

Seradex White Paper

A Discussion of Issues in the Manufacturing OrderStream

Seradex ERP and Sarbanes-Oxley Whitepaper

From Enron to MCI, extreme accounting practices and poor management judgment have shattered investor confidence. That's why Congress passed the Sarbanes-Oxley Act of 2002, "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws." To survive, publicly traded companies now must re-establish investor confidence. And their CIOs have a new role to play in building and selling technology strategies to support that mandate.

Some companies are reacting to Sarbanes-Oxley by addressing the minimum requirements, considering only the new mandate to certify their internal processes on the financial reports they file at the end of 2003. But others are considering the broader implications. At a later date not yet set, the law will require the real-time disclosure of any event that might affect performance. Leading companies understand that the law leaves out many details—such as the definition of "real-time disclosure"—and that reacting literally to it today will leave them playing catch-up later. They're taking the opportunity to obtain true value by examining the underlying business issues that may be undermining their financial reporting.

The Sarbanes-Oxley Act is among the most visible and far-reaching regulations that publicly traded companies. Failure to comply can result in significant loss of market capitalization and shareholder trust, as well as criminal liability for corporate executives.

But there's no silver-bullet solution to Sarbanes-Oxley. What's required is a comprehensive strategy for maintaining auditable business processes, financial transparency, and operational control.

That comprehensive approach begins with Seradex ERP. Seradex ERP provides extensive capabilities to ensure continuous compliance with regulatory mandates, enabling high governance standards and reducing IT and audit costs. The solution enables you to manage the complex documenting, testing, mitigation, and sign-off procedures associated with Sarbanes-Oxley sections 302, 404, and 409, as well as fast close and section 301 whistle-blower requirements.

Seradex ERP supports compliance with Sarbanes-Oxley through the following capabilities:

- Real-time drill-down analysis and reporting
- Management reporting
- Integrated project control of documentation, testing, and sign-off for internal controls
- Workflow procedures that accelerate testing and sign-off
- Integrated segregation of duties (SOD) with Active directory for comprehensive control
- Authorization administration
- Flexible rule building and maintenance capabilities

Seradex ERP enables you to integrate sound governance processes as part of your day-to-day operations -- without the need to supplement your ERP solution with stand-alone applications. Achieve long-term, sustainable compliance with Sarbanes-Oxley.

5 Deadly Deeds

In a Sarbox world, beware of these errors in financial record keeping:

1. Records-management and retention schedules aren't linked to regulatory requirements and covers paper documents only.
2. Formal policies are inconsistent across departments.
3. There are no tools to control transaction deletion
4. There's no audit trail to track what's happened.
5. There are no search capabilities, so it's time consuming to retrieve documents when required.

What does real-time disclosure mean? How can I use it to increase shareholder value? Do all of our employees understand how they impact shareholder value? Many CFOs are asking their CIOs if their financial systems can even meet the real and implied integrity, credibility, and transparency requirements that Sarbox has defined.

Seradex ERP will make your life easier by:

- *Centralization* – integrates all internal controls in one system
- *Simplification* – integration reduces double entry of data
- *Standardization* – on item numbering and other data harmonization areas

Let's consider some of the external pressures versus internal realities:

Business risk:

Complying with Sarbox will force companies to provide real-time disclosure of significant changes in risk. More than ever, CFOs must be extremely well-informed and connected to the rest of the executive suite. But many existing ERP systems can't monitor changing exposures in real time. The departmental reporting systems are incompatible, and the links between them are brittle. Growing data sources produced by transaction systems are often distributed across the company, using different software tools including spreadsheets.

Best practices in this area include having company data architecture and a strategy for using business intelligence to reduce the cost of compliance and increase market competitiveness.

