and safety rules.¹³

Strategy: Build a strategic compliance platform

Checklist:

- Identify common business requirements associated with your compliance initiatives*

- Build auditable, repeatable processes to enforce and sustain compliance*

Step #2: Think Holistically to Reduce Compliance Costs

The United States has SOX, HIPAA, USA PATRIOT ACT, and FDA CFR 21. Europe has its EU Transparency and Data Privacy Directives, and 21 national corporate governance codes. And the world has IFRS, Basel II, and new corporate social responsibility standards now being drafted by the International Standards Organization (ISO).

According to Gartner Research, the growing complexity and interdependence of the global economy means that businesses will have to comply with more demands for compliance in the future, rather than less. Although the thought of more regulations is daunting, the real challenge is that companies have tended to respond to each new compliance mandate as an individual project, rather than as part of a proactive compliance program based on sustainable processes. The human and financial costs of responding to each regulatory challenge with one-off solutions are simply not sustainable.

As evidence of this, makeshift methods to meet first year SOX requirements led the largest U.S. companies to spend more than \$10 million in 2004.¹⁴ The bulk of those expenditures involved ad hoc fees for auditors, external consultants, and other professional services to support the documentation, testing, and remediation of internal control gaps required under Section 404.

¹² "January Internal Control Report: Adverse Opinions Emerge", *ComplianceWeek*, February 3, 2005.

¹³ Krell, Eric, "The Human Side of Compliance", *Business Finance*, March 2005, p. 20.

¹⁴ Taub, Stephen, Sarbox Costs, Board Independence Risk", *CFO.com*, March 18, 2005.

Gartner estimates that companies that use an ad hoc approach to compliance will spend 10 times more than those who take a proactive approach to managing all their regulatory requirements.

Europe's 7,000 publicly listed companies have approached their January 2005 compliance deadline for conversion to IFRS accounting standards in a similar manner. According to JHS International, large-cap companies in the United Kingdom spent an average of £1 million on compliance with IFRS in 2004, yet have made little progress toward integrating IFRS standards into their data capture and reporting systems.¹⁵ The price tag for banks that must comply with new risk management frameworks and capital adequacy guidelines mandated by Basel II is even higher, with two-thirds of banks with more than US\$100 billion in assets projecting compliance costs of more than EUR50 million.¹⁶

Here are the steps you need to take control over your organization's current and future compliance mandates.

Identify the common business requirements associated with your compliance initiatives

Almost all regulations share similar traits that organizations can leverage to reduce the compliance burden. Understanding the key processes and requirements that underlie your individual compliance initiatives is an essential first step toward building a sustainable compliance architecture. The IT organization should take the lead in this process since it receives technology requirements from various functional groups to comply with different regulations. IT can then identify how technology investments can be leveraged across multiple compliance and business initiatives.

¹⁵ Buckley, Rob, "Financial Results," *Infoconomy.com*, January 31, 2005.

¹⁶ "Banks Wary of Basel II Costs," *Finextra.com*, June 28, 2004.

The following table highlights some of the business requirements that are common to many regulations now facing organizations worldwide.

Table I. Finding Synergies Between Mandates

Impact on the Business				
Mandate	Processes and Risk Management	Content and Records Management	Data Security and Privacy	Training
Cross Industry				
Sarbanes-Oxley Act	X	X	X	X
HIPAA		X	X	X
California Senate Bill 1386			X	X
International Accounting Standards	X	X	X	X
EU Data Privacy Directive			X	X
Federal Sentencing Guidelines				X
Industry Specific				
Basel II	X			X
Gramm-Leach Bliley			X	X
SEC17A-3/4		X		X
FDA 21 CFR Part 11	X	X		X
Freedom of Information Act		X		X
USA PATRIOT ACT		X	X	X

Build auditable, repeatable processes to enforce and sustain compliance

Once you've identified common business requirements and processes used to meet your organization's compliance mandates, the key is to automate as many of those business processes as possible to make them auditable and repeatable. Most companies have relied on Excel, Word, and Visio to document and manage their processes and risks, especially under Section 404. In a survey by IDC, nearly all respondents agreed that this approach is not sustainable and

planned to invest in an automated solution for keeping documentation current, testing internal controls, and managing work projects.¹⁷

Content and records management is another area that compliance and electronic discovery have put under the spotlight. Companies are struggling with processes to retain, manage, and access unstructured content, such as electronic documents, emails, instant messages, calendars, Web conference proceedings, voicemail, electronic discussions, and Web content. Unlike financial, employee, or customer records that are usually stored in a secure database, unstructured content is usually not well organized or easily found, and is controlled by ad hoc or no access control policies.

