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IBM Cognos Internal Control Performance Blueprint

Cognos software

Introduction

Deregulation…demutualization…demographic transformation…the impact of IT: Any management team would be challenged to cope with just one of these trends affecting the industry today, let alone all of them at once.

Many organizations have made many of the necessary moves to meet these business and industry challenges; at the same time, however, those challenges and the very steps that are taken to address them have also created new and important areas of risk. Concurrently, there has been a significant expansion in the diversity and importance of the issues that require that the whole organization control the right risks in the **right** way.

Managing change includes managing risk. And change of the scope and intensity that organizations like yours are currently experiencing exposes you to the risk that, intentionally or otherwise, some of the wrong things might be done. Sometimes, however, even the rules that guide us in figuring out what is right thing are themselves in a state of flux and evolution. In many cases, company management recognizes that "the rules have changed" for virtually every company in every industry.

Internal controls safeguard an activity against risk of certain kind. They provide reasonable assurance of accomplishing objectives and help companies achieve objectives relating to reliability of financial reporting, compliance with laws and regulations and efficiency of operations.
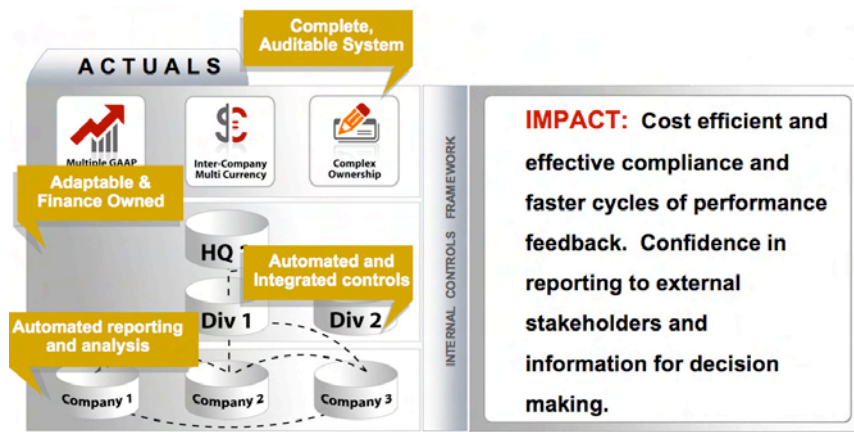
A sound system of internal controls:

- Promotes economical and efficient operations that complement the objectives of an organization

- Prevents and detects fraud, errors and irregularities and sends alerts to management about potential problems

- Protects an organization's physical and intangible resources, safeguards shareholder investment and protects the interests of employees by clearly specifying their duties and responsibilities so that they are not accused of irregularities or misappropriations

- Develops consistent financial and managerial data for timely presentation, which promotes reliable and accurate accounting records and financial reporting

- Promotes compliance with laws and regulations

The challenge with internal controls today is that many companies use manual systems or different in-house solutions to collect, prepare and process information regarding internal controls from different business units and entities. Furthermore, because financial consolidation software and manual internal control systems are not integrated, a clear link between financial statement risks and the controls that are tested in an organization is also missing. As a result, organizations often ask, "Are we controlling the right thing?"
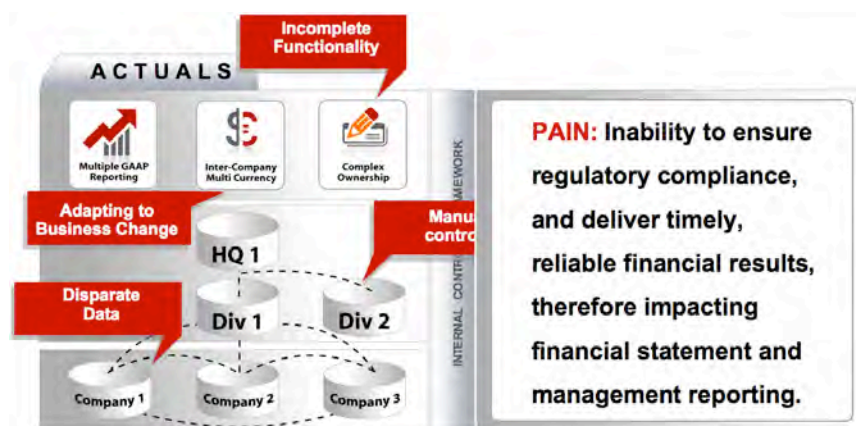
Compounding the issue is the fact that collecting, processing and sharing information is putting enormous stress on people and older systems that are no longer up to the level of compliance needed in today's modern world. Also, the accuracy, financial controls and the fast close process needed to share financial performance information with regulators, shareholders, financial analysts and others to deliver compliance for international standards are increasingly difficult for today's complex companies to achieve.