Reporting and forecasting:

More than ever, earnings surprises can hurt the value of your stock. The need for forecast accuracy is pushing demand for more timely and accurate information. Unfortunately, financial reporting and summarization tools often aren't connected to transactional systems, and the manual intervention used to make the connections work causes errors or misinterpretations. Companies need systems that can collect and organize better information faster, with the goal of providing true visibility into the operational drivers of share price and the unexpected events that impact valuation. The details of the relationship between raw transactional data and the summarized or restructured data used for analytics and reporting are critically important.

Best practices link the corporate portal to the HR system and use single sign-on technology to determine exactly

who users are, what department they're with, and what content they can access.

Market Valuations:

Technology has an important role to play in contributing to intangible value and enabling investor confidence. The Seradex Balanced Scorecard can build measurement dimensions to address both financial and non-financial metrics that drive market valuation. Does a decline in patent grants mean a loss of R&D effectiveness or a welcome focus on fewer, higher-yielding areas? Making these measures meaningful requires intelligent interpretation and quantitative support for conclusions—and a new set of "corporate memories" that capture the context. Companies must discover new external and internal factors to illuminate these non-financial performance dimensions.

The **Seradex Balanced Scorecard** will improve your understanding of the drivers of share price, your business decision making, and your communications to Wall Street. You'll have fewer financial surprises and improved risk management if you connect finance's analytic capabilities with business operations' need to rapidly and accurately assess the impact of surprises in the marketplace.

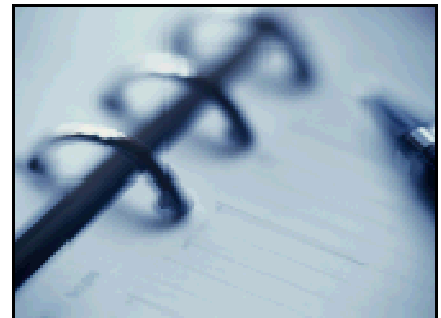
Compliance: All the previously mentioned challenges and changes must be addressed to ensure that no matter what changes are made to Sarbox, your company will have the information it needs on a comprehensive, contextually valid, near-real-time basis to report, explain, and communicate to all audiences.

Technology plays a significant role in such compliance for many reasons. Obviously, all business functions today are dependent on systems, software, and networks to execute. Clearly, the excuse, "I can't sign off on the financials because the system is down" won't play well on Wall Street or in court. But even

more relevant are the risks that technology introduces into the reporting process.

Seradex ERP looks beyond merely complying and can deliver significant, immediate benefits.

Think of Sarbanes-Oxley as the catalyst you can use to finally get your reporting, analysis, and decision-support systems where they should be. Keep in mind that the long-term mission is to evolve this effort into an effective enterprise performance-management capability.



Sarbanes-Oxley Control Issues

What procedures are in place to detect and prevent fraud?

1. Have you identified high-risk areas where fraud may occur and developed controls to prevent it?
2. Can you drill down from the General Ledger to source documents?
3. Can you drill up from source documents to the General Ledger?
4. Do you have audit trails on every transaction including date, employee created and modified?
5. How are manual entries identified and approved?
6. Are payments to the external auditing firm monitored on purchase orders and check requests?

Sarbanes-Oxley Reporting Issues

1. Is cash flow from operations and (GAAP) automatically calculated?
2. Are key reports delivered to managers' daily, weekly, monthly?
3. How much time is spent compiling financial statements versus analyzing the data?
4. Are reporting activities performed on spreadsheets?
5. How long does it take to develop ad hoc reports?
6. Do transactional reporting systems have email alerts?
7. Are tax-reporting systems integrated with the company's financial system?

8. How often is control documentation updated for when internal controls are modified?
9. How many software tools are used in budgeting process?
10. How many different systems are involved in the financial-statement development process?
11. Are you able to determine your profitability using "what if" scenarios?
12. Are alerts in place to key resources of specific transactions taking place in the company?

Sarbanes-Oxley Retention Issues

1. Does the company have a retention policy for electronic information?
2. What controls are in place for record retention to avoid tampering with the data?
3. Are data-retention requirements being met for all tax authorities, security agencies and other Government Agencies?
4. How often do you back up your data?

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