Strategy: Establish a Unified Information Architecture

Checklist:

- Eliminate information silos*
- Turn information into a competitive advantage*

Step #3: Improve Transparency of Business, Financial and Compliance Performance

Fundamentally, compliance mandates are all about how an organization manages its information. Saddled with a labyrinth of systems and manual integration processes, companies have started to think about simplifying their information systems to easily produce transparent and consistent data. Realistically, this is a longer-term effort that will happen after companies first solve the problem of building auditable, repeatable compliance processes. Some of the initiatives companies are undertaking in this regard are consolidating ERP systems, implementing financial consolidation software to improve financial reporting, and adopting business intelligence solutions to gain a unified view into compliance, enterprise risk, and business performance.

Eliminate Information Silos

According to AMR Research, only 25 percent of large companies have standardized on a global ERP system. The rest have fragmented systems, multiple general ledgers, and transaction system interfaces that constitute some of the biggest barriers to meeting governance and compliance mandates.¹⁸ Regulatory reporting is further slowed by the fact that consolidation is often done manually using Excel and Access to roll up and consolidate reports, creating information silos that can compromise data integrity and security.

According to IDC, companies are responding to their compliance mandates by consolidating ERP systems and business processes, and adopting financial consolidations solutions to achieve a single version of the financial truth.¹⁹ Standardizing on a single instance helps break down information silos by eliminating duplicate systems and application interfaces, ensuring data accuracy, reliability, and auditability. A single data source and standardized, automated compliance processes also ensures that a company's compliance program remain bulletproof in the face of corporate acquisitions, business restructurings, or employee changes.

¹⁷ Wilhide, Kathleen and Julie Marobella, "Competitive Advantage through Compliance: Business and Technology Strategies Corporate Managers Need to Know", IDC, 2005, p. 10.

¹⁸ Hamerman, Paul, "The Unstated Financial Management System Implications of Sarbanes-Oxley," *Giga IdeaByte*, February 12, 2003.

¹⁹ Wilhide, Kathleen and Julie Marobella, "Priorities for Corporate Compliance Study", International Data Corporation, March 11, 2005.

“Organizations worldwide now recognize the linkage between corporate governance, enterprise risk management and entity performance. Many seek to improve processes for identifying, analyzing and managing risks. Yet until now, there hasn’t been a comprehensive framework that truly meets the far-reaching demands of the new regulatory and competitive environment. Successfully managing risk drives better business performance and facilitates achievement of strategic, operations, reporting and compliance objectives.”

John J. Flaherty, Chairman of COSO

Turn Information into a Competitive Advantage

Organizations increasingly recognize the synergies between compliance, enterprise risk management, and performance, and are looking at new control frameworks like the COSO Enterprise Risk Management framework to mitigate all forms of risk – from compliance to operational risk – as well as identify and seize new business opportunities. These same companies are adopting a slew of new business intelligence technologies to help address their regulatory compliance mandates, financial reporting requirements, and operational performance objectives. The problem is that each of these technologies can require a separate database or data warehouse, preventing executives from having a unified view of operating performance, compliance status, and enterprise risk.

When CFO Magazine recently asked leading CFOs to design their dream systems for compliance and performance management, their wish list included “a common database for everything”; “simple, dashboard-like systems that would provide rapid, at-a-glance updates and alerts on key measurements”; and “high performance systems with a really good business intelligence system on top.”²⁰

Some of the performance management solutions companies are adopting to break down information silos and achieve their “dream systems” include consolidations tools to achieve a single version of the truth for regulatory, statutory, and management reporting; enterprise portals and dashboards to provide management and employees with timely displays of performance and compliance information; business intelligence to analyze operational and compliance performance; and scorecards to link performance with operating objectives.

²⁰Krass, Peter, “IT, Compliance, and Performance Management,” CFO.com, February 8, 2005.

“IDC sees emerging a compliance platform that has three layers: an information management layer that deals with intelligent storage and retrieval of both structured and unstructured information; a process automation layer, which serves to integrate compliance activities into operational processes or create new cross applications to support compliance; and a people enablement layer, to support information delivery as well as the use of collaborative technologies to proactively drive role-based compliance processes as part of day-to-day operations.”

Kathleen Wilhide, Research Director, IDC, Inc.