Companies find it very difficult to ensure regulatory compliance and deliver timely accurate financial and management reporting when their internal control processes are manual or a hodge-podge collection of homegrown applications. What they need is a comprehensive internal control tool that can meet the changing and complex nature of business and help them assess and manage risk.

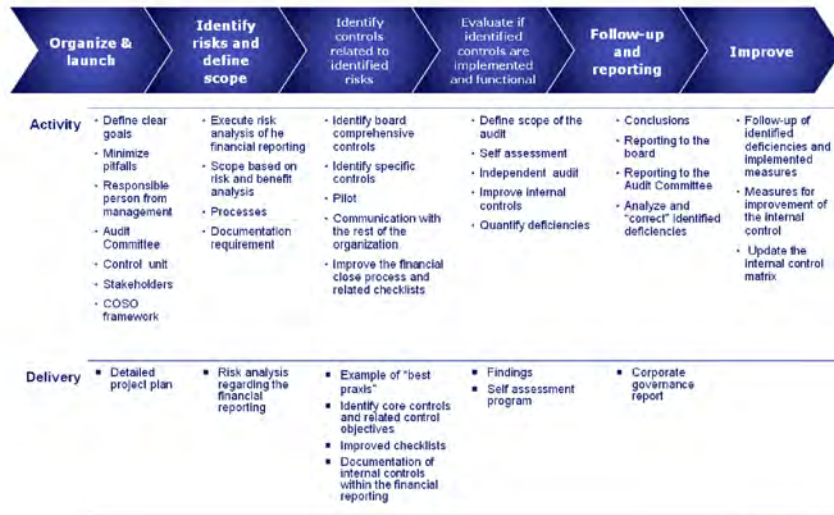The *IBM Cognos Internal Control Blueprint* is that tool.

Introducing the IBM Cognos Internal Control Blueprint

Developed with Deloitte for IBM Cognos® 8 Controller, the *IBM Cognos Internal Control Blueprint* consists of 89 pre-identified control questions that were recommended by Deloitte to address the most common areas of financial controls.

Deloitte understands the impact of an integrated, aligned, internal control environment. In partnership with companies and practitioners of the COSO framework, Deloitte has evolved a thorough understanding of the relationship between finance processes and the proper, judicious use of controls. Simply applying a wide array of controls not only adds cost and overhead to finance process but also does not necessarily ensure the desired end result of secure, accurate data. With a multi-step evaluation process, Deloitte can help you achieve success and deliver these "top 5" benefits.

- Reduced complexity in processes

- Improved balance of automatic and manual controls

- Improved certainty within the financial reporting

- Audit Committee benefit from improved involvement in and understanding of the internal control work

- Improved involvement and knowledge of the company risks regarding financial reporting

