For the 19th World Continuous Auditing & Reporting Symposium
- Motivational, Aspirational and Irreverent Views

PV Boccasam - November, 2009
Any simple problem can be made worse if enough meetings are held to discuss it.
AGENDA

About Approva

The First Decade (1990-1999): The “Sampling” Exercise

The Next Decade (1999-2009): The “Exception” Exercise

The Enlightened Decade (2009-2019): The “Everything” Exercise
# Selected Customers Of Ours

## Manufacturing and Transportation

- Philip Morris International
- US Pipe
- AECOM
- MEMC
- Textron
- John Deere
- Halliburton
- Ingram Micro
- GM
- CN
- Bajaj
- Wadahi
- Raytheon
- Pitney Bowes
- FIRST Advantage
- Amcor
- ABM Industries Inc.
- Honeywell
- Lucent Technologies
- Post
- W.W. Grainger
- Multiquip
- Tata
- HealthMarkets
- Siemens
- Graphic Packaging
- International Paper
- CSC
- Booz Allen Hamilton
- Sikorsky
- EPCOS
- Philip Morris USA
- Lehigh
- Northrop Grumman

## Public Sector

- FDIC
- sanantonio.gov
- NASA
- U.S. Courts
- CIA
- White House

## Technology, Telecom & Media

- KLA-Tencor
- Tellabs
- Andrew
- VNU
- Vodafone
- McAfee
- Brother
- Ricoh
- Hughes Network Systems
- Hughes
- Datacard
- INTER Public Group
- Discovery
- MCI
- Global Crossing
- Sony Ericsson

## Consumer Products & Retail

- Wyndham Hotels & Resorts
- AC Johnson
- Wm. Wrigley Jr. Company
- Colgate-Palmolive
- ConAgra Foods
- Coca-Cola
- OfficeMax
- P&G
- CVS
- Coors
- Campbell
- Limited Brands
- PepsiCo
- InSung
- Scotts

## Energy & Chemicals

- Citizens Gas
- Lyondell
- Pioneer
- Energy
- Nalco
- Reliant Energy
- Archer Daniels Midland
- OxyChem
- Cameco
- Dynegy
- Dominion
- Denbury Resources

## Pharmaceutical & Biotech

- Qiagen
- Johnson & Johnson
- Bayer
- Fresenius Medical Care
- MedImmune, Inc.
- Bristol-Myers Squibb
- Mylan
- Novartis
- Vistakon

## Entertainment

- Time Warner Cable
- Walt Disney
Approva Overview

Approva provides…
expertise in intelligently identifying and responding to business *exceptions* that impact performance.

So that…
organizations can automatically identify, manage and prevent exceptions that result in…
… fraud
… risk
… inappropriate payments
… excessive compliance costs
… inefficient business processes.

We do this by providing…
a software system that *continuously* delivers *accurate*, *actionable* and *auditable* intelligence of control breakdowns across financial systems, processes and transactions.
Auditors Have Always Been Core to Approva’s Strategy

Our Strategy

Automate the way organizations monitor and respond to business exceptions.

Audit & Advisory Firms

Continuous Auditing

Fortune 5000 Companies

Continuous Monitoring

By serving these two distinct yet highly complementary markets we are able to maximize value for both audit- and non-audit customers.
My View of Vendors in the Continuous Auditing/CCM:

SURVIVAL
THE LESS YOU STAND OUT, THE LONGER YOU’LL LAST.
Organizations Currently Use a Patchwork of Approaches to Assess the Effectiveness of Processes & Controls

Multiple Stakeholders

- Outsourcing Partners
- Finance/CFO
- CIO/IT
- Risk Management
- Human Resources
- External Audit

Multiple Applications

- Improve Operations
- Reduce Risk & Fraud
- Automate Compliance

- Manual Testing
- Spreadsheets & E-Mail
- Self-Assessments
- Auditors
- Homegrown Tools
- External Consultants
- “Honor Code”
- “Excel on Steroids”

