



Consolidation automation

Advancing compliance and
performance management

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Abstract

Finance organizations around the world are continually grappling with the issues of regulatory compliance. Achieving compliance can be an expensive proposition for companies with disparate, disconnected business processes. Companies that have embraced automation and process centralization, however, are finding compliance costs to be more manageable.

Overview

Some companies report having to spend more time and money to meet today’s increased regulatory demands, but that’s not always true for companies that have embraced process centralization, standardization and automation.

Automating systems improves efficiency. Efficiency, in turn, helps companies ensure they are in compliance with critical laws and regulations. The greater value of automation, however, is in the increased confidence finance leaders gain from getting the numbers right. There’s nothing more efficient than doing it right the first time.

This white paper explains how process automation can help Finance organizations satisfy both the performance and compliance imperatives.

Business problems

In years past, the standard question asked of finance people was, “how did we do?” Today, more and more often, finance is being asked, “how can we do *better*?”

Finance departments in businesses all over the world are increasingly being asked to look forward, rather than backward. They are expected to predict, not just report, financial results. And they are expected to take an active role in helping to guide and manage business performance.

But just as this shift in roles is occurring, these same finance organizations are being pressured to deliver more information faster to comply with regulatory mandates such as Sarbanes-Oxley and International Financial Reporting Standards (IFRS).

Both of these imperatives – performance management and compliance – are essential for business success. They can be burdensome, and compliance efforts have caused finance departments an enormous amount of extra work in recent years. But by automating with the right tools, these two missions can be mutually supportive.

Accurate financials can bring clarity to operational issues. Streamlined processes can speed decision making and help businesses respond quickly to changing market conditions, even as they provide greater financial transparency.

Business drivers

Consolidation: At the core of compliance and performance management

Financial consolidation is at the core of both regulatory compliance and performance management. It creates the enterprise-level view of financial information that offers insight to management about how the business is performing. It also provides a revealing picture of an organization’s financial performance to an external community of shareholders, regulators, and financial analysts.

Financial consolidation is a specialized process, usually managed by a small team of accounting professionals, who create an audited, enterprise view of financial information from which financial KPIs and metrics are derived. To begin the consolidation process, subsidiaries close their books and submit data for central collection. Many organizations maintain multiple general ledgers and ERP systems across subsidiaries, divisions, and geographies, each with its own chart of accounts.

Management and statutory consolidation assembles this information to provide, ideally, a timely, accurate view of financial and operational performance, along with analysis of variance from targets and plans. During this process, data capture must meet auditable standards, ensure authority, and provide a clear trail back to data sources.

Consolidation challenges

When organizations undertake this task, they face three key challenges affecting accuracy and data integrity:

1. **Disparate data** – consolidation is the one process that is designed to deliver a single financial view of the company. Yet many organizations face enormous difficulty in gathering and collecting data from systems that cannot communicate with each other.
2. **Changes in business structure** – the addition and deletion of business entities is now happening at a record pace. The closing process must adapt quickly to reflect and manage those changes.
3. **Incomplete functionality** – processing calculations and supporting detail in one-off spreadsheets or working with solutions that are missing key functionality places an extra – and unnecessary – burden on the closing process.

For many companies, consolidation is made difficult by the use of inadequate, manual, or multiple systems for their financials. As a result, they are unable to gain a single, accurate view of financial results or structure and control the process for internal and external reporting.