ORACLE’S COMPLIANCE ARCHITECTURE: A ROADMAP TO SUSTAINABLE COMPLIANCE AND GOVERNANCE BEST PRACTICES

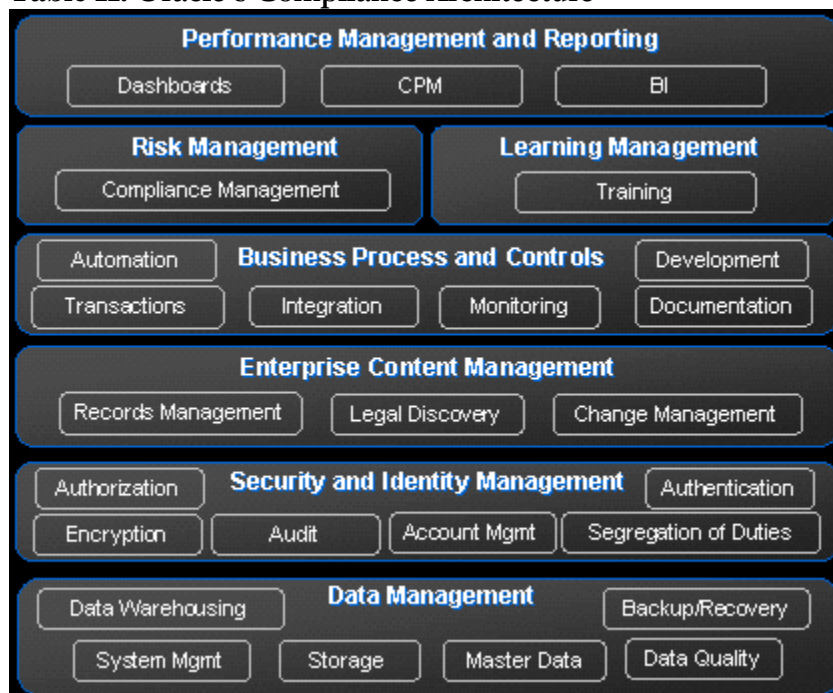
Building a sustainable compliance and governance architecture is not for the faint of heart. Making sure that your company has the right solutions in place to support all your compliance processes – from records retention, electronic discovery, and online compliance training, to monitoring and enforcing IT and application controls, and reporting to regulatory authorities -- can be a daunting task. And if you are running disparate systems, patching them together with application interfaces can compromise data accuracy, security, and auditability, as well as slow down the entire reporting process.

Although niche vendors can address individual compliance requirements with standalone solutions, analysts warn that the costs of compliance will increase tenfold if you choose to utilize one-off solutions to address specific compliance mandates. The solution is to simplify, standardize, and automate your entire IT infrastructure so that you can run your entire business on a single, global data repository, as well as have a clear, concise, and accurate picture of regulatory compliance and enterprise performance.

Simplification also means standardizing IT systems, applications and business processes to automate and streamline as much of the compliance process as possible. Adopting a simplification, standardization, and automation strategy enables companies to improve visibility through a single source of high-quality information, maximize control through automated processes and embedded controls, and improve efficiencies in the process.

Only Oracle delivers a complete information architecture that can support sustainable compliance by combining control-based business and compliance applications, content and records management, and security technologies. With full visibility into financial results, business performance, and underlying controls, enterprises can confidently and cost-effectively comply with all their compliance and governance mandates, from financial reporting regulations such as Sarbanes-Oxley, to industry mandates such as CFR 21 Part 11.

Table II. Oracle's Compliance Architecture



At the heart of Oracle's compliance architecture is Oracle's Information Architecture: a single, unified data model with integrated business intelligence that can give companies a clear, concise picture of every transaction, every customer, every product and service, and every piece of content.

If Oracle's approach sounds appealing, then read on to learn how you can create a strategic architecture for sustainable compliance and governance, using Oracle's best practice roadmap to help you each step of the way.

Strategy: Enforce corporate and regulatory policies and improve workforce governance

Technology Roadmap:

1. Automate internal controls
Oracle E-Business Suite, Oracle Internal Controls Manager
2. Ensure accuracy, reliability and security of information
Oracle Database 10g, Oracle Application Server, Oracle Identity Management
3. Enforce accountability across the organization
Oracle Internal Controls Manager, Oracle Learning Management

Step #1: Strengthen Financial Discipline and Governance Best Practices

To preserve investor trust, management needs to strengthen financial discipline and governance best practices by aligning the culture around compliance and enforcing company and regulatory policies. Oracle's Compliance Architecture was designed to do just that, delivering a single source of financial information, built-in financial and IT controls, and online training to embed compliance right into the fabric of your organization.

Automate internal controls

Oracle's business systems offer built-in controls, security, and information integrity, so you can implement and enforce policies that meet the evolving requirements of multinational regulations. Oracle E-Business Suite (EBS) delivers many control points across applications, such as a single customer record for credit management and support for shared service centers. Oracle Financials uses embedded controls to automate end-to-end financial process flows and enforce compliance across the organization. Examples include cross-validation rules for master data; journal processing to prevent inaccurate

journals and entries of invalid account combinations; 2-, 3-, and 4-way matching; sequential numbering; and the ability to set quantity and price tolerance limits during invoice processing.