Financial Systems
Purchasing Systems
ERP Applications
CRM Systems
HR Systems
TRADITION

JUST BECAUSE YOU’VE ALWAYS DONE IT THAT WAY
doesn’t mean it’s not incredibly stupid.
Several Factors Are Putting CCM/CA Front and Center on the Agenda for Finance, Audit & IT

EXTERNAL DRIVERS

- Increased Pace of Regulations
- Increased Market & Operational Risk
- Increased Scrutiny by Auditors

COMMON PROJECTS THAT INITIATE CCM DEPLOYMENTS

Finance
- Finance Transformation
- Business Process Optimization
- Financial Reporting Accuracy
- Cost Reduction

Internal Audit
- Continuous Auditing
- Fraud Prevention
- Regulatory Compliance

IT Security
- Access Certification
- Audit Findings
- Compliant Provisioning
- ERP Go-Live or Upgrade

INTERNAL DRIVERS

- Focus on Performance Measurement & Improvement
- Focus on Cost Reduction
- Few Resources Driving Need to Automate
The Controls Challenge: The Complexity of Multiplicity

Multiple Stakeholders

Outsourcing Partners
Finance/CFO
CIO/IT
Risk Management
Human Resources
External Audit

Processes

Financial Systems
Purchasing Systems
SAP • Oracle • PeopleSoft • CGI ERP Applications
CRM Systems
HR Systems

Multiple Applications

Improve Operations
Reduce Risk & Fraud
Automate Compliance

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We believe CAM/Continuous Controls Monitoring Drives Unique and Immediate Value…

Corporate, Departmental & Regional Business Objectives

Governance & Compliance  Business Performance  Quality & Efficiency  Risk Management

Corporate Policies, Procedures & Regulations

Operational Risks  IT Security  Audit & Compliance

Develop Test Plan  Test  Analyze  Report

Continuous Controls Monitoring System

Transactions  Master Data  User Access  App. Configuration

Financial Systems  Purchasing Systems  SAP • Oracle • PeopleSoft • CGI ERP Applications  CRM Systems  HR Systems

Multiple Applications
Finance Organizations Are Transforming Themselves From “Managing the #s” to “Managing the Business”

Evolution of Finance Organization Cost Structure
% Workload Distribution Based on

Key Priorities:
- Reducing cost of routine finance functions
- Identifying & managing risk
- Improving analysis & performance management

“World Class” Finance Organizations Operate With 51% Lower Cost of Finance

Finance Cost as a Percent of Revenue, 2007 Median vs. World Class Organizations

Median: 1.24%
World Class: 0.61%

$6.3 Million in Savings per $1 Billion in Revenue

51%

“World-class companies have a 93% lower exception rate within their financial reporting processes.”

“World class companies operate in a more effective internal control environment with control costs 45% less.”

Source: Hackett Group 2007 Finance Benchmarking Study
The Controls Challenge Poses Real Business Problems

**THE RESULT:**

Business Exceptions Go **Undetected** or Are Identified **After the Fact,** Once They Have Already Impacted Performance

- Duplicate Payments
- Excessive Discounts
- Fraudulent Shipments
- Regulatory Violation
- Discounts Not Taken
- Excess Credit Extended
- Accounting Errors

Multiple Stakeholders:
- Outsourcing Partners
- Finance/CFO
- CIO/IT
- Risk Management
- Human Resources
- External Audit

Multiple Applications:
- Financial Systems
- Purchasing Systems
- ERP Applications
- CRM Systems
- HR Systems

Corporate Policies
Regulatory Requirements
Best Practices
WORTH

JUST BECAUSE YOU’RE NECESSARY DOESN’T MEAN YOU’RE IMPORTANT.
Gartner GRC Hype Cycle: July 2009

visibility

- Identity Auditing
- Forensic Tools
- E-Discovery Software
- Crisis/Incident Management
- Enterprise GRC Platforms
- Authorization Management
- IT GRCM
- Controls Automation and Monitoring
- Resource Access Administration
- Financial Governance
- Digital Signature
- Spreadsheet Control
- Know Your Customer