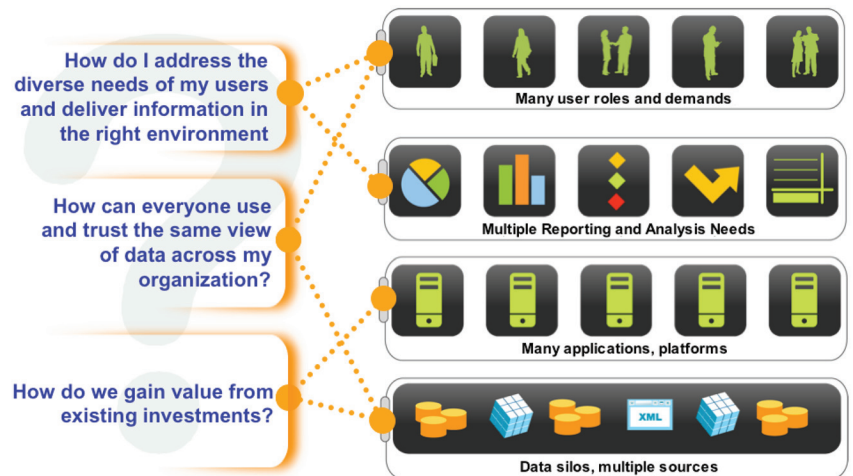
Management of financial data is further complicated by the fact that different target audiences require information in different formats. Such formats may include a monthly management income statement by business area, product, or customer, and a balance sheet specification with discrete items supporting operating cash flow and key performance indicators (KPIs), along with full legal profit-and-loss account, and balance sheet by company.

Compliance challenges

Another key requirement in financial consolidation is making adjustments and reconciliations to comply with local and international accounting rules. These rules include those issued by the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), and local GAAPs, as well as specific regulations issued by stock exchanges and government agencies in accordance with Sarbanes-Oxley or IFRS.

It’s not unusual, for example, for an organization to consolidate several operations under the GAAP of a European subsidiary and other operations under US GAAP, then consolidate those results into a third country’s GAAP for parent-company reporting. Financial software applications must handle consolidation from multiple GAAP perspectives, while maintaining a clear audit trail showing how each set of results was obtained.

Questions you may be asking...



Spreadsheets – the weary workhorse of finance

Very often, the heavy burden of these multiple challenges falls upon the spreadsheet. Spreadsheet systems are widely used for accounting and financial reporting, but they suffer from an inherent inability to be centrally controlled, and are subject to input errors from data entry, re-keying, and cut-and-paste activities.

Spreadsheets lack sophisticated consolidation capabilities, and don't provide the functionality necessary to calculate and track important processes such as inter-company adjustments, business changes, and other journal entry changes.

The following table outlines the steps of a representative close, consolidate and report process, and identifies the most serious shortcomings of a spreadsheet-based approach.

Close, Consolidate, Report process

Process steps:	Questions and concerns:	System success defined by:	Where spreadsheets fall short:
System maintenance and close preparation	<ul style="list-style-type: none"> • How quickly can changes be made and how much testing is involved? • Who makes changes to the system—Finance or IT? • Is internal “ownership” of the system an issue? 	<ul style="list-style-type: none"> • Complete audit trail of business and accounting rule changes. • Ability of accountants or finance experts to manage both implementation and change process • Rapid, error-free adjustments and testing • Ability to translate company requirements into consolidation logic and processes easily. 	<ul style="list-style-type: none"> • Finance users know how to work with spreadsheets, but financial consolidation tasks often require custom development. • Model standardization is difficult; enforcing rule and data integrity with distributed spreadsheets is very challenging. • Difficult to accurately reflect business changes over time, showing present status while storing history
Close Process – data collection and preparation	<p>Can you:</p> <ul style="list-style-type: none"> • Collect information 24/7 across time zones while maintaining centralized control of rules and data reconciliation? • Manage local rules and currency within a centralized context? • Preserve data quality across distributed business centers? • Audit and track data to its source? 	<ul style="list-style-type: none"> • Centralized data definitions to support self-service input and reconciliation. • Global Web access • Ability to leverage existing data assets and infrastructure • Ability to audit and track data to its source 	<ul style="list-style-type: none"> • Version control—how do you know which spreadsheet is the right one? • Spreadsheet data cannot be reconciled. Do field balances match with corporate? Are exchange rates consistent? • Spreadsheet collection depends on the “weakest link.” User participation and progress cannot be tracked. • Spreadsheets are disconnected from the data source