Oracle Workflow is a modeling tool in the Oracle EBS that allows users to design internal business processes and store them in a central repository. Companies can use Workflow to support a wide variety of compliance mandates, designing processes that are both auditable and repeatable, and enforce pre-set approvals and limit. And the user security model in Oracle E-Business Suite lets you define user access and authorizations to ensure segregation of duties.

Oracle's newest compliance solution, Oracle Internal Controls Manager (Oracle ICM) works in conjunction with Oracle Workflow to monitor internal business processes and ensure they are performed as designed. Oracle ICM allows users to catalog and track risk factors that might impact financial statements. It continuously monitors segregation of duties, and enables users to submit audit findings, issue audit reports, manage process documentation, document business process variations, and review the status of financial statements, reconciliations, and overall enterprise compliance. It also enables companies to audit and monitor changes to the application controls within the E-Business Suite.

"Silicon Image just recently got our clean opinion from the auditors for our 404 Certification and I believe a lot of that was a result of the embedded controls within Oracle."

Krista Ladd, Finance Systems Manager, Silicon Image

Customer Story: Embedded Controls Support Compliance at Silicon Image

Silicon Image is a \$175 million company located in Sunnyvale, California that designs, develops and markets multi-gigabit semiconductor solutions for the secure transmission and storage of rich digital media. Two years ago, the company replaced its legacy systems with Oracle E-Business Suite to support its rapid growth, and recently became one of the first companies to standardize on Oracle Internal Controls Manager to support compliance with Sarbanes-Oxley Section 404.

In addition to standard financial processing controls such as three-way matching, the company also uses Oracle Alerts to help it comply with SOX Section 404 rules governing segregation of duties. "We actually used Oracle Alert Module to create a lot of compensating controls to comply with segregation of duties. For example, I would send an email to the Controller on a monthly basis, listing all credit memos that were created that month. He would use that, the number and the total value on that Alert, to compare with his backup to make sure that there was no fraudulent activity."

"One of the reasons that Silicon Image purchased Oracle Internal Controls Manager was for the integration it provides to Oracle Financials," Ladd concludes. "We found that that having Oracle the Internal Controls Manager linked towards the GL and being able to tie processes and risks and controls to natural accounts, would be very beneficial for us."

Ensure accuracy, reliability and security of information

When you think about good governance and compliance, it's all about reducing risk by managing your business well and having visibility into every aspect of your organization. It's also about having secure data and numbers you can trust, based on centralized, high quality data that is current and consistent across the enterprise. This kind of real-time, consolidated information - what Oracle calls a single source of truth - is available only if all business applications are engineered to work together by using a single data repository.

Oracle Database 10g

Oracle Database 10g more than meets the need for a single source of truth as it is the only database that has the access control and authentication features required to protect data in a single, consolidated database repository. Built upon the powerful security features delivered in Oracle9i, Oracle Database 10g provides even greater capabilities addressing data privacy and regulatory compliance.

Regulatory compliance demands data integrity and Oracle Database 10g provides the network encryption that prevents anyone from reading or tampering with the data during transmission to/from the database. Oracle Advanced Security includes industry-standard algorithms and a FIPS-compliant implementation of cryptography that simplifies the encryption process. The native encryption and data integrity algorithms require no Public Key Infrastructure (PKI) deployment for additional ease of use. Oracle Advanced Security also enables organizations to leverage existing security infrastructures such as Kerberos, PKI, RADIUS, and Distributed Computing Environment (DCE) for strong authentication services to Oracle Database 10g.

Oracle Database 10g has industry leading control mechanisms – it is the only database offering row level security. Traditionally databases support access at the database object level but Virtual Private Database (VPD) features support security to the actual data item or “row”. Oracle Label Security extends VPD by providing a security policy infrastructure that can be further leveraged by Oracle Identity Management. Users can be provisioned directly in the Oracle Identity Management repository or synchronized with a third party repository and assigned a security clearance level. This capability simplifies administration by providing a central, enterprise-wide repository that allows security and privacy policies to be shared.

Another critical requirement for compliance is a record of system activity detailing user accountability. Auditing capabilities help deter unauthorized user behavior, ensure authorized users do not abuse their privileges, and provide a log of data useful for forensic analysis in a compliance investigation. Oracle Database 10g delivers advanced audit capabilities through extensible, fine-grained auditing features. Fine-grained auditing is “policy-based” auditing; organizations can define specific audit policies that alert administrators to misuse of legitimate data access rights and generate a record of it. Time and identity of the user accessing the data, information revealed, and modifications

made are captured, creating meaningful audit trails supporting compliance requirements.

