# Managing the Reporting Supply Chain (RSC)

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# Closing challenges and regulatory reporting

Since the turn of the new millennium, businesses across the globe have faced a bewildering tide of new regulation. Although much of it is well intentioned, aimed at protecting investors or improving the comparability and timeliness of information, there is no doubt that it has placed a significant extra compliance burden on companies and their hard-pressed finance organizations.

In broad terms, the extra regulation manifests itself in the growing complexity of statutory reporting, the increasing breadth of disclosures, and accelerated timescales for reporting to the capital markets.

## Complexity of reporting

The new International Financial Reporting Standards (IFRS), introduced across Europe in 2005, have greatly increased the complexity of group activities, requiring, for example, multi-GAAP reporting (to cater to local statutory and group level reporting), more demanding segmental disclosures and reconciliations between US GAAP and IFRS (although this may disappear under convergence plans).

## Breadth of Disclosure

At the same time, the EU Accounts Modernisation Directive has promoted the rise in so-called Narrative Reporting or non-financial reporting covering novel areas of disclosure regarding the environment, employees, and community. In many cases, management commentary is also required to be accompanied by KPIs (Key Performance Indicators) if it is considered necessary for a complete understanding of the company's performance and prospects.

## Accelerated timescales for reporting

Finally, the introduction of the EU Transparency Directive for quoted companies with accounting periods commencing after 31 January 2007, seeks to greatly accelerate the timescales for year end and interim reporting.

***Table of pre- and post-EU Transparency Directive reporting deadlines***

| | Old Deadlines | New Deadlines |
|---|---|---|
| Annual Report | 6 Months | 4 Months |
| Preliminary Statement (of annual results) | 120 days | Voluntary (no deadline) |
| Half-yearly Reports (Interims) | 90 days | 2 months |
| Interim Management Statements (for issuers of shares who do not publish quarterly reports) | n/a | Between 10 weeks after the beginning, and 6 weeks before the end of the relevant 6-month period. |

Source: [1]UKLA "*LIST! Issue No.14*" – December 2006 FSA

Although reporting timescales have been improving steadily throughout Europe over the last few years[2], it is thought that approximately half of listed companies will have to take urgent steps to improve their group reporting processes if they are to meet the new reporting deadlines.

For companies with a March year end, action will need to be taken swiftly if they are to achieve the required improvements in time, although companies with a 31 December year end will be spared any additional reporting burden before 2008.

Recent research by Deloitte[3], comparing reporting timescales between 1995 and 2005, suggests that the interim (half yearly) reporting requirements will cause the most strain for UK companies, with only half currently managing to report within the 90-day deadline. By contrast, only 7 percent of companies are expected to have difficulty meeting the annual four-month deadline.

Furthermore, although 78 percent of UK-listed companies currently provide some form of reporting outside the main cycle of annual and half-yearly reports, only 34 percent of companies reported within the prescribed periods for an IMS. And only 14 percent of companies would have met the content requirements for an IMS. (These are to explain the material events and transactions during the period and their impact on the companies' financial position.)

## How have the changes impacted companies?

Shaving time off reporting timescales while accommodating increased disclosures and complexity is a significant challenge for all but the most organised and dedicated finance organisations. For many, the changes involve work-arounds, off-line spreadsheets, and staff burning the midnight oil.

The pressure of mounting compliance has been most keenly felt in the United States, where the impact of Sarbanes-Oxley (for which there is no European equivalent) has driven a more cautious approach to statutory reporting. It appears that US companies are buckling under the weight of Sarbanes-Oxley, with 40% of the top 100 companies in the US delaying their announcement date by an average of seven days. The time taken for US audit sign-off has increased by an average of 21 days over the last three years for 80% of America 's largest companies.

Despite the burden of Sarbanes-Oxley, US companies continue to outshine their European counterparts on the key benchmark of the Fast Close (i.e. date of publishing the Annual Reports and Accounts). But improvements in Europe mean that the gap between the best performers on both continents is beginning to narrow. If the most efficient US companies are to sustain their competitive advantage in capital markets, which are increasingly global, then they can no longer afford to lose time in fulfilling compliance obligations.

## The risk for companies

A deteriorating or below-par performance in the close process can have potentially damaging consequences for quoted multinationals. A fast close, followed by a swift preliminary announcement and audit sign-off is often viewed as a proxy for good corporate governance, a "tight ship", and a competent management team. Conversely, delays in reporting are viewed with suspicion and concern. Poor performance in this area can easily dent a company's image with investors and analysts.

