SARBANES-OXLEY
SAP® BUSINESS ONE

FREQUENTLY ASKED QUESTIONS

1.   WHAT IS THE SARBANES-OXLEY ACT?

On July 30, 2002, President Bush signed into law the U.S. Public Company Accounting Reform and Investor Protection Act of 2002, more commonly known as the Sarbanes-Oxley Act. The act, drafted by Sen. Paul Sarbanes and Rep. Michael Oxley, was created in response to a number of major corporate and accounting scandals involving a list of prominent companies including Enron and WorldCom. The act was designed to enforce corporate accountability and responsibility and granted the SEC increased regulatory control, lengthened the statute of limitations, and imposed greater criminal and compensatory punishment on executives and companies that do not comply.

The Sarbanes-Oxley Act contains over 1,000 sections, consolidated into 11 titles, and ranging from additional corporate board responsibilities to criminal penalties. A full detail of the act, including brief definitions, is over 60 pages long.

Some of the act's provisions went into effect immediately in 2002. Other provisions went into effect during the period of 2003 through 2004, and some of these provisions were later then extended until 2005 and 2006.

2.   WHO MUST COMPLY WITH AND REPORT UNDER THE ACT?

A wide range of businesses including public and private companies in and outside the United States must observe Sarbanes-Oxley, including:

- Publicly traded companies
- Subsidiaries and divisions that are considered to be material to publicly held companies' consolidated financial statements
- Private companies that are issuers of public debt

3. ARE THERE INSTANCES WHEN A COMPANY MAY WANT TO OR NEED TO INSTILL SARBANES-OXLEY−LIKE FORMS OF CORPORATE GOVERNANCE, STRONG BUSINESS PROCESSES, AND UNDERLYING SYSTEMS OF INTERNAL CONTROLS, EVEN IF THEY ARE NOT EXPRESSLY REQUIRED TO BY LAW?

There are several instances when a company may want to or need to instill best practices for process and control, even if they are not expressly required to by law. Significant business partners may insist on certain aspects of compliance to Sarbanes-Oxley as a precondition to commencing or continuing their relationship with a private company, though there is no requirement of compliance or reporting under the act. Some examples include:

■ Private companies preparing for an initial public offering

■ Private companies with goals that include merger or acquisition with another company that is either a publicly held company or a private company that must be in compliance with Sarbanes-Oxley for other reasons

■ Private companies who are material or major distributors and suppliers of publicly held companies. A publicly held company may require their suppliers, vendors, or distributors to be in compliance as a condition of doing business to be assured of best practices.

■ Customers of a publicly held company may hold their insurance company accountable to Sarbanes-Oxley requirements as additional assurance if they are being underwritten by a privately held insurance company that does not have direct Sarbanes-Oxley compliance requirements. Many companies feel that if they are paying large sums of money to an insurance company or broker for insurance coverage, they want some additional assurance that the vendor is following best practices and their investment is protected.

■ An insurance company may require financial statement certifications by the company's chief executive officer and chief financial officer as a condition to providing specific coverage(s).

■ A potential candidate for a board of directors or senior-management position may request that a certain level of Sarbanes-Oxley compliance be a condition to his or her nomination and acceptance.

■ State or federal governments may require assurances in order to award and approve government contracts. These assurances may not be possible unless certain corporate governance, business processes, and systems of internal controls are adopted.

4. WILL THE SAP® BUSINESS ONE SOLUTION BRING A COMPANY INTO COMPLIANCE WITH THE ACT?

No software makes a company compliant with Sarbanes-Oxley, nor can a solution be guaranteed with respect to compliance on behalf of a company using that solution. If a company is responsible for complying with the act, then it is the company's responsibility to secure the tools necessary to assist with compliance requirements. The role of software in supporting compliance with the act is to support management in implementing suitable processes, adequate controls, and to assist in the documentation and auditing of those processes and controls. SAP® Business One supports management's efforts to implement, document, and audit appropriate processes and controls.

5. HOW CAN SAP BUSINESS ONE SUPPORT COMPLIANCE WITH THE ACT?

Of the more than 1,000 sections of the Sarbanes-Oxley Act, there are three sections that are primarily concerned with management's ability to state that adequate processes and controls are in place surrounding the preparation of financial statements. These three sections can be supported with business management solutions such as SAP Business One:

- **Section 302,** Corporate responsibility for financial reports: requires CEO and CFO to certify annual or quarterly reports submitted to the SEC and face possible criminal penalties, including prison sentences

- **Section 404,** Management assessment of internal controls: requires the preparation of reports certifying the presence and adequacy of internal controls over the financial reporting process

- **Section 409,** Real-time issuer disclosures: requires real-time notification of material events to the public that may impact the financial results of the business

Broadly, SAP Business One supports these sections with the following design:

- **Integrated approach** − To the extent that a single software product allows a company to integrate the critical operations of the business, management can take a holistic view of its business processes and compliance issues. Information, whether used for management decisions, financial reporting, or record keeping, should come from a single source. SAP Business One is a single system that fully integrates financials, sales, purchasing, inventory, and manufacturing so that data flows seamlessly and a single database maintains data integrity.