Methodology – step by step

	Organize & launch	Identify risks and define scope	Identify controls related to identified risks	Evaluate if identified controls are implemented and functional	Follow-up and reporting	Improve
Activity	· Define clear goals · Minimize pitfalls · Responsible person from management · Audit Committee · Control unit · Stakeholders · COSO framework	· Execute risk analysis of the financial reporting · Scope based on risk and benefit analysis · Processes · Documentation requirement	· Identify board comprehensive controls · Identify specific controls · Pilot · Communication with the rest of the organization · Improve the financial close process and related checklists	· Define scope of the audit · Self assessment · Independent audit · Improve internal controls · Quantify deficiencies	· Conclusions · Reporting to the board · Reporting to the Audit Committee · Analyze and "correct" identified deficiencies	· Follow-up of identified deficiencies and implemented measures · Measures for improvement of the internal control · Update the internal control matrix
Delivery	■ Detailed project plan	■ Risk analysis regarding the financial reporting	■ Example of "best praxis" ■ Identify core controls and related control objectives ■ Improved checklists ■ Documentation of internal controls within the financial reporting	■ Findings ■ Self assessment program	■ Corporate governance report	

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The *Blueprint* draws on both the extensive risk and control knowledge that Deloitte has gained over years of assisting hundreds of companies. Deloitte's ability to integrate technology, processes and controls provides questions perfectly aligned with each process. Deloitte also understands how each activity affects the process. By clearly identifying the main and sub-processes related to the close cycle, inclusive of all required steps, tasks and activities, a roadmap is clearly laid out. Companies can assess where they are now and where they need to be for each internal control.

The Blueprint is intended to facilitate the proper use and collection of internal controls during the automation and transformation of the financial consolidation process with IBM Cognos 8 Controller and is based on the Internal Control Framework released in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework has been adopted as the generally accepted framework for internal control and is widely recognized as the definite standard against which organizations measure the effectiveness of their systems of internal control.

Internal controls are most effective when the controls are built into an organization's infrastructure and are considered part of the essence of that organization. "Built in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

The *Blueprint* helps any organization monitor risks and related controls. The pre-built model with its 89 control questions combines risk analysis with the financial data reported throughout the organization in the same reporting package.

IBM Cognos Internal Control Blueprint and IBM Cognos 8 Controller
Using centralized control and management and up-to-date standards and methods, IBM Cognos 8 Controller brings a modern perspective to managing the *close, consolidate, report* process.

This process embodies the complete set of steps required to close the books correctly, with the right controls, to deliver accurate financial results. It consists of four parts:

- **Aggregate:** Collect, reconcile and certify information collected from disparate financial systems.

- **Adjust:** Apply finance and accounting principles to deliver consolidated financial results.

- **Analyze:** Interpret key financial ratios and accounts for evaluating financial performance.

- **Report:** Share financial results with business stakeholders for decision making.

Financial Management and Control
Plan, Understand and Optimize Performance
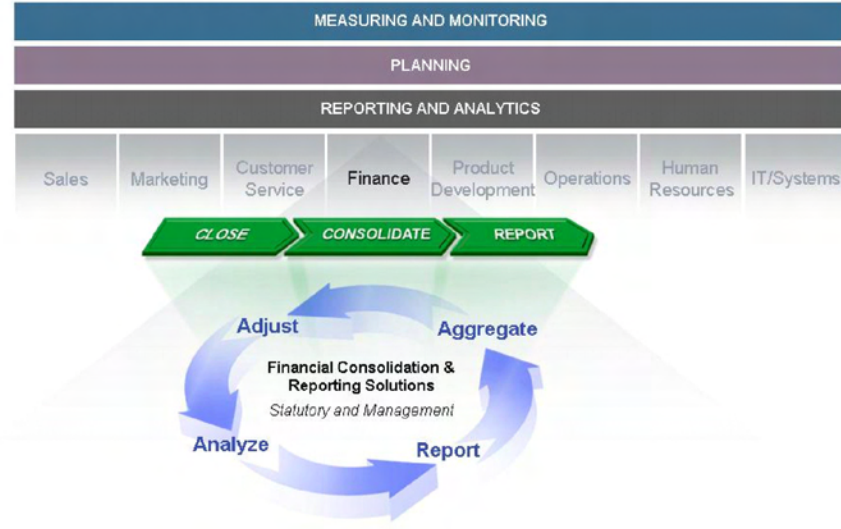
The process has three critical stages:

1. **First mile:** The initial steps in the close cycle begin with two very basic and important activities. The first is preparing the source systems and data and validating that they are closed properly at the end of the period. The second is collecting the financial results and preparing the information for consolidation.