But with the broadening of reporting requirements and the legislative drive for more disclosure of trends and factors affecting current and prospective performance, a lack of adequate systems and processes exposes businesses to other risks as well. European legislation requires management to have its finger on the pulse of the business throughout the accounting period under review, so that it can report and explain major shifts in performance and assess their impact on the delivery of longer term goals. In effect, legislators are forcing external and internal reporting to converge so that shareholders are able to see the progress of the business through the eyes of the directors. As a result, group financial reporting can no longer be viewed in a vacuum. It has become an integral part of a much broader performance management regime driven by the underlying efficiency of the close process.

## Requirements for Financial Consolidation

In recent years, companies have become preoccupied with the speed of the close process, encouraged by publicly available benchmarks that focus on the delivery of the statutory Annual Report and Accounts. Such undue focus on the year-end process potentially masks underlying problems with the regular monthly and quarterly management reporting cycles. After all, the purpose of an accelerated close process is not merely to demonstrate accounting prowess to the capital markets. The more important purpose is to free up time for analysis and interpretation of results by shifting the burden of reporting away from data management and manipulation towards true reporting. This means that companies need to focus on the whole Reporting Supply Chain (RSC) rather than a limited view of a statutory consolidation system.

The RSC comprises five main stages, namely; *Period Close* in subsidiaries, *Data Capture* from reporting entities, *Communication* of data to the centre, *Consolidation* and the so-called *Last Mile*, which deals with assembly of information into a final Board pack or published set of statutory accounts.

Unfortunately, in practice many of these stages are considered in isolation from each other, a viewpoint re-enforced by organisational, technical and geographical boundaries. As a result, information often falls between the cracks, and errors are propagated along the Reporting Supply Chain. By concentrating on the entire RSC process, companies can make real strides in performance. But it would be misleading to believe that technology alone can drive an improvement in the Fast Close. A concerted effort is required on several fronts—technology, process, and people—if the result is to be enduring.

# Where are the technology and solution gaps?

Not surprisingly, with the focus of the last decade almost exclusively on the speed of group reporting, there are a number of very competent consolidation systems available on the market. These handle, data validation, consolidation logic, currency translation, inter-company elimination, journal entries, and reporting very proficiently. But although the consolidation engine is important, it is a relatively small component of the total RSC process. It is the steps on either side of the strict consolidation which are typically neglected and deficient, namely: data capture, metadata management, mapping tables, control environment, collaboration and document production.

## Data capture

Fractured process flows are the main cause of angst in the group reporting process, starting with the way that information is captured from reporting entities and 'mapped' into the group chart of accounts. An over-reliance on spreadsheet templates for data capture, coupled with lack of visibility and control over metadata (structural information such as cost centres, account codes, reporting entities and company codes) and mappings, is a prime source of error.

Spreadsheet templates are a popular method of data capture. They are widely understood, universally and cheaply available and can be developed relatively quickly to meet exact requirements with very little in the way of specialist IT skills. However, the development of these specialised templates relies heavily on the skills of the developer and, over time, they become burdensome and unwieldy to maintain.

A notable disadvantage of a template-based process is that group finance at the centre loses all semblance of control and visibility of progress once spreadsheet templates are emailed to reporting units. The centre can check if the email is received but is unable to monitor whether the reporting unit has opened the template, started entering data or is nearing completion.

## Metadata management

Metadata is the 'DNA' of the Fast Close process. It defines the structural information, such as organisational hierarchies, account codes, time periods and product group dimensions that constitute the 'shape' of the business. Just like DNA, it acts as a blueprint that has to be propagated perfectly throughout the Fast Close process. If it is misshapen or damaged, it prevents subsequent stages of the process from working properly. So, the alignment of metadata across the enterprise is critical to the integrity of the Fast Close process.

However, the shape of the metadata in reporting units is usually different from the group company. Furthermore, the relationships between these structures can be relatively complex, as elements in one structure may not have an equivalent position in another structure, particularly as local operational systems are at a much more detailed level of granularity than the group systems.

Extracting data from operational systems and transforming it so that it is in the right shape to be entered into the group reporting system is an intricate, yet crucially important task. Most commonly, the process is handled via spreadsheets or manual data entry, introducing significant risk of error as well as slowing down the close process.