Process steps:	Questions and concerns:	System success defined by:	Where spreadsheets fall short:
<p>Financial consolidation</p>	<p>Can you:</p> <ul style="list-style-type: none"> • Centrally manage rules and processes? • Apply and track journal entries inter-company adjustments, currency rates and other accounting and financial rules? • Access reports from working schedules and trial balances to complete financial statements? • Manage versions effectively? 	<ul style="list-style-type: none"> • Centralized management and control with secure access for distributed users • Built-in finance functionality– rates for currency, inter-company matching and balances, partial and complex ownership with no customized rules • Ability to manage and track processes step by step • Working schedules pre-built into the application. • Financial schedules and statements executed directly from the system. 	<ul style="list-style-type: none"> • Consolidating spreadsheets is a manual process • Spreadsheet combinations with manual logic lead to undetectable errors • No pre-built processes to perform financial consolidation calculations, such as currency conversion, inter-company adjustments, minority interest. • Unable to provide a single data repository that manages a single view of the business, multiple roll up structures and consolidated levels and multiple accounting/ reporting views • No processing logic or status reporting.
<p>Internal controls</p>	<p>Can you:</p> <ul style="list-style-type: none"> • Integrate internal controls into the close process? • Support controls with audit and control documentation? • Automate controls in the close process? 	<ul style="list-style-type: none"> • Close process contains internal controls that authenticate financial results. • Consolidation systems support automated controls. • Key financial controls can be tested and documented 	<ul style="list-style-type: none"> • Only manual controls that rely on spreadsheets for documentation. • Difficulty documenting and testing controls around the close process • Unable to automate important controls.
<p>External reporting adjustments</p>	<p>Can you:</p> <ul style="list-style-type: none"> • Manage multiple GAAP requirements, in addition to local reporting? • Format financial statements for external consumption? • Collected and report notes and additional documentation? • Support reporting of both legal and management views? 	<ul style="list-style-type: none"> • A single application to manage and store financial results in all stages: unadjusted, adjusted, final result. • Ability to support adjustments for global and local reporting such as GAAP and IFRS. • Automated creation and delivery of external reporting statements • Adequate supporting detail and documentation. • Legal, statutory, and management reporting from single version of financial results. 	<ul style="list-style-type: none"> • Unable to provide a single, certified source of financial results. • Difficult to managing multiple views of financial information to support financial and management reports • No accounting-based data system integrated with financial statement reporting to ensure accurate reporting cross multiple GAAP's and jurisdictions. • Difficult to manage and track text and commentary detail by accounting, entities or divisions, and report

Process steps:	Questions and concerns:	System success defined by:	Where spreadsheets fall short:
Impact on performance	<p>Can you:</p> <ul style="list-style-type: none"> • Share results “beyond finance” with all decision makers? • Deliver insights on both operational and financial results? • Offer a forward-looking view of the business for planning, budgeting, and forecasting? • Integrate financial plans with operational plans? • Access reporting, analysis, dashboards, and scorecards across the enterprise through Web, mobile, office, search? 	<ul style="list-style-type: none"> • Provide a single solution supporting all views of performance data—past, present and future • Manage and maintain business structures and rules for comparative reporting • Business and data changes are reflected quickly and accurately. • Offer a complete array of information delivery tools and capabilities. • Ability to deliver financial reports integrated with operational and transactional detail. 	<ul style="list-style-type: none"> • Does not have a single repository of financial data that includes history, current actuals and plan. • Unable to deliver reports and analytics via mobile and search • Does not have pre-built planning, budgeting, and forecasting functionality to support driver-based plans. • Limited reporting connectivity with operational and transaction systems for an enterprise-level view of performance

The solution

Streamlining consolidation with automation

The alternative to spreadsheets is financial process automation. Research by the Hackett Group has discovered that companies who are leaders in their industries typically utilize significantly more automated financial systems than their lesser-performing peers.

In fact, Hackett found that leading companies employ *twice* the level of automation for key controls in their general accounting and financial reporting processes.¹ And although these leading companies tend to have more sophisticated business structures, they are nevertheless able to manage these complex structures at a lower cost per unit of revenue than those with more manual processes.