2. **Consolidate:** The second stage is the very heart of the close process. It consists of applying local and global consolidation rules to currency, minority interest, intercompany and performing manual and automated journal entries and then executing all the elements necessary to meet statutory and legal reporting requirements, along with preparation for management and performance reporting.

Consolidation led performance management

AUTOMATION ---------------------------- **TRANSFORMATION** ----------------------------

1 ADDRESS Initial Needs	**2** DRIVE Best Practices	**3** EXTEND Enterprise-Wide	**4** ADVANCE Performance Management
Application approach; no coding	200+ Pre Built working reports to facilitate the close process	Extend visibility with Business Intelligence	Performance Management Standardization
Familiar work environments like Excel and Web	Multi jurisdictional GAAP, IFRS and corporate reporting	Create insight with Financial Analytics	
Enterprise reach; centralized control	Deep domain: FX translation, intercompany, minority interest, compliance	Accelerate resource allocation decision making and control with Enterprise Planning	
Finance Managed	Best Practices Functionality	Performance Platform	

3. **Last mile:** The third stage consists of:

A) **Consolidation reporting:** This includes preparing the financial statements–validating rounding, applying group level adjustments for different GAAP reporting or other standards such as IFRS and analyzing and comparing financial metrics, ratios and balances–and delivering completed and audited financial statements to external and internal stakeholders.

B) **Performance reports:** These are important financial comparative reports, such as month versus same month last year, quarter versus same quarter last year, year to date and monthly values, financial variances and management reports. These reports provide the latest insight into the progress of plans, forecasts and budgets.

The *Blueprint* enables an important component of the financial consolidation requirements.

IBM Cognos Internal Controls Blueprint in action

The Blueprint provides four major pieces of functionality:

- A sample internal control checklist of types by area

- An example for setting up and designing the account structure to manage the control questions

- Sample input templates for capturing internal control assessments

- Sample output reports

Internal control checklist

Included in the *Blueprint* is a generic internal control checklist. The checklist can be tailored to a specific company's format. This makes it easier for the individuals throughout the organization because the reporting tool is in a format they can recognize and is similar to those for any part of the organization.

Setting up and designing the account structure to manage the control questions

The *Blueprint* includes examples for setting up and designing the structure for the following accounts:

- Order to Cash

- Purchasing

- Production

- Inventory Management

- Payroll and Employee

- Fixed Assets

- Local financial Closing

- IT

- Local Tax

- Local Cash

- Local Legal Affair

- Corporate Governance

The short code for the accounts start with GCIC (which is an abbreviation of Group Consolidation Internal Control).

GCIC000		Internal Controls
	GCIC011 (+)	Status
	GCIC100 (+)	Functions
	GCIC101 (+)	Orders To Cash
	GCIC102 (+)	Purchasing
	GCIC103 (+)	Production
	GCIC104 (+)	Inventory Management
	GCIC04A (+)	Inventory adjustments are reviewed
	GCIC04B (+)	A stock obsolescence provision is prepared
	GCIC04C (+)	Cycle counts are reviewed and approved
	GCIC04D (+)	Raw materials received by production are logged.
	GCIC04E (+)	Inventory master file data is reviewed
	GCIC04F (+)	Approved orders are compared to goods for shipment
	GCIC04X (+)	Inventory Management Status
	GCIC105 (+)	Payroll & Employee benefits
	GCIC106 (+)	Fixed Assets
	GCIC107 (+)	Local Financial Closing
	GCIC108 (+)	IT
	GCIC109 (+)	Local Tax
	GCIC110 (+)	Local Cash
	GCIC111 (+)	Local Legal Affairs
	GCIC112 (+)	Corporate Governance
	GCIC200 (+)	COSO Components
	GCIC201 (+)	Operations
	GCIC01D (+)	Invoices include authorised terms and conditions
	GCIC02G (+)	All changes to supplier master data are reviewed
	GCIC11C (+)	Insurance is in place
	GCIC202 (+)	Financial Reporting

