

CPM Expert Series<sup>10</sup>  
Financial Consolidation:  
Buy an extra week each  
month.

*A rinedata white paper  
Updated 1<sup>st</sup> September 2009*

## FINANCIAL CONSOLIDATION: BUY AN EXTRA WEEK EACH MONTH

A recent survey by BPM International indicates that the majority of the top 25 best performing finance departments use financial consolidation and reporting applications to manage their corporate reporting cycle. Since this is the first link in a chain that connects the daily activities of the business to the execution of its strategy such an approach has significant benefits. For example, the same survey showed that while the average finance team took around two weeks to close the books, top performing finance teams completed it in just one week or less.

### The spreadsheet solution versus enterprise resource planning

Given this fact, it's odd to note that many enterprises continue to tackle the quarterly reporting cycle using their enterprise resource planning platform (ERP) or with a spreadsheet solution. As we shall see, each of these approaches is problematic. In a spreadsheet solution, collecting statements from operating units requires the preparation of a data collection pack which must be mailed out to remote operations, something that often results in version control issues. Once end users have the correct submission pack, numbers need to be keyed into it from the local ledger, a procedure that is not only time consuming, but error prone. Finally, when the submissions have been returned to corporate finance, they are consolidated using complex spreadsheet macros. Putting aside

for one moment the numerous errors that can sneak into such macros, the development and maintenance of them often falls to 'technical gurus' within the corporate finance team. Making this key step in the corporate reporting cycle dependant on the expertise of one or two individuals is a risky strategy.

At first glance, ERPs may seem to offer a better solution from the point of view of data capture. After all they are by definition enterprise wide and provide a reliable, auditable financial platform. However, unless all operating units share the same ledger system the ERP will need to be loaded with submission data from remote operations. This may rely, yet again, on error-prone re-keying of data or upon collection of submission data files. While it's true that such files offer a more reliable route to data collection, often there are version control issues, the files can become corrupted or there are problems mapping entities in the source ledger to the target ledger.

### It's more than just adding up

However, data collection is merely the first part of the reporting cycle. Just as challenging is the preparation of the statutory and management reporting packs. From a statutory reporting perspective, these days it is not uncommon for organisations to present their numbers using multiple recognition methods and reporting formats such as FASB, UK GAAP, IFRS, and IAS. Moreover, this list continues to evolve to include emerging standards such as extensible business reporting language (XBRL). That said, statutory reporting is really only half the story. In order to run the business on a day to day basis

executives rely on internal management reports. These can come in all shapes and sizes and will go into more detail than the statutory reporting pack. Typical management reports might focus upon aspects of compensation or analyse sales volumes by multiple regional and product perspectives.

Attempting to meet these multiple reporting requirements using spreadsheets is fraught with problems. From a statutory reporting perspective managing complex accounting structures like minority interests, intercompany eliminations and adjustments is time-consuming, inefficient and error prone in a spreadsheet. Similarly, for a management reporting most spreadsheets offer little more than basic pivot tables for analysis and since each user owns their own copy of the data there are constant concerns about who has the "real numbers". The sad fact is that running the corporate reporting cycle with a spreadsheet solution is like trying to win the Grand Prix in a flat bed truck.

In a similar manner, although most ERPs provide excellent ledger facilities they are very much focused on managing the flow of daily business transactions. This means that they tend not to be good at restating information into different formats, coping with different methods of revenue recognition or providing a detailed and multidimensional view of the business. Moreover, the ERP is typically the domain of the IT department. As a consequence, the finance team must use IT resources to alter hierarchies, build reports or develop analytics. This lack of direct ownership combined with poor overall flexibility mean that the ERP is rarely the most suitable

technology for the preparation of the statutory or management reporting packs.

### Financial consolidation and reporting applications

To avoid these issues best practice companies use third party financial consolidation and management reporting applications. These purpose built software solutions form the cornerstone of the corporate reporting cycle and provide the following features:

- Advanced web-enabled data collection. This allows users in operating units to prepare and initiate submissions from their ledger systems. They also enable automated mapping and reconciliation of entities from source ledgers, increasing reliability and speed and reducing the data collation workload on corporate finance team.
- Automatic handling of complex accounting structures and concepts such as minority interest relationships, inter/intracompany eliminations and journaling. These enable the system to be rapidly deployed as well as ensuring that the it models the business accurately.
- Support for multiple recognition standards and reporting formats such as IAS, UKGAAP, FASB, IFRS and XBRL. These greatly reduce the amount of time the finance team have to spend managing conversion and restatement.
- English-like business modelling rules to simplify deployment and maintenance of the system and allow the application to be owned by finance.

- Support for a multidimensional view of the business. This enables users to slice and dice data and drill-down into the numbers to gain real insight from the reporting process.
- Advanced analytics that allow users in corporate finance and operating units to view their data graphically in innovative ways, enabling them to determine the fundamental drivers of business.
- A full audit trail. Given today's regulatory requirements the application should enable auditors to trace the full path of every adjustment.

### Transform the reporting into a competitive advantage

Research has shown that a rapid quarterly close is valued as a sign of good governance by investors. Consequently, companies with the ability to rapidly meet their reporting requirements have higher valuations than their competitors on global bourses, but the benefits of implementing a financial consolidation and management reporting application do not end there. In addition to a faster month end process, they provide more detailed insight into the underlying drivers of the business while ensuring that the numbers are rock solid and 100% compliant. As a result senior executives have more time to evaluate problems, spot opportunities and determine the most appropriate course of action, making the reporting cycle a key aspect of competitive performance.

*"Organisations must deal with ever shortening reporting deadlines, changing accounting standards and increasing complex compliance regulations. For a finance function to add significant value to an organisation it is vital that the financial reporting process is completed accurately and expeditiously via a robust, controlled process. Organisations that close with the support of a robust financial consolidation system often reap the benefits of quicker access to information and value-added analysis, improved control systems and faster reporting and statutory compliance. Attempting to report via disparate systems or indeed, via Excel, represents an unnecessary and short-sighted risk."*

Ian Baxter  
Group Financial Controller

*"The Morgan Crucible Company Plc is a diverse company, both in terms of geographical spread and product range. Whilst a wide range of ERP systems allow the businesses to operate in a manner that compliments their individual requirements, one centralised consolidation system allows us to be one of the earliest reports in the sector, confident in the knowledge that there is a clear audit trail back to the source data that underpins our reported numbers."*

Stuart Cox  
Group Financial Controller  
The Morgan Crucible Company Plc



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