Global research and consulting firm Gartner, in a discussion of financial consolidation solutions, said this: “[through] improved process automation ... a company can improve greatly its financial management processes, including the opportunity to reduce costs while improving accuracy.”²

Leading companies employ twice the level of automation for key controls in their general accounting and financial reporting processes.

The Hackett Group

Automation can reduce close cycle times by days or even weeks. But more important is the fact that these systems ensure data quality and integrity, and provide the means to track data to its source. Automation *lowers risk*,³ and gives finance organizations greater confidence in the accuracy and reliability of their numbers.

From collection to consolidation to output

The most important virtues and capabilities of financial process automation are embodied in IBM Cognos® 8 Controller. Controller can consolidate multiple, diverse ledgers representing thousands of operating units and accounts into a common chart-of-accounts structure and provide a single, accurate, corporate view of key information. The risk of financial reporting errors is significantly reduced.

Controller automates the entire process, from data collection to financial consolidation to reporting output. It enables finance teams to:

- Centralize consolidation with easy data collection from subsidiaries to manage, transport, and integrate cross-enterprise information.
- Set up consolidation charts of accounts at the appropriate summary level to enhance reporting and minimize reconciliation effort.
- Avoid sub-consolidations and save days in the process by consolidating subsidiaries at the top level. Use acquisition ledgers to track subsidiary book values in group consolidation.
- Employ a single security layer to leverage existing security systems and simplify maintenance.

Controller is a Web-based application, which allows for secure and convenient access to information from any location, at any time. It also leverages the familiar Microsoft® Excel® interface for finance analysts who need direct, secure access to data through Excel. (*See sidebar.*)

Leveraging what's best in a popular tool

Despite their shortcomings, spreadsheets do, of course, perform some tasks very well. IBM Cognos 8 Controller makes it possible to eliminate spreadsheet errors without leaving behind the familiar Microsoft Excel interface. Excel is available as a secure entry point into Controller for data collection or distribution:

- The complete Controller model is available within Excel—business and financial dimensions, accounts, account properties, and time periods—all important structures for understanding data.
- Full Excel formatting can be applied to data reported from Controller, or when setting up an input environment for collecting financial results.
- Controller financial functions and capabilities are available to process and prepare information directly in Excel, and Excel functions are available to interact with Controller information.

Finance-managed

Because it requires neither extensive development nor costly programming, Controller can be managed directly by finance. The entire system is delivered through menus, parameters and checklists. There is no coding or scripting required, nor complex language to create and test.

This application approach allows finance users to operate the system easily, with minimal IT support. Designed for rapid setup and deployment, and low total cost of ownership, its reporting capabilities serve the needs of both finance and business users, and allow them to make their own amendments to entities, account details, and organizational structures as the need arises. It reduces or eliminates errors, speeding up development time, and adapting as business needs change.

IBM Cognos 8 Controller – Standard reports

IBM Cognos 8 Controller offers your Finance department unique advantages in delivering the wide range of reports required by management and regulators. More than 200 pre-configured, standard reports give you out-of-the-box functionality throughout the close cycle.

With Controller:

- All reports required at key stages of the close process are available automatically – no custom report creation is needed.
- Fast, instant analysis is possible at any time during the close.
- Speed and quality of the close are greatly improved.

The diverse, detailed reports available in Controller deliver precisely the information you need in the format you need it. And all of these reports will work on demand in virtually any finance environment.

Functionality that follows the money

To meet strict regulatory reporting requirements, Controller enables finance teams to produce an extensive audit trail to satisfy the needs of both internal and external auditors. It provides support for Sarbanes-Oxley, IFRS, FASB, and Basel II, as well as multi-jurisdictional GAAP reporting and reporting by individual segments such as customer, product, or market.

Built-in best practices

Following “best practices,” in the finance context, means delivering the deep and rich functionality necessary to perform sophisticated financial and accounting transactions as the finance organization prepares to close the books. Best practices functionality is built directly into Controller. It offers all the financial consolidation and regulatory functionality needed to support any local, global, or regional requirements, from managing inter-company adjustments and minority interest calculations, to currency journal entries and all the details regarding financial data preparation.