For example, consider the Order to Cash process. Order to Cash normally refers to the process that consists of:

1. Taking customer sales orders using different sales channels, such as e-mail, Internet, salesperson, fax or by some other means like EDI

2. Fulfilling the order, shipping and logistics

3. Generating an invoice

4. Collecting payment for that invoice

5. Receipt

This can be further categorized into the following seven sub-processes:

1. Customer presence (monitors for changes in master file and checks items like credit limits

2. Order entry (creation of order/booking of order)

3. Order fulfillment

4. Distribution

5. Invoicing

6. Customer payments/collection

7. Receipt

For accurate financial results, there are activities that are completed during the close process, in particular those associated with Order to Cash:

- Goods shipped around the end of an accounting period are scrutinized to ensure sales and cost of sales are recorded in the appropriate period.

- All sales order transaction data is transferred accurately.

- A monthly review is performed by the responsible manager to ensure that all shipments are invoiced.

- Invoices include authorized terms and conditions and prices are based on sales order/shipment data.

- Customer discounts are analyzed and reviewed for exceptions.

- Accounts receivable balances correspond to G/L.

- Bank reconciliations complete and cash balance reconciles with G/L.

The requirement is to track if the activity has been met and attach any relevant external documentation. The screen capture here shows the type of form that is sent out to relevant stakeholders so that they can authorize completion of a task.

Sample input templates

Each set of accounts is included in a form. Each form relates to a process for the internal controls and the name of the form is the name of the specific process. The screen capture here shows a template for Production.
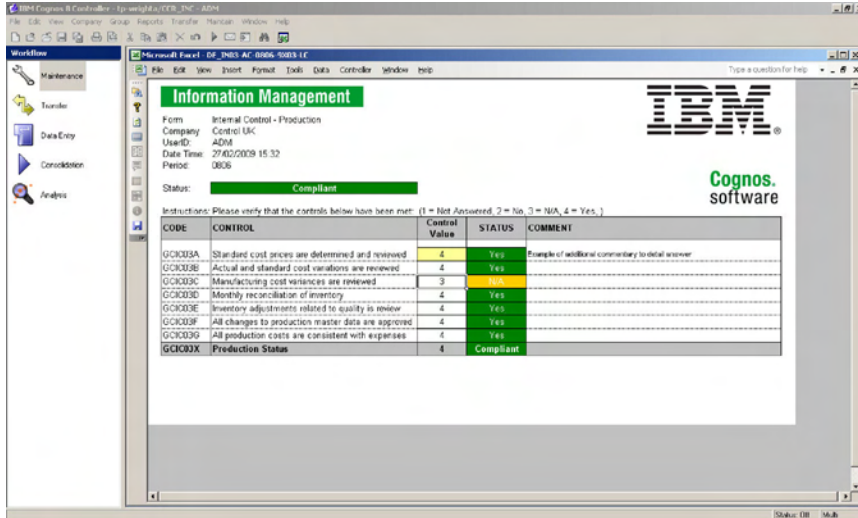
Sample output reports

The *Blueprint* also contains four reports built in the report generator. These samples can be modified to apply to your structures and are built on the sample companies, questions, activities and more. The reports can be generated after you use the input forms to indicate values.