- **Alerts** − SAP Business One allows users to develop an unlimited number of alerts to identify situations requiring management's attention in a proactive fashion, as opposed to reacting after a crisis has arisen. Such alerts might include variances from budget, unusual quotations to customers, cash flow issues, or noncompliance to the company's procedures. The built-in audit trail will document the setting of these alerts, any changes to them, and compliance.

- **Accessibility to reporting data source** – SAP Business One allows users to trace journal entries to their originating business transaction, and the product's unique relational database allows users to click on any item and drag it to a query for an instant report.

- **Real-time reporting** – Reporting in SAP Business One is drawn on the live data residing in the product. There are built-in standard financial reports as well as the ability to create company-wide dashboards with the XL Reporter tool, which employs an easy-to-use Microsoft Excel interface.

- **Tamper resistant** − SAP Business One provides authorizations that can be set to allow only authorized users to view or update forms, reports, and various functions within SAP Business One. To ensure that documents are posted in the correct period and no changes are made to the financial statements once they are reported, SAP Business One can be set up to allow posting to the current active period.

6. WHAT ARE THE SPECIFIC FEATURES OF SAP BUSINESS ONE THAT SUPPORT COMPLIANCE WITH THE ACT?

The following table shows in detail how SAP Business One supports the act.

CONTROL ISSUES	SAP® SUPPORTING FEATURES
How well are the functions and systems integrated?	**Fully Integrated Solution** All functions within SAP® Business One are fully integrated, allowing data to flow seamlessly throughout the system and be stored in a single database maintaining data integrity. All critical operations are tracked in SAP Business One including: ▪ Financials ▪ Sales ▪ Purchasing ▪ Customer relationship management ▪ Light manufacturing and assembly ▪ Inventory management ▪ Reporting **Built-in Customization Tools** SAP Business One contains many built-in customization tools. User-defined fields and tables as well as formatted searches that provide custom logic to fields allow companies to customize the application to mirror their business processes. Information is stored in the SAP Business One database, thus eliminating the need for add-on applications using separate databases. **Software Development Kit** For companies that require industry-specific functionality, SAP Business One provides a software development kit (SDK), which allows developers to build custom add-ons that integrate with SAP Business One. The SDK prevents writing directly to the core application tables so that system security, routines, and validations are preserved.

Is it possible to track approvals for material events?	**Approval Procedures** To establish tighter control over significant events, such as purchases that exceed budget, approval requests can be sent to the appropriate managers, using SAP Business One approval procedures. Events vary from company to company, which is why SAP designed SAP Business One approval procedures to be completely customizable.
Can exceptions be highlighted?	**Management Alerts** When exceptions occur that affect financial disclosures, such as significant write-offs, extraordinary deferrals, or exceptional financial variances, SAP Business One provides a powerful altering system that automatically and immediately sends notices to the appropriate executives. **Credit Limits for Business Partners** Each business partner can establish their own credit-limit thresholds that, when exceeded, can place the customer on hold. **Budgeting** Budget analysis can be performed on any financial account using the budgeting module, allowing actual versus budget comparisons to be highlighted.
How easy is it to find the source of data in financial reports?	**Subledgers with Drill Downs** Throughout SAP Business One there are many subledgers and reports to assist companies when reconciling account balances. Each subledger contains drill-down links to source transactions, allowing journal entries to be easily traced back to their originating transaction. **SAP's Drag&Relate™ Feature** Our patented Drag&Relate™ feature enables users to select a field of data with a single mouse click and then drag that field to virtually any menu item to get an instant report that displays the relationship among the items. **Unique Document Numbering** SAP Business One allows different types of transactions to have unique numbering, which allows companies to gain tighter control over sales and purchasing transactions. **Transferring Orders to Invoices** As purchase or sales orders are entered, a wizard can be used to transfer orders to invoices. As each invoice is created, a reference and link to the originating order can be maintained on the invoice.

Does the system provide real-time reporting?	**Real-Time Posting** Sales and purchasing transactions are immediately posted to the general ledger in SAP Business One, which ensures no lag time from when a document is added to the system to when it is posted to the general ledger. **Built-In Financial Reporting** SAP Business One contains built-in standard financial reports for real-time reporting. **Advanced Financial Reporting with the XL Reporter Tool** The XL Reporter tool is an advanced financial reporting function that is fully integrated with SAP Business One and reports on live SAP Business One data, which eliminates the need to stage data. Reports can be organized into packages and scheduled for automatic distribution. Summary reports can be designed with drill-down links into detailed source information, giving managers easy and timely access to critical data.
Does the system prevent tampering?	**Authorizations** SAP Business One provides granular authorizations that can allow only authorized users to view or update forms, reports, and various functions within SAP Business One. An authorized owner can be assigned to each order and invoice in SAP Business One as they are saved to the system. Document ownership rules can be assigned to teams, departments, managers, and peers, so that only authorized members can view team information. **Posting to One Open Period** To ensure that documents are posted in the correct period and no changes are made to the financial statements once they are reported, SAP Business One provides the ability to lock noncurrent periods, which prevents transactions from being posted to the wrong period.