Oracle Application Server

The foundation for delivering high-quality, secure information is Oracle Application Server 10g (APS 10g). Oracle's complete integration solution is used by more than 20,000 organizations worldwide to support regulatory compliance and organizational performance. Oracle APS 10g is Oracle's third generation application platform suite, designed to leverage service-oriented computing and grid computing to offer customers the best total ownership experience, and the most secure data of any vendor.

Oracle Identity Management

Oracle Identity Management delivers policy-driven user management and security administration for distributed deployments. While the security fundamentals of Authentication, Access Control and Audit are built into the Oracle Database and Application Server, many organizations still struggle with distinct user and authorization repositories. Oracle Identity Management provides for centralized user management across a heterogeneous IT environment with localized enforcement.

Simple compliance related tasks such as password complexity management and enabling delegated administration are delivered with ease with Oracle Identity Management. Enterprise User Security, a feature of the Oracle Database, allows database users to be centrally administered in an Identity Management System. This not only provides centralized administration for users reducing administrative costs but also can be integrated with the Oracle Database's Virtual Private Database (VPD) and Oracle Label Security (OLS) to deliver a system that is designed with System of Least Privileges as a critical success factor.

The Oracle Identity Management suite of products delivers base functionality common to many of today's regulatory requirements. These include:

- *User Account Management* – allows for identity creation and management services through delegated administration, user self-service, integrated workflow, and role-based access control to manage user's access to applications and data. Allows for separation of duties common to many regulations today.
- *User Authentication and Authorization* – manages the authentication mechanism employed, including reliance on strong authentication devices such as tokens, smartcards, and biometric devices to increase assurance that users are who they state themselves to be. Additionally, Oracle Identity Management enables the delivery of security policies that authorize access to specific applications based on attributes of the user, their organization, and additional information that an administrator may wish to employ.
- *Access and Entitlement Reporting and Auditing* – provides for aggregated audit capabilities across numerous applications with pre-built reports that offer a demonstrable means to show compliance.

Enforce Accountability for Compliance Across the Organization

The success of any compliance program also depends on employee knowledge of company policies, procedures, and practices. Oracle Internal Controls Manager can help enforce accountability and strengthen compliance by enabling business process owners to identify, document, and monitor internal controls for which they are responsible.

New federal sentencing guidelines for organizations provide formal guidance for prosecutors and courts to pursue and punish Sarbanes-Oxley violations. Among other requirements, companies must actively manage ethics and compliance programs and communicate compliance standards throughout the organization. Using Oracle Learning Management for online education and training, senior management can institutionalize policies and procedures and demonstrate employee knowledge of the company's business ethics program.

Customer Story: Compliance Training at Britain's Alliance & Leicester

Alliance & Leicester is one of the UK's major financial institutions, offering a broad range of financial services to personal and commercial customers. In 2004, the company standardized on Oracle iLearning to help it get 5,000 employees up to speed quickly on the external regulatory requirements governing financial services companies in the United Kingdom.

“We needed to meet the external regulators’ requirements, but do it in a very professional way so that it is seamless to the customer,” notes Richard Parkin, enterprise human resources manager, Alliance & Leicester. “We needed a solution that could automate our manual processes, and give us a single view of an employee in a single data source for all our internal and external requirements. We chose Oracle iLearning to give us that functionality, and train all our employees quickly and cost effectively.”

Step #2: Think Holistically to Reduce Compliance Costs

Grouping compliance mandates under common business requirements, such as process and risk management, content and records management, and data security and privacy, is the first step in building a strategic compliance platform. From there, you can find the right Oracle Solution to meet the underlying business need, whether it's for one or more compliance initiatives.

Strategy: Build a strategic compliance platform

Technology roadmap:

1. Identify common business requirements associated with your compliance initiatives
2. Build auditable, repeatable processes to enforce and sustain compliance

Oracle Internal Controls Manager, Oracle Tutor, Oracle Content Services 10g

Oracle Internal Controls Manager

Oracle offers specific solutions to help companies address regulations requiring organizations to maintain and enforce internal financial controls, such as Sarbanes-Oxley Section 404 in the United States, the Combined Code in the United Kingdom, and Australia's ASX governance code on managing risk and internal control. It also supports any risk- or process-based compliance or internal mandate such as ISO 9000 standards. Built on open, industry-standard technology, Oracle Internal Controls Manager enables corporate management, financial officers, and auditors to document, test, monitor, and certify internal controls and manage enterprise risk. The solution integrates with all other enterprise business systems – Oracle and non-Oracle – to monitor changes in key control points, such as segregation of duties.

