

**SAP Solution in Detail
mySAP ERP Financials**



ENTERPRISE GOVERNANCE AND SARBANES-OXLEY COMPLIANCE WITH mySAP™ ERP FINANCIALS

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EXECUTIVE SUMMARY

The mySAP™ ERP Financials solution is the world's most complete offering of business software for financial management. With mySAP ERP Financials, you can establish industry best practices for your financial processes, gain deeper analytical insight into business operations, and create new processes to improve your competitiveness. mySAP ERP Financials is powered by the SAP NetWeaver™ platform – an enterprise-services platform designed to align your systems, information, and processes around the best way to do business.

mySAP ERP Financials can help you reduce risk related to compliance with the U.S. Sarbanes-Oxley Act. mySAP ERP Financials provides a set of tools to manage internal controls more effectively, increase the transparency of financial reporting, and establish a sustainable framework for meeting both current and emerging accounting standards.

EFFECTIVE COMPLIANCE AND CORPORATE GOVERNANCE

The U.S. Sarbanes-Oxley Act of 2002 is widely recognized as the most sweeping corporate-governance legislation since the New Deal reforms of the 1930s. Responding to a series of high-profile financial-reporting debacles, the legislation requires greater reporting accountability from key corporate officers and managers.

SAP® solutions have always supported sound accounting principles and provided specific control and reporting functions for strong corporate governance. Today, SAP is also helping companies meet a variety of new governance standards. Although compliance with Sarbanes-Oxley regulations is ultimately the responsibility of each company, appropriate software applications and information technology can help your business comply with the regulations more effectively.

SAP solutions give you increased control by providing the tools to monitor reporting, security, and document flow. mySAP ERP Financials offers a rich set of capabilities for auditing, risk management, consolidation, and performance measurement.

In addition, mySAP ERP Financials delivers:

- A faster, more efficient closing process
- The ability to document, review, and update your processes and activities for accounting and financial reporting
- Improved controls through workflow, security, and internal-control management functions
- Increased transparency of transactional and financial information

ADDRESSING SARBANES-OXLEY WITH mySAP ERP FINANCIALS

Sarbanes-Oxley mandates increased timeliness, accuracy, and transparency in financial reporting. Key provisions require companies to:

- Certify the accuracy of quarterly and annual financial statements and disclosures
- Design, establish, and maintain certain disclosure controls and procedures
- Evaluate the effectiveness of those disclosure controls and procedures within 90 days of the report filing date and report on the effectiveness of those controls
- Indicate, in each periodic report, any significant changes in internal controls – including any deficiencies and material weaknesses that have occurred since the most recent evaluation of the controls

External auditors have always examined a company's internal controls to determine their level of reliability. Greater control reliability can reduce the risk associated with financial audits. SAP solutions include built-in controls, features for managing internal controls and corporate performance, and capabilities for financial reporting. These tools provide much of the support that a CEO or CFO needs to certify financial statements and internal controls under Sarbanes-Oxley.

Embedded system controls within mySAP ERP Financials include edit checks and tolerances for document accuracy, required and system-populated fields for document completeness, and checks to prevent duplication of accounting postings. Reason codes, user-defined error and warning messages, default and predefined master data, automatic integrated postings that use predefined posting keys, and context-sensitive help ensure the integrity of your financial records. In addition, mySAP ERP Financials logs all changes in document master data and all financial postings by user and date to help detect fraud. To support constant reconciliation, all postings are stored in unique documents that cannot be changed. These documents are available in real time – anywhere in the system.

mySAP ERP Financials also lets you update all totals records for accounting purposes. For example, the receipt of an invoice for indirect materials triggers an update of vendor balances, expense accounts, and the selected cost center – as well as their summarization levels. As a result, all evaluations are updated immediately after the posting. This also applies to all subledgers – including those for inventory, assets, and cost accounting.

The review of postings, a key factor in Sarbanes-Oxley compliance, becomes more efficient with mySAP ERP Financials. An online, real-time system, my SAP ERP Financials lets you analyze all postings and review questionable postings with up-to-the-second data. The solution also makes it easier to document reasons for the postings.

In addition to these embedded controls, mySAP ERP Financials provides an array of financial-management functions for Sarbanes-Oxley compliance. These include functions for security, auditing, consolidations, risk management, and performance management. Through the use of the SAP Business Workflow tool, you can reduce fraudulent accounting entries. The tool properly routes approvals to the correct individuals and documents and logs all approval steps for the audits and for all accounting-approval processes.