## Mapping tables

The relationships between the two sets of metadata (source operational system and target group reporting system) are maintained in mapping tables, which are used to translate information from one structure to another across an interface. In recent years, the task of migrating data from one system to another has become more challenging because of the volume and breadth of information that needs to be captured and the increasing trend towards multidimensional analysis. But yet again many companies use manual methods or primitive data management tools to manage the process, which frequently leads to problems with data quality.

## Control environment

A tightly managed controls environment is crucial to delivering the fastest possible close. Unexpected errors can take hours or even days to trace and resolve, particularly where they straddle business entities operating in different time zones. Yet the implementation of suitable controls can be extremely challenging because of varied methods of data entry, a variety of underlying ERP systems, widely differing charts of accounts, and a mixed approach to mapping tables and technology.

Unfortunately, many group consolidation processes suffer delays because errors are allowed to travel uncorrected to the group finance organisation at the centre, where there is less familiarity with the numbers, their history and local accounting issues. As a result, valuable time is lost in telephone and email exchanges between group and subsidiary to explain the problem and identify the steps needed to correct it. If the remedy involves a resubmission of the report pack, this can introduce significant delays.

## Collaboration

In common with many other business processes, the typical group finance organisation relies on a hodgepodge of informal communication methods, such as email, fax, and telephone to prop up the reporting process when things start to go wrong. Without appropriate systems support, unreconciled items, misclassifications, posting errors, and queries over inter-company balances have to be resolved by lengthy telephone calls and email exchanges.

## Document management, control and production – the "Last Mile"

High quality document production sits uneasily with group reporting applications. The final consolidation often resides in a mixture of Excel® reports and loosely assembled hard-copy reports. The scope for error, as structured and unstructured information is transcribed from reporting system to PowerPoint® and Word® or from the group system to a file format acceptable to external printers, is significant.

Adding to the strain is the need to maintain version control over documents as well as strict security and confidentiality over the information they contain; a position that is exacerbated by fractured systems, a convoluted process and the increasing number of people involved in the 'last mile', i.e., the final stages of document production.

# Improving consolidation with best practices and technology

Addressing many of the problems in the RSC can seem daunting because of the sheer breadth of the process, but rapid improvements in technology allied to a better understanding of the detailed activities that make up the process can make a significant difference to performance. For example, advances in extract, transform, load (ETL) tools, workflow, collaboration and document management tools can make a significant difference.

## ETL tools

ETL tools are the usual way of handling automated data transfers across an interface. In a financial systems setting, they provide a means of extracting relevant data from a source system, eliminating unwanted data, and automatically reformatting coding structures and loading it via mapping tables to the target system. As such, ETL tools provide a superior response to the challenge of data transfer over interfaces to any spreadsheet-based mapping table and, of course, a far quicker and more dependable process than a manual procedure.

Although ETL tools are quite widely used in a consolidation environment, they were originally developed with the IT community in mind, rather than the end-user in the finance community. As such, their use tends to be confined to the larger subsidiaries with substantial ERP systems and abundant local IT support.

This is their major drawback. Designed for a more generic approach to data transfer, they are difficult and time consuming to design, configure, and test. As such, they are less suited to frequent specialised changes in mapping, which are commonplace in an accounting environment where information requirements change relatively frequently.

However, newer and more advanced ETL tools are rapidly changing the landscape for finance departments, enabling them to exercise direct control over interfaces rather than relying on IT support. This newer generation of tools is not only easier to use but, being Web-based, allows group finance and local finance teams to have shared visibility of mapping tables throughout the organisation. This helps greatly to eliminate errors, drive up data quality, and deliver faster reporting timescales.

## Workflow & collaborative tools

Recognising the importance of human interaction is crucially important and the RSC is ideally suited to a workflow approach. By implementing a streamlined approach, group management can standardise and accelerate the process, while enhancing auditability and control. Using workflow, group finance can reduce the complexity and variety of the tasks that need to be managed while reducing the risks inherent in using variable quality staff and systems around the world.

All phases of the Reporting Supply Chain are amenable to workflow and could include, for example, the period close process in each reporting entity, the completion, validation and approval of group reporting packs, the assessment of controls, through to the production of statutory filings such as 10-K's, 20-F's and final published reports and accounts.

But workflow need not be confined to a mere checklist of tasks. The use of embedded forms, approval routines, email, and portals allow finance personnel in distributed organisations to share best practices. Furthermore, changed circumstances such as amended reporting guidance, additional account lines and new deadlines can be communicated instantly, helping to align the finance department with the underlying process while eliminating misunderstandings and delay. As such, workflow and collaborative technologies overcome the limitations of geographical boundaries and functional silos, allowing personnel from different functional areas, reporting entities and geographical regions to work together on the same application.