Content Monitoring and Filtering and Data Loss Prevention
- Database Activity Monitoring
- Stronger Authentication
- Role Life Cycle Management
- EH&S Compliance Systems
- Configuration Auditing

- Interdiction List Compliance Tools
- Anti-Money-Laundering
- User Interfaces for Disabled People
- Records Management
- User Provisioning
- Credit and Market Risk Calculation Engines
- Case Management
- Qualitative Risk Self-Assessment Tools
- Business Continuity Management Planning Tools
- Risk Assessment for BCM
- Database Encryption

Technology Trigger
Peak of Inflated Expectations
Trough of Disillusionment
Slope of Enlightenment
Plateau of Productivity

Years to mainstream adoption:
- < 2 years
- 2 to 5 years
- 5 to 10 years
- > 10 years
- obsolete
- before plateau

As of July 2008
Our Point of View on the Market:

“GRC” is a concept, not a distinct solution or market; the term has confused buyers and vendors.

Companies are transforming their compliance and risk management initiatives into business process improvement efforts aimed at reducing costs and improving productivity.

While customers call it different things, continuous controls monitoring (CCM) is emerging as a set of capabilities that delivers tangible and rapid ROI.

Large transformation projects that most finance organizations have undertaken are playing a critical role in defining, measuring and driving next-gen “GRC” initiatives.

Macroeconomic conditions will accelerate the need for CCM/CA solutions as increased regulation, tighter budgets, and reduced staffing drive an urgent focus on efficiency.

The BIG ERP vendors are taking you for a long wrong destination ride – that will be expensive and futile...
So, Solve Real Business problems – ask the right questions

Are we making unnecessary or unapproved discounts?

Have any POs been changed after approval?

Are people making unauthorized or incorrect manual entries to the GL?

Are purchasing cardholders violating company policy?

Am I losing money because of fraud?

Is anyone manually clearing blocked invoices?

Are we at risk of an audit finding for user access?

Are my POs missing based on accurate vendor master data?

Are we making duplicate payments?

Are we misclassifying assets as expenses?

Can users access sensitive information?

Are system configuration changes exposing me to risk?

Transactions
“Did anyone __________?”

Master Data
“Is the underlying data accurate?”

Access to Applications
“Can anyone __________?”

Configuration of IT Systems & Processes
“Do our systems allow anyone to __________?”

Financial Systems
Purchasing Systems
SAP • Oracle • PeopleSoft • CGI
ERP Applications
CRM Systems
HR Systems

Multiple Applications
MISTAKES
It could be that the purpose of your life is only to serve as a warning to others.
## Presenting Impact of Exceptions in XBRL Taxonomy

### Unusual Manual Journal Entries

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Account balance ($)</th>
<th># of unusual manual journal entries</th>
<th>Total manual journal entries</th>
<th>Total amount ($K) of unusual manual journal entries</th>
<th>Percent of account balance at risk</th>
<th>Risk Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>$ 10,050</td>
<td>14</td>
<td>14</td>
<td>$ 156</td>
<td>2%</td>
<td>Red</td>
</tr>
<tr>
<td>COGS</td>
<td>$ 6,533</td>
<td>2</td>
<td>5</td>
<td>$ 12</td>
<td>0%</td>
<td>Green</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$ 3,518</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$ 704</td>
<td>73</td>
<td>146</td>
<td>$ 97</td>
<td>14%</td>
<td>Red</td>
</tr>
<tr>
<td>S,G,&amp;A</td>
<td>$ 1,608</td>
<td>38</td>
<td>166</td>
<td>$ 15</td>
<td>1%</td>
<td>Yellow</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$ 1,206</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Expense (Income)</td>
<td>(100)</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>0%</td>
<td>Red</td>
</tr>
<tr>
<td>Earnings before Taxes</td>
<td>$ 1,306</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>$ 457</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net Income</td>
<td>$ 843</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Marketable Securities</td>
<td>$ 2,500</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$ 603</td>
</tr>
<tr>
<td>Inventory</td>
<td>$ 644</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$ 3,747</td>
</tr>
<tr>
<td>PP&amp;E</td>
<td>$ 2,010</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$ 20</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 5,777</td>
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<tr>
<td>Accounts Payable</td>
<td>$ 261</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>$ 101</td>
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<tr>
<td>Total Current Liabilities</td>
<td>$ 362</td>
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<tr>
<td>Long Term Debt</td>
<td>$ -</td>
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<td>Other Liabilities</td>
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<td>Total Liabilities</td>
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<td>Shareholders Equity</td>
<td>$ 5,416</td>
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<td>Total Liabilities &amp; SE</td>
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High-Level Approach to XBRL