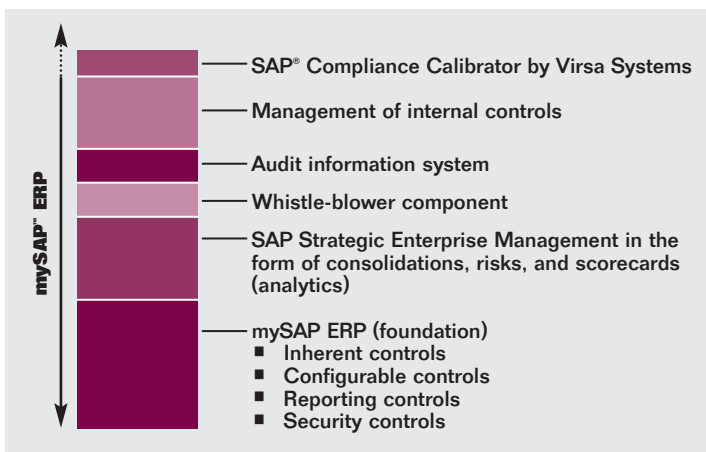


Figure: Enterprise Governance with mySAP™ ERP Financials

Managing Internal Controls

The management-of-internal-controls component of mySAP ERP Financials helps companies meet the internal-control requirements in Sections 302 and 404 of Sarbanes-Oxley. It helps you model business processes, document existing controls, test results, and determine any control processes that need improvement. In addition, the component delivers intuitive management reports and analytical dashboards that help senior executives track, assess, and attest to the state of their internal controls and accounting practices.

In this way mySAP ERP Financials can greatly improve the quality of a Sarbanes-Oxley compliance project and the efficiency of its execution – which, in turn, can lower the costs of communication and administration. The solution provides the following capabilities:

- Executive dashboards for managing sign-offs – which give senior managers better global visibility of the status of Sarbanes-Oxley projects through a management dashboard (Sign-offs for individual organizations are intuitively presented so that auditors can clearly identify areas with compliance issues within each business group.)
- Centralized storage and online access to internal-control processes – which can improve your ability to catalog, distribute, and review internal controls
- Online access to control-process templates – which can help individual organizational units replicate control processes that other organizations in the business have approved, accelerate process development and testing, and eliminate the need for rework
- Central communication of control-process assessments and remediation – which helps you quickly communicate to all organizations the scheduling and results of process tests, as well as any recommended control changes
- Test-project management – which lets you easily prioritize and automate best-practice control-testing project plans through the use of workflow between individual organizations and the central Sarbanes-Oxley team

Handling Whistle-Blower Complaints

mySAP ERP Financials delivers a tracking tool for whistle-blower complaints that helps you meet the requirements in Section 301 of the Sarbanes-Oxley Act. This tool lets all stakeholders send messages about accounting irregularities directly to the audit committee. You can easily add the tool to your company intranet for intuitive monitoring of stakeholder messages.

The whistle-blower component consists of forms that you can customize to collect certain information from employees – such as an employee’s business unit – for supporting problem identification and tracking by the audit committee. Employees can send their messages anonymously and receive a confirmation number that they can use when submitting additional information about the same accounting topic. Status tracking functions are also available for employees who administer whistle-blower complaints.

Closing Security Gaps

Improper use of authorization rights is a common source of fraudulent activity. mySAP ERP includes capabilities for user security that logically segregate duties and transactional authorization rights. You can, for example, set up user-authorization profiles that deny access by a single individual to master customer records or payment and shipping information to prevent potentially fraudulent payment schemes.

To complement the security controls within mySAP ERP, SAP now provides a solution called SAP Compliance Calibrator. The software provides real-time, 24/7 security and controls compliance. By automating real-time detection and prevention of ERP security and control violations, it delivers continuous compliance with regulatory mandates – while helping to reduce internal fraud, lower IT and audit costs, and reinforce high standards of governance.