Oracle Internal Controls Manager also provides monitoring of IT application controls, in order to help companies confirm that their applications software satisfies user needs and supports compliance requirements. IT is responsible for analyzing, testing, and documenting these applications and their relevant IT controls. Sarbanes-Oxley and the FDA CFR 21 are just two examples of regulations requiring ongoing testing of IT controls. To meet these requirements, many IT organizations have adopted the Control Objectives for Information and related Technology (COBIT) framework for managing IT-related risks and controls.

Application Controls Monitoring is a new component within Oracle Internal Controls Manager that provides tightly integrated, out of the box IT controls management. IT auditors and managers can use this functionality to support COBIT by monitoring and enforcing set parameters within Oracle EBS.

Customer Story: Oracle Internal Controls Manager Gives Loral Space & Communications a 360° View into its Internal Control Environment

One of the biggest challenges to SOX Section 404 compliance is identifying and defining a company's business processes, linking documentation to those processes, then identifying the risks and controls associated with those processes. Loral Space & Communications uses the Oracle Internal Controls Manager to automate and streamline all the processes associated with its internal control environment.

Loral uses the COSO Framework for internal controls over financial reporting, and the COBIT framework for IT controls. Using those two frameworks, Loral's compliance team was able to identify hundreds of internal control activities across Loral's operating divisions that required testing, certification, and ongoing monitoring under Section 404. All those control activities are now stored in the Oracle Internal Controls Manager risk library, enabling Loral's management to have a 360° view of risks associated with each control activity, and whom within the Loral organization has responsibility over that control.

"We will be able to use the dashboard in Oracle Internal Controls Manager to see how we stand at any given time in the 404 certification process, as defined by financial statement line items and their associated business processes," notes Barry Goldfeder, senior director of business controls, systems, and processes at Loral. "We can also see when process owner have evaluated and signed off on the effectiveness of internal controls associated with a specific business process. Having that level of accountability really gives us that much more comfort in the entire process."

“Sarbanes-Oxley is all about managers taking ownership of their internal control activities, knowing what their responsibilities are, and understanding the company’s values. Having the Oracle Internal Controls Manager in place is one of the best ways to guarantee that all these activities happen.”

Barry Goldfeder, Sr. Director,
Business Controls, Systems and
Processes
Loral Space & Communications

Oracle Tutor

Employees need to know what is expected of them as they perform their jobs, and documented end-user procedures are the best way to communicate job performance expectations. While documented procedures alone cannot enforce corporate governance, they can help tremendously – especially when such procedures are integrated across the enterprise and supported by cohesive business applications. Increasing visibility and control over all your business practices through documentation will better position your organization for ongoing Sarbanes-Oxley attestation audits.

Oracle Tutor offers the following software tools and integrated set of procedures to help companies and their employees quickly document, deploy, and maintain critical business procedures:

- *Tutor Model documents* are complete documents that provide a starting point. Document owners edit the models instead of creating documents from scratch.
- *Tutor Software tools* are used to keep documents up-to-date, to create analytical reports, and to distribute procedures on a need-to-know basis.
- The *Tutor method* defines all aspects of the documentation process, from the creation, formatting, and maintenance of different document types, to their distribution for training and reference.

Oracle Tutor enables companies to handle their corporate governance documentation in-house, using existing resources. In fact, over 1,000 Oracle Tutor customers worldwide use Tutor to create, distribute, and maintain their business procedures, thanks to the solution’s user friendly, Microsoft Word-based format; play script format; web-enabled remote access; and easy, company-wide implementation.

Oracle Content Services 10g

The regulatory environment for auditing and retaining content has grown exponentially in the past decade. Now many regulations require companies to retain and manage their electronic content, including the Health Insurance Portability and Privacy Act (HIPPA), the EU Data Privacy Directive, and even the FDA’s CFR 21 Part 11 requirements on electronic communications. While each of these regulations has its own individual characteristics and requirements for evidence discovery, a set of common requirements can be identified:

- Rapid, reliable access to all content (electronic documents, email, instant messages, physical documents, etc).
- Retention and disposition management
- Secure access control
- Comprehensive action tracking
- Content analysis and classification
- Well-defined, documented business processes

According to IDC, very few companies have formal records retention policies in place, despite the fact that intelligent discovery, retrieval, and search capabilities are very important to compliance.²¹ And with the exception of financial services firms, most companies also lack email archiving policies and programs.²² The lack of formal, enterprise-wide processes and solutions for records and document management is not only risky, but ultimately drives up the cost of compliance for companies that rely on manual processes and point solutions.