The report in the following illustration shows an overview of the status of the example companies that are part of the *Blueprint* in a graph; in this case it is Order to Cash. Below that graph is a table with more detailed information.
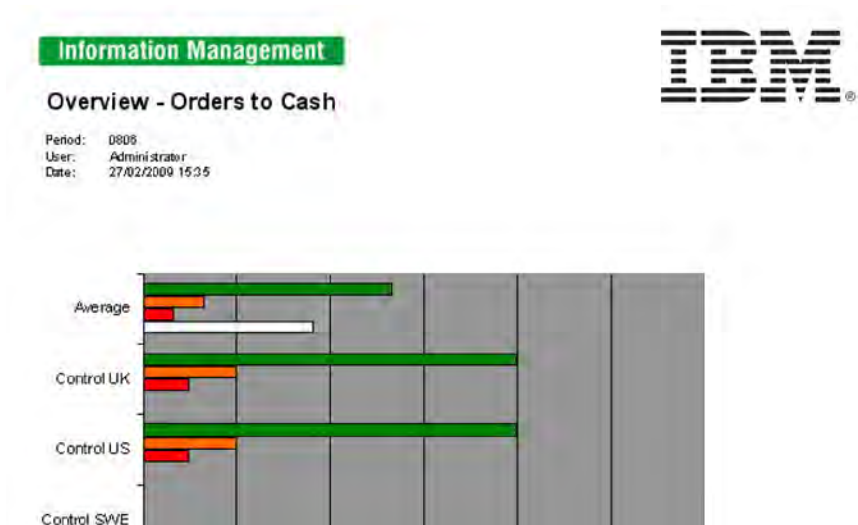
You can also generate a report that shows a variance per year as shown here.

Information Management

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Report	PM Var - Order to Cash
Date:	27/02/2009 15:38
User:	Administrator
Period	0806
Month	June
Year	2008

Instructions:
If the table below contains a ▼ please investigate why there has been a change in status between periods.

Account	Control Question	Control SWE		Control US		Control UK	
GCIC01A	Shipments are recorded accurately	Not Answered	▼	N/A	▼	Yes	▲
GCIC01B	All sales order data is transferred accurately	Not Answered	▼	Yes	-	Yes	▲
GCIC01C	Review to ensure that all shipments are invoiced	Not Answered	▼	Yes	-	Yes	-
GCIC01D	Invoices include authorised terms and conditions	Not Answered	-	Yes	-	No	▼
GCIC01E	All credit notes are controlled and approved	Not Answered	-	N/A	▼	Yes	-
GCIC01F	Accounts exceeding credit limits are reviewed	Not Answered	-	No	▼	N/A	▲
GCIC01G	Aged debt report is reviewed on a monthly basis	Not Answered	▼	Yes	-	N/A	▲
GCIC01H	Changes to customer master data is reviewed	Not Answered	▼	Yes	-	Yes	-
GCIC01I	Appropriate segregation of duties exist	Not Answered	▼	Yes	-	Yes	-
GCIC01J	Cut-off for shipments and invoices are scrutinized	Not Answered	▼	Yes	-	Yes	-
GCIC01K	Discounts and allowances are periodically reviewed	Not Answered	▼	Yes	-	Yes	-

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software

You can also use the *Blueprint* to run the standard reports that are pre-built in IBM Cognos 8 Controller.

Conclusion

Internal control protects activities against risk of certain kind, helping companies like yours achieve reliable financial reporting, compliance with laws and regulations and efficient operations. Managing internal controls consists of three steps:

1. Collecting assessment inputs from close process stakeholders

2. Confirming and reviewing the assessment inputs

3. Reporting the state of the internal controls

The *Blueprint* showcases how internal control steps are managed. Designed in cooperation with Deloitte, it helps you understand how integrating and automating your internal control processes relieves you of the burden of manually coordinating spreadsheets and printouts, searching your ERP system for information or using cumbersome homegrown applications.

About the IBM Cognos Innovation Center for Performance Management

The IBM Cognos Innovation Center for Performance Management is dedicated to the understanding, adoption, and implementation of next-generation planning and performance management practices. It is a consortium of industry leaders, practitioners, thought leaders, forward-looking executives, and technology experts experienced in, and committed to, the advancement and successful application of technology-enabled performance management best practices. The Innovation Center seeks to assist organizations in optimizing the alignment of their plans, processes, and resources with corporate goals and strategies.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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