Enhancing Audit Information

The audit-information system in mySAP ERP Financials can significantly aid both your internal and your external auditing processes by helping auditors perform their services effectively and independently. The audit-information system facilitates system audit reviews, business audits of financial transactions, and tax audits – via a structured, preconfigured collection of standard SAP programs and checklists. The component lets you structure specific reports (such as an offsetting account analysis), individual inquiries, documentation (up to the field level), and activities (such as tracing documents to an original document) into roles that you can assign to auditors for a further focusing of the audit scope. You can also tailor individual reports to meet specific auditor preferences for particular variants.

Supporting Consolidation

Business consolidation today involves much more than the creation of a group financial statement for statutory reporting. Today’s international conglomerates must accurately consolidate large amounts of information in a timely manner. They must also make performance-measurement information accessible to individual business units and managers. Historically, legal consolidation has involved centrally collecting and entering financial data from subsidiaries by the corporate headquarters. Business units and departmental managers would then independently process relevant performance information for management reporting. This is a time-consuming and error-prone approach to using financial performance data to gain insight into a business or to make decisions.

The business-consolidation component of mySAP ERP Financials provides a centralized database and integrated processing for statutory and management consolidation – significant factors in meeting your fast-close goals.

The powerful integration, consolidation, and auditing features in the component include:

- Support for decentralized data gathering and validation from multiple source systems (both SAP and non-SAP)
- Collaboration between subsidiary business units and company headquarters throughout the consolidation process
- Complete tracking of changes – from reported financial data to consolidated data – through journal entries that can be created either automatically or manually and that include information such as user ID or posting time, as well as additional comments that explain the reason for the posting
- Highly flexible, multidimensional analytic capabilities that support drill-down analysis from summary balances
- Highly automated and transparent consolidation processing, which is clearly structured and controlled by the consolidation monitor and documented with comprehensive audit trails

General-Ledger Reporting

The general-ledger solution of mySAP ERP Financials offers excellent support for transparency and disclosure. With this solution, you can perform legal, segment, and managerial reporting using a single source of information. More important, the system reconciles all accounts any time you need to change valuations for unique reporting requirements. These capabilities can reduce your risk of noncompliance, increase your ability to report financials based on changing requirements, and significantly improve the overall productivity and effectiveness of your accounting and controlling functions.

You can also tailor the general ledger to meet the specific requirements of your business. Through improved ledger extensibility and flexibility, you can configure your financial-reporting structure according to the needs of your industry. While there is support for multiple parallel ledgers or accounts, standardized user interfaces and reporting functions reduce the total cost for using this unified financial and management-accounting system.

Managing Risk

New commercial and corporate regulations, combined with inherent market and operational risks, have increased the need for reliable risk management. According to the COSO I and II best-practice frameworks for enterprise risk management, setting strategic objectives is the starting point for most risk-management strategies.

The risk-management capabilities of mySAP ERP Financials can help you identify, quantify, monitor, comment on, and control the many risks that your business faces and address their potential impact on company goals. By helping you determine risk across organizational units and objectives, mySAP ERP Financials provides a comprehensive picture of the overall risk situation for your enterprise. As both an early-warning system and a control instrument, mySAP ERP Financials addresses current risk-management requirements and provides risk information to senior executives.

Measuring Performance

Section 302 of Sarbanes-Oxley requires company officers to validate financial statements. This rule demands full transparency for your financial information, as well as a record of supporting operational transactions and events. From the top of the organization to the lowest level, all employees should work toward accuracy in reporting financial data. Additionally, Section 302 makes CEOs and CFOs responsible for all disclosure controls and procedures.

The integrated benchmarking capabilities and performance scorecards of mySAP ERP Financials can help companies monitor strategic success factors and overall business operations. You can view results for these analyses in the scorecards themselves or in special management-reporting cockpits. Such measurements give you greater insight into business performance, as well as into financial results.

ADDRESSING GLOBAL ACCOUNTING STANDARDS WITH mySAP ERP FINANCIALS

International accounting-standard compliance can have a profound impact on your current financial-reporting processes. For companies that need to comply with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), this may represent increased transparency of disclosures, statements of change for retained earnings, and revised segment reporting. These challenges demand that you have the proper systems and reporting mechanisms to meet new accounting requirements in a timely and cost-effective manner. mySAP ERP Financials gives you state-of-the-art tools for global accounting-standard compliance.