Oracle Content Services 10g [formerly Oracle Files, part of Oracle Collaboration Suite] offers a unique architecture for effectively retaining, auditing, archiving and supervising electronic communications. Built on Oracle's unified data model, Oracle Content Services 10g can effectively archive both structured content stored in relational databases, as well as unstructured content such as electronic documents, emails, instant messages, calendars, Web conference proceedings, Web content, and inter-application transactions. Oracle's own implementation of Content Services currently manages 23 million documents, averages 35,000 users in any one month, and has about 30,000 new documents added to the system every day. All Oracle content resides in a single system, allowing management to implement record retention policies consistently across the organization and find documents quickly, easily, and cost effectively.

Customer Story: EPL Gets Control of Unstructured Content

EPL Inc. is an Alabama provider of software and services that run the core business of credit unions, such as branch management and accounting, loan processing, member services, ATMs and similar services. "New rulings from the U.S. Securities and Exchange Commission require companies like ours to keep customer email on hand for a longer period," explains Michael Stoeckert, CIO and CTO at EPL. "Any time someone in the organization communicates with one of our customers by email, that communication must be archived so we can audit and track it. Keeping messages longer implied more hardware, software, and administration to keep our Microsoft Exchange systems running properly."

"Instead, we consolidated on Oracle Collaboration Suite, because it's absolutely critical that customer data and communications are secure for the financial services institutions that we serve. At the same time, we cut our total cost of ownership by 40 percent. The Microsoft Exchange system was costing \$745 per employee over a three-year period, whereas Oracle Collaboration Suite on Sun costs just \$186."

²¹ Wilhide, Kathleen, and Julie Marobella, "Priorities for Corporate Compliance," IDC, March 11, 2005.

²² Ibid.

Strategy: Establish a Unified Information Architecture

Technology Roadmap:

1. Eliminate information silos
Oracle E-Business Suite
2. Turn Information into a Competitive Advantage
Oracle Corporate Performance Management (Financial Consolidations Hub, Oracle Daily Business Intelligence, Oracle Balanced Scorecard, Oracle Enterprise Business Planning and Budgeting)

Step #3: Improve Transparency of Business, Financial and Compliance Performance

In order to increase management's accountability for business and financial performance, companies need a unified and timely view into financial information and operational performance. Not surprisingly, over 70 percent of U.S. CEOs cited information timeliness and availability as two of the top challenges to managing compliance, mitigating risk, and improving operational performance. Progressive companies have responded by standardizing on a single global instance of their enterprise applications.

Take the case of ViewSonic, a Walnut, California-based manufacturer of visual display technology equipment. ViewSonic standardized on a single global instance of Oracle 11i E-Business Suite to improve visibility into financial information and drive better performance across its worldwide manufacturing and sales operations. Today, with a single, global financial management system in place, ViewSonic reduced its global close time from an average of two weeks down to three days, giving the company immediate access into each region's performance.

Oracle Corporate Performance Management

The Oracle Corporate Performance Management (CPM) family of applications enables organizations to achieve sustainable compliance and world-class performance by helping managers formulate strategies for profitable growth, align strategies with operational plans, actively monitor day-to-day operations, and collaborate across the enterprise. Well-defined business process functionality built within the applications allows you to make timely decisions and increase the accountability behind them. A unified data model provides a single, accurate view of enterprise-wide information, promoting transparency, actionable analysis, and rapid execution – benefits all designed to help you support sustainable compliance with a variety of regulatory mandates.

Financial Consolidations Hub

Because it is common for organizations to manage dozens of applications, Oracle offers enterprise data hubs built upon Oracle's integration technology. Oracle's award-winning Customer Data Hub, for example, provides enterprise-wide master customer identity data to support a company's operational and analytical systems. To help customers meet accelerated filing requirements and other compliance mandates that require secure, high quality financial data, Oracle recently introduced its Financial Consolidations Hub. The Financial Consolidations Hub consolidates data from disparate sources and automates the production of consolidated financial statements, enabling companies to show the results of a company and its subsidiaries as if it were a single company. The result is increased visibility into financial information, and streamlined compliance with Sarbanes-Oxley, IFRS, and other financial reporting mandates.

“Oracle Financial Consolidation Hub will also give us a single source of truth to support our budget comparison process. When it comes to analyzing the performance of our business units, all the operational managers will be on the same page when it comes to reviewing the monthly actuals versus budget. No one will be able to claim anymore that their figures are different, because everyone will be operating on the same version of the financial truth.”

Raul Gonzalez Lima, Director of Corporate Financial Reporting
Grupo Televisa

Customer Story: Grupo Televisa Streamlines Financial Consolidation Process With Oracle

Like its neighbor to the north, Mexico requires companies listed on its *Bolsa Mexicana de Valores* (Mexican Stock Exchange) to report on a quarterly basis.

Already a strong proponent of good corporate governance practices, Mexico is also moving to adopt SOX-like regulations that will increase the transparency and accountability practices of public companies.