## Document management

Most organisations are accustomed to Excel "add-ins" that allow information to be dynamically pulled from underlying reporting applications into an Excel spreadsheet. Many organisations have taken this a stage further, using the cosmetic features within Excel to produce very acceptable management report layouts with graphs as appropriate. But the sticking point is often exposing the same reports directly to the web, distributing them to multiple users, or incorporating the output in more polished printed documents.

Fortunately, a number of new technology options are emerging in the area of document production directly out of consolidation systems. These vary from better integration between common Microsoft Office® tools and underlying consolidation systems through to sophisticated document production and workflow solutions that provide control of document distribution, approvals, version control, and digital signatures.

# How IBM Cognos 8 Controller responds to the challenge of the RSC

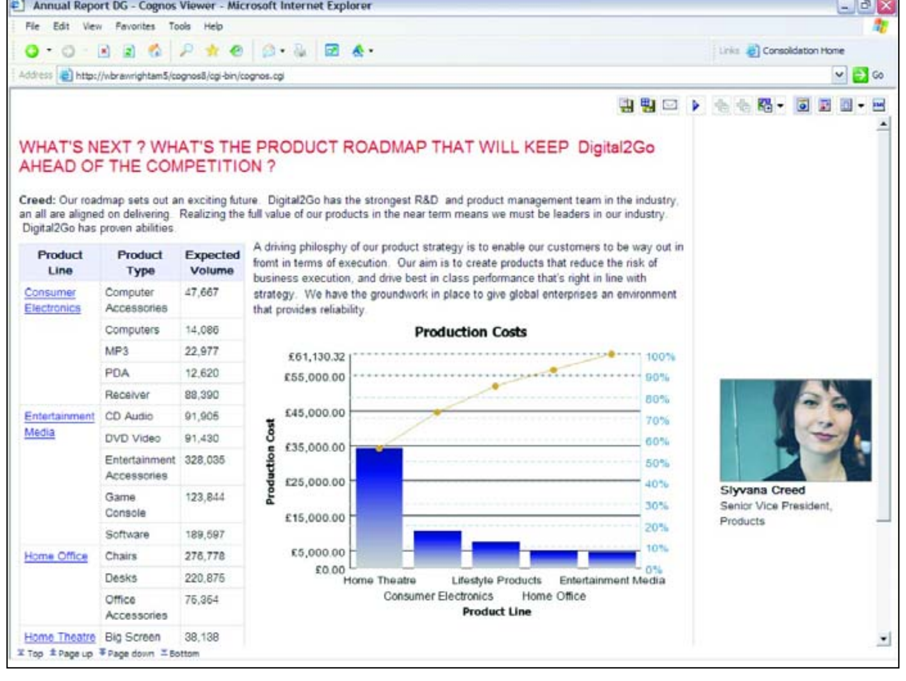
IBM Cognos 8 Controller is a well-respected consolidation engine that provides confidence in the key elements of a group reporting solution. But it is also an integral part of a broader performance management capability that provides the additional functionality necessary to meet the challenges of the entire Reporting Supply Chain.

Data quality improvements are provided by modern ETL tools that allow data to be collected swiftly and accurately under the control of the finance organisation from multiple data sources scattered across the world. These are marshalled into a streamlined and controlled process right up to the delivery of the final consolidation. Fully Web enabled, the application provides visibility of the entire process at the same time, and in this way promotes organisational alignment with the finance organisation.

In the area of document production, the Cognos solution is at the leading edge, providing web authoring and sophisticated hard-copy output using a single tool, namely, IBM Cognos 8 Reporting Studio. As a result, it can be used to fashion a published set of statutory reports and accounts which can be exported as an Adobe PDF file to be published on the web or sent to an external printer.

However, finance professionals know that the Fast Close is not amenable to a quick fix, and technology alone is not the answer to repairing and enhancing a process as convoluted and involved as the monthly, quarterly and year end reporting cycle.

Resolving performance issues in the RSC also requires an objective and expert assessment of procedural aspects of the process that do not rely on technology. Incomplete information about shareholdings and inconsistent accounting policies are examples of "quick fixes", i.e., matters that can be readily resolved without recourse to any technology. But more complex process issues may require a more methodical approach. To this end, IBM Cognos 8 Controller is supported by Best Practice Guides and diagnostic aids, called IBM Cognos Performance Blueprints that provide a framework for identifying gaps, strengths, and opportunities to shorten the close cycle, in detailed areas such as controls and IFRS.