Meeting International Financial Reporting Standards

The European Union's adoption of IAS and IFRS will have a major impact on thousands of companies. Starting in 2005 nearly all publicly traded European companies must issue consolidated financial statements according to IFRS rules. This change marks an important step toward transparency and comparability in both the European economic zone and international capital markets. Investors and financial institutions will expect comparable financial data from companies of all sizes when making investment and lending decisions.

More than just establishing new reporting rules, IFRS changes the valuation of individual business transactions. This will lead to major changes in accounting philosophies and to new systems challenges – such as performing effectiveness tests for hedging activities or using project-management information for revenue calculations that involve the percentage-of-completion method for multiyear contracts.

SAP has addressed the accounting challenges of IFRS for several years, helping companies meet statutory reporting requirements in more than 100 countries. The market has realized that the real difficulty lies in parallel valuations for IFRS and local generally accepted accounting principles, or GAAP, rules. mySAP ERP Financials provides the flexibility and functions your company needs to meet the IFRS standards and parallel valuation challenges of today as well as the requirements of tomorrow.

Addressing Basel II

In addition to making internationally comparable financial statements more important, which has triggered faster worldwide adoption of IFRS, Basel II has set risk-management requirements for banks around the world and created a more global corporate-lending market. The Basel II framework requires increased transparency for information that all businesses provide to their creditors, including deeper visibility into companies' business planning. With its strong analytical foundation and planning and simulation capabilities, mySAP ERP Financials provides you with more transparency and enhanced information for better decision making in addition to driving Basel II compliance. The solution is based on Basel II best practices and is continuously updated as the regulations change.

A key criterion for a creditor's risk-rating processes is often the analysis of a business's risk-management practices. Many companies still rely on informal risk management. Having the risk-management capabilities of mySAP ERP Financials shows that your company is serious about identifying and managing risk.

A BROAD RANGE OF BUSINESS BENEFITS

The functions for handling corporate governance processes in mySAP ERP Financials offer a broad range of business benefits. Among these are lower cost of compliance and lower total cost of ownership for existing IT investments. Examples of corporate governance processes that mySAP ERP Financials handles and their specific business benefits are summarized in the table below.

Process Area	Business Benefit
Managing internal control projects	Accelerated compliance with Sarbanes-Oxley Section 302 and Section 404 requirements and reduced cost for communication and administration in managing internal controls; improved confidence in audits and reduced risks associated with corporate governance
Audits	Faster audits and reduced administrative costs – through an information system that lets you conduct audits in a single place
Security and segregation of duties	Preventive fraud management through analysis of user profiles, rights, and rule violations, as well as through real-time, 24/7 testing of segregation of duties; greater visibility of risk and risk remediation plans
Business and financial consolidations	Increased closing efficiency through a monitored, decentralized consolidation process that combines data from multiple source systems (both SAP and non-SAP), provides an extensive audit trail, and offers multidimensional analytic capabilities
Financial reporting	Greater quality of financial statements as well as balanced books for all segment, legal, and management reporting – for any number of ledgers and accounts
Compliance risk management	Early-warning indication of compliance issues, faster reaction to potential irregularities, and greater confidence in meeting compliance requirements
Accounting closes	Reduced cost of close – by eliminating activities that do not add value – which lets your company spend more time analyzing data that is comprehensive, accurate, and transparent
IAS/IFRS compliance	Reduced costs in complying with parallel valuations for national and international financial-reporting requirements
Basel II compliance	Support for business planning and increased reporting transparency for risk issues
Whistle-blower complaints	Accelerated compliance with Sarbanes-Oxley Section 301, better stakeholder communications, and improved confidence in financial disclosures

Improve Your Business Processes

Strong corporate governance has the added advantage of improving your business processes. Companies that implement processes to enhance internal controls and financial reporting can enjoy benefits at all organizational levels. These benefits include:

- Improved business performance
- Effective risk management
- Better strategy planning and monitoring
- Increased transparency and disclosure
- Lower total costs of ownership

A faster and more complete disclosure has become essential for preserving investor confidence and maintaining a company's market value and ability to raise funds. mySAP ERP Financials provides the functions you need for secure and transparent accounting. Recognizing that essential financial operations are constantly evolving, SAP is always exploring new solutions for these changes. SAP will continue to provide solutions for strong financial control and responsible accounting that are as complete and widely used tomorrow as they are today.

For more information about mySAP ERP Financials, please call your SAP representative today or visit SAP's Web site at www.sap.com/financials.

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