Controller can also link to vital information that often resides in Microsoft Word or Microsoft Excel documents, e-mail attachments, or links to Web pages stored on personal desktop computers. These documents can be linked to any information, and retrieved from anywhere in the system. Users can attach documents to reported figures to broaden perspectives beyond mere quantitative information, offering deeper visibility into overall organizational performance.

In addition, more than 200 pre-configured reports are available in Controller to automatically support any implementation and make the closing cycle more efficient. (*See sidebar.*)

Business intelligence for the Office of Finance

One of the biggest reporting challenges facing CFOs is overcoming the problem of data silos – disparate data held in disparate systems. The office of finance often needs to pull data from across the enterprise to answer questions as deceptively simple as, “who are our most profitable customers?” Business intelligence (BI) solutions can help finance do that.

In essence, a BI solution functions as an enterprise reporting and analysis system that delivers information across all data sources. BI provides the single solution not just for distributing consolidated financial results, but for unlocking all the rich information that can be found within other systems. That is why IBM Cognos 8 Controller is seamlessly integrated with IBM Cognos 8 Business Intelligence.

Information from Controller can be published within the entire IBM Cognos 8 BI infrastructure including query, analysis, reporting, scorecarding and event management, supported by Web, Microsoft Excel, mobile and search. And the IBM Cognos solution underpins these capabilities with the platform services necessary for complete integration with an organization's existing data infrastructure. (Information from Controller can also support planning models in IBM Cognos 8 Planning.)

Working together, IBM Cognos solutions provide greater visibility into business and management results, along with the transparency required for sustained compliance.

Best practices in action - IBM Cognos Performance Blueprints

IBM Cognos Performance Blueprints are pre-defined data, process, and policy models that extend the value of process automation by incorporating proven best practices in financial management and control. Blueprints help lower the costs of initial deployment and ongoing maintenance while they increase the speed, quality, and accuracy of your financial processes.

- **Close, Consolidate, Report**

The Close, Consolidate, Report Blueprint, developed in collaboration with Deloitte Consulting, enables an organization to implement more efficient consolidation, and design and document the associated controls necessary for compliance.

- **Management and Financial Reporting**

The Management and Financial Reporting Blueprint automatically leverages existing financial consolidation processes to improve external reporting, increase transparency, and ensure that statutory and management consolidation align with corporate reporting requirements.

- **Group Consolidation and Corporate Reporting**

This Blueprint keeps reporting numbers for European IFRS in one place, in the same format, for faster, more reliable management and regulatory reporting.

Conclusion

As mentioned at the outset, in recent years regulatory compliance has greatly increased the workload for finance organizations worldwide. Yet while most companies have had to spend more time and money to meet these increased regulatory demands, that's not true of companies that have embraced automation. As the Hackett Group research found, "Commitment to process centralization (especially through shared services), standardization and automation has been the reason why the cost of compliance in world-class organizations is at the same level as it was in 2003 (the onset of Sarbanes-Oxley 404 implementation)."⁴

As companies around the world streamline their business processes in order to meet compliance goals, they are finding that other benefits flow from these improved processes as well. Better quality information ripples through an organization, ultimately leading to better decisions, better products, and better service for customers.

The need for better financial controls has led to greater cooperation between IT, finance, and business managers. Compliance work reinforces the desire of the IT organization to automate processes and make the organization more efficient overall. As one industry observer said, "Compliance is becoming the lever that will force other changes in the business."

In some cases, long-standing process inefficiencies that were not previously high priorities are being addressed. For example, one IBM Cognos customer discovered in the course of its compliance work that it had more than *three dozen* different ways of conducting the same process. Reducing these to only one process globally presented an opportunity for tremendous gains in efficiency.

Automating your systems improves efficiency substantially. But it cannot be said strongly enough that the greater value of automation is in the increased confidence finance leaders gain from getting the numbers right. Because in the end, there's nothing more efficient than doing it right the first time.

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IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

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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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Endnotes

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