

Why Internal Controls and Consolidation Belong in a Single Solution

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This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.

The renewed emphasis on internal controls created by Sarbanes-Oxley (SOX) and other transparency regulations has forced many organizations to invest additional time and resources in compliance. While the focus of SOX was on controls for financial reporting, many organizations performed audits and reduced the number of general and application controls.

Q. How can organizations best upgrade their internal controls and where are the opportunities for greater efficiency?

An important consideration in the financial consolidation process is that of fulfilling control objectives to support compliance requirements—requirements driven by audit, as well as ongoing quality assurance for financial results.

These internal controls are well known and used by many organizations. They run the gamut from “order to cash” and “purchasing” to “production and fixed assets” and more. In many companies, automated internal control discipline can be found in the ERP system, in application extensions to the ERP, or in



specialized third-party solutions. Part of the course in quite a few finance organizations is the leveraging of Microsoft® Excel and Microsoft Word documents, along with e-mail, to form a loosely controlled but reasonably effective internal control system.

At IBM, we believe this area should include the close, consolidate, report process and be reviewed as organizations prepare for transforming

their financial consolidation and corporate reporting processes. There are three important reasons for embracing internal controls and financial consolidation as a single solution.

1. Collecting assessments and evidence

At many organizations, internal control data is collected outside the consolidation process, many times from the same individuals who provide that same data for the close process.

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Not only are these controls inexorably tied to the data itself, but important checkpoints and supporting details exist to support the data in question.

Companies that use IBM Cognos 8 Controller can provide a framework, user experience and training to enable participants in the close process to submit their data just once, reconcile their information with corporate, and sign off on the final submission. Including an appropriate internal control template for assessments blends the internal control experience into one system, one process.

2. Managing the internal control process

Ensuring that internal control activities are completed on time, assigned to one individual accountable for assessment and documentation, and linking the internal control activity to consolidation activities ensures that all items meant to assure financial data quality are accurately fulfilled.

The “final test” for financial data quality requires that both the data elements, reconciliations and accounting adjustments are completed, as well as the controls and supporting documentation. Managing and auditing the stakeholders goes a long way to providing reliable oversight of the data’s accuracy.

3. Internal control management and analysis

Controls and data go hand in hand. And not only in the front-end collection (Was the data collected properly? Were the appropriate accounting and policy steps completed—along with attached documentation?)—but also at the back end, at the completion of reporting. But there is another enormous advantage to blending controls and data. That is the ability to analyze and improve the control matrix.

Important questions can be asked and answered here: Are there control areas that require improvement?

Do we have the right number of controls and are they in the right place? Are the controls supporting financial drivers material? In other words, does the dollar amount justify the control, or perhaps do circumstances require that the organization implement further controls, given the high dollar volumes and number of transactions?

By having access to the entire control framework, data, and analytics, we can optimize the control environment and prove to internal and external auditors that the controls in place are of the right substance and are tested accurately.

Information Management				
Form: Internal Control - Navigation Form				
Company: Control UK				
UserID: ADM				
Date Time: 27/02/2009 15:45				
Period: 0906				
CODE	INTERNAL CONTROL FORM	Link	Status Code	Status Description
GCIC01Y	Orders to Cash Status	IN01	3	Complete
GCIC02Y	Purchasing Status	IN02	3	Complete
GCIC03Y	Production Status	IN03	4	Compliant
GCIC04Y	Inventory Management Status	IN04	1	Not Started
GCIC05Y	Payroll & Employee benefits Status	IN05	2	Processing
GCIC06Y	Fixed Assets Status	IN06	4	Compliant
GCIC07Y	Local Financial Closing Status	IN07	4	Compliant
GCIC08Y	IT Status	IN08	4	Compliant
GCIC09Y	Local Tax Status	IN09	4	Compliant
GCIC10Y	Local Cash Status	IN10	4	Compliant
GCIC11Y	Local Legal Affairs Status	IN11	4	Compliant
GCIC12Y	Corporate Governance Status	IN12	4	Compliant

Status Level Legend

- Not Started** (Red): No Data has been entered for this Internal Control Form
- Processing** (Yellow): Data Entry has been started for this Internal Control Form
- Complete** (Orange): Data Entry complete, but contains at least one "No" answer
- Compliant** (Green): Data Entry complete, with only "Yes" or "N/A" answers

Cognos software

An internal control navigation form in IBM Cognos 8 Controller enables you to monitor the compliance status of your internal controls.

Why Internal Controls and Consolidation Belong in a Single Solution

So, should an organization move their entire internal control system to IBM Cognos 8 Controller? Perhaps a better course would be to instead leverage IBM Cognos 8 Controller as a high-level environment to track and report specifically on those key controls that are related to the consolidation process.

The choice is yours. Whether it involves direct data collection and integration within Controller, or importing the right level of detail from your existing systems, integrating your internal control data into IBM Cognos 8 Controller will enable you to present a single view of the data, controls, and processes in your system.

The measurement and tracking of internal controls is an important extension to IBM Cognos 8 Controller for organizations that desire more discipline in aligning internal controls with financial consolidation. We suggest that you preview the IBM Cognos Internal Control Performance Blueprint from the IBM Cognos Innovation Center for Performance Management www.ibm.com/cognos/innovation-center/blueprints/financial-management.html. This blueprint provides the templates and background you need to deploy 84 standard pre-configured internal controls, modify existing controls or create your own set in your IBM Cognos 8 Controller deployment.

About Delbert Krause

Delbert Krause is the Business Unit Executive, Financial Performance Management Solutions, for Cognos Software in the Information Management division of IBM. In addition to his formal training in finance, Mr. Krause has more than 20 years of experience in consulting, selling, and marketing performance management software solutions for finance, business and IT users. Mr. Krause can be reached at delbert.krause@ca.ibm.com.

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