Present impact of exceptions standard XBRL-based financial statement

Enable drill-down to exception-level detail based on XBRL-GL taxonomy

Standardize the way controls are defined based on Controls XML

Financial Reporting Taxonomy

Global Ledger (XBRL-GL)

Controls XML (GRC-XML)

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Enabling Drill-Down to Exceptions Based on XBRL-GL

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### Unusual Manual Journal Entries that affect net sales (Drill down view)

<table>
<thead>
<tr>
<th>Journal Entry ID #</th>
<th>Date posted</th>
<th>Posted by</th>
<th>Total amount of entry</th>
<th>Rule violated</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>12345</td>
<td>3/13/2009</td>
<td>Moran</td>
<td>$ 21</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3400</td>
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<tr>
<td>12456</td>
<td>3/13/2009</td>
<td>McDonnell</td>
<td>$ 13</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3400</td>
</tr>
<tr>
<td>12567</td>
<td>3/14/2009</td>
<td>McAuliffe</td>
<td>$ 5</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3401</td>
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<tr>
<td>12678</td>
<td>3/14/2009</td>
<td>Deeds</td>
<td>$ 10</td>
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<td>3402</td>
</tr>
<tr>
<td>12452</td>
<td>3/10/2009</td>
<td>Moran</td>
<td>$ 10</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3410</td>
</tr>
<tr>
<td>12314</td>
<td>3/10/2009</td>
<td>McDonnell</td>
<td>$ 10</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3402</td>
</tr>
<tr>
<td>13121</td>
<td>3/30/2009</td>
<td>McAuliffe</td>
<td>$ 9</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3402</td>
</tr>
<tr>
<td>18767</td>
<td>3/30/2009</td>
<td>Deeds</td>
<td>$ 8</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3402</td>
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<tr>
<td>19876</td>
<td>3/30/2009</td>
<td>Moran</td>
<td>$ 7</td>
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<td>3402</td>
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<tr>
<td>15178</td>
<td>3/30/2009</td>
<td>McDonnell</td>
<td>$ 6</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3402</td>
</tr>
<tr>
<td>12876</td>
<td>3/30/2009</td>
<td>McAuliffe</td>
<td>$ 5</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3402</td>
</tr>
<tr>
<td>19187</td>
<td>4/2/2009</td>
<td>Deeds</td>
<td>$ 41</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3438</td>
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<tr>
<td>16154</td>
<td>4/2/2009</td>
<td>Deeds</td>
<td>$ 5</td>
<td>Unusual manual journal entries to sensitive accounts</td>
<td>3402</td>
</tr>
<tr>
<td>12761</td>
<td>4/2/2009</td>
<td>Deeds</td>
<td>$ 6</td>
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<td>3402</td>
</tr>
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It may not be CA/CCM, but…noodle for next decade

- **EverReady Instant Audit**
  - Anytime, Anyplace, Anywhere

- **Have it Your way Audit**
  - Personalized Audit – just like BurgerKing!

- **Multi-Dimensional Audit**
  - Environmental (CO2, SO2)
  - Financial
  - Operational
  - Systems/IT
  - Human Capital
VISION

How can the future be so hard to predict
When all of my worst fears keep coming true?
19th World Continuous Auditing & Reporting Symposium

November, 2009