With over 150 subsidiaries in Mexico, the U.S.A., South America and Europe, Mexico’s Grupo Televisa files its quarterly consolidated results with both the Mexican Stock Exchange and the New York Stock Exchange. Because Televisa uses multiple accounting systems, methods, and currencies, the entertainment giant is implementing an ERP system that will help improve its financial consolidation procedures.

Additionally, Grupo Televisa signed up to become a beta tester for Oracle Financial Consolidation Hub, and plans to go live on the solution as part of its implementation of the Oracle E-Business Suite. Televisa expects to achieve a reduction of time in its consolidation process by using the Financial Consolidation Hub, as well as improve the analysis of its consolidated results while maintaining the auditability of its financial statements.

“Using Oracle Financial Consolidation Hub will improve the analysis of our consolidated results while maintaining the auditability of our financials for both our external and internal auditors, as well as for all the regulators concerned with internal controls,” explains Raul Gonzalez Lima, Director of Corporate Financial Reporting for Grupo Televisa and Vice President of the Enterprise Sector of the Mexican Institute of Public Accountants. “In the case of reporting, we expect to better simplify the process of preparing analysis of our consolidated figures by each business segment, by each company, and by each line item in the financial statement, while providing a detailed breakdown of each consolidation entry made in the process.”

Using Oracle Financial Consolidations Hub, Televisa plans to continue strengthening its position among Mexican companies as a corporate governance leader, based on recent indications that the market is beginning to reward companies that adhere to corporate governance best practices.

Oracle Enterprise Planning and Budgeting

Oracle Enterprise Planning and Budgeting (EPB) controls the business processes of planning, budgeting, forecasting, monitoring, and analysis, enabling you to convert business strategies into actionable plans, automate real-time monitoring of execution against plans, and integrate performance management with personal accountability. As a result, you can involve everyone—from

entry-level employees to executives—in the planning and budgeting process while holding stakeholders accountable for critical decisions.

Oracle Balanced Scorecard

Oracle Balanced Scorecard also helps companies manage risk and meet regulatory compliance requirements by aligning management actions with corporate strategy and placing key performance indicators on managers' desktops. Custom, graphical scorecards display performance results and let users click on any indicator to perform more detailed analysis. By showing deviations from targets and plans, you get insight into progress made in meeting your objectives and also provide leading indicators of risk. As a result, managers clearly see how their decisions impact both their direct area of responsibility and overall organizational strategy.

Oracle Daily Business Intelligence

If you are already running the Oracle E-Business Suite, you should consider Oracle Daily Business Intelligence (DBI) to achieve a single version of the truth right at your desktop. Oracle DBI is a set of reporting and analysis applications that deliver accurate, timely, actionable information to your executives, managers, and front-line workers. Oracle E-Business Intelligence applications are embedded into Oracle Financials, Supply Chain, and Projects and are ready to run, eliminating the need for complex and costly data warehouses.

With a radically simplified architecture and a single data model for a single source of truth, Oracle Daily Business Intelligence delivers more complete information to end-users faster and at dramatically lower cost than any other reporting solution. Personalized scorecards and alerts help employees monitor performance and identify problems before they become material events that need to be reported. Using Oracle DBI, employees can mitigate risk and manage compliance more effectively by monitoring material changes to the business more effectively.

THE PAYOFF: GOOD CORPORATE GOVERNANCE

The beginning of this paper referenced the fact that a company's reputation is its most important asset, and how companies like Samsung have worked for over a decade to join the ranks of *Fortune's* most admired global companies. Although being recognized as one of *Fortune's* Most Admired Companies may be too lofty an ambition for some companies, becoming a great corporate citizen in your industry or even your local business community is a goal every company can reach.

Oracle's best practice roadmap to sustainable compliance can help you improve in each of the areas that define financial and reputational excellence, using a comprehensive technology architecture to improve financial transparency and disclosure, enforce accountability for compliance and operational performance, and protect and enhance shareholder value in the process. The payoff for investing in technology to build sustainable compliance is not only lower compliance costs and better access to credit; it's also creating a reputation for good corporate governance that can attract top-tier management and board

members to your organization, and a reputation for social responsibility that will keep employees and consumers loyal to your brand for years to come.

Since 1986, Oracle has been helping organizations around the leverage technology to achieve their operational and financial objectives. Today, over 260,000 customers run their businesses on Oracle, including 23,000 applications customers. For more information on how your organization can leverage the power of Oracle technology to achieve sustainable compliance, reputational excellence, and world-class performance, go to www.oracle.com/solutions/corporate_governance.



Oracle's Compliance Architecture: A Roadmap to Sustainable Compliance and Governance Best Practices

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