Annual Report DG - Cognos Viewer - Microsoft Internet Explorer

WHAT'S NEXT ? WHAT'S THE PRODUCT ROADMAP THAT WILL KEEP Digital2Go AHEAD OF THE COMPETITION ?

**Creed:** Our roadmap sets out an exciting future. Digital2Go has the strongest R&D and product management team in the industry, an all are aligned on delivering. Realizing the full value of our products in the near term means we must be leaders in our industry. Digital2Go has proven abilities.

| Product Line | Product Type | Expected Volume |
|---|---|---|
| Consumer Electronics | Computer Accessories | 47,667 |
| | Computers | 14,086 |
| | MP3 | 22,977 |
| | PDA | 12,620 |
| | Receiver | 88,390 |
| Entertainment Media | CD Audio | 91,905 |
| | DVD Video | 91,430 |
| | Entertainment Accessories | 328,035 |
| | Game Console | 123,844 |
| | Software | 189,597 |
| Home Office | Chairs | 276,778 |
| | Desks | 220,875 |
| | Office Accessories | 75,354 |
| Home Theatre | Big Screen | 38,138 |

A driving philosphy of our product strategy is to enable our customers to be way out in front in terms of execution. Our aim is to create products that reduce the risk of business execution, and drive best in class performance that's right in line with strategy. We have the groundwork in place to give global enterprises an environment that provides reliability.



*An example of a page from an Annual Report and Accounts generated automatically for Web publication and traditional printing using IBM Cognos 8*

## Summary

Since the turn of the Millennium, multinational businesses around the world have had to contend with a raft of new legislation that has affected the complexity, breadth and timing of statutory accounts. While most companies in Europe have managed to cope with the changes so far, it is clear that improvements to the entire Reporting Supply Chain (RSC) are necessary, if they are to continue to meet these challenging requirements.

One notable trend is that management and statutory reporting are converging and the boards of Europe's largest organisations are required to report their trading position more frequently to investors and other stakeholders. Developments such as these underline the importance of a robust and reliable close process.

Technology improvements could have significant impact on the RSC. The latest ETL tools, for example, are capable of greatly improving data quality while workflow, portals, integrated email and other collaborative tools can improve the visibility of the process for the benefit of the entire finance organisation. Furthermore, emerging technologies around document management, distribution and version control are beginning to make inroads into the efficiency of the final stage of the group reporting process, the so-called Last Mile.

However, while technology holds some of the answers to process improvement, this is by no means the whole story. Embedding best practice generally means using a variety of technical and non-technical approaches based on an objective evaluation of process, people, and technology. Performance Blueprints, which provide a framework for such an assessment, provide a very useful starting point.

***Research***


[1] UKLA "*LIST! Issue No.14*" – December 2006 FSA

[2] BPM International "*Close Cycle Rankings 2006*"

[3] Deloitte "*Clear All Year" Considering New Rules and Practice in Interim Reporting*


### Group Consolidation and Corporate Reporting Performance Blueprint

This Blueprint streamlines the close, consolidate, and reporting process, keeping reporting numbers for European IFRS in one place, in the same format, for faster, more reliable management and regulatory reporting.

## About the Author

Gary Simon, Group Publisher of FSN and Managing Editor of FSN Newswire, is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 23 years experience of implementing management and financial reporting systems. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex financial reporting and information management assignments for global enterprises in the private and public sector. His latest book, "Fast Close to the Max®" is now available from FSN Publishing Limited.

## About the Cognos Innovation Center for Performance Management

The Cognos Innovation Center was established in North America, Europe and Asia Pacific to advance the understanding of proven techniques, technologies, and practices in planning, analytics, performance management, and business intelligence competency. The Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

Staffed globally by experts in planning, technology, and performance management, the Innovation Center partners with more than 3,000 Cognos customers, academics, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.

## About Cognos, an IBM company

Cognos, an IBM company, is the world leader in business intelligence and performance management solutions. It provides world-class enterprise planning and BI software and services to help companies plan, understand and manage financial and operational performance. Cognos was acquired by IBM in February 2008. For more information, visit http://www. cognos. com.

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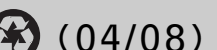


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