



CPM Expert Series⁵
Financial Governance:
Resistance is futile!

FINANCIAL GOVERNANCE: RESISTANCE IS FUTILE!

Financial governance may still be a controversial subject in some boardrooms, but in the wake of recent accounting scandals and the affect that the financial crisis continues to have on the global business community it's an aspect of modern corporate life that is here to stay. Indeed, the impact of this type of oversight has altered the role of the Chief Finance Officer dramatically in the last ten years as finance teams come under growing internal and external pressure to prevent financial irregularities within the enterprise as well as increasing the transparency and reliability of financial processes.

More controls vs. less time and resources: the unstoppable force meets immovable object?

The impact of governance on the role of the finance function can be seen as an increased focus on four related areas: the delivery of verifiable financial information, the development and maintenance of efficient and reliable business planning and reporting processes, the management of regulatory compliance and the deployment and regulation of comprehensive financial control processes. In many cases this translates into two potentially conflicting pressures. Firstly, there is the need to streamline the financial reporting and planning processes as exemplified by a rapid financial close and efficient and accurate budgets and forecasts. Running somewhat counter to this is the requirement to maintain a financial

infrastructure that ensures accuracy and auditability, one that incorporates multiple checks and balances to trace the source and history of each number. It goes without saying that the deployment of such processes has the potential to increase corporate bureaucracy and slow the business decision making cycle.

Spreadsheets and ERPs: the undynamic duo

It's no wonder then that in the initial scramble to comply with regulations such as Sarbanes-Oxley and its international counterparts many companies spent large amounts of money on automating manual processes. Using a combination of spreadsheets, Enterprise Resource Planning (ERP) systems and manual labour they achieved a hurried and minimal level of compliance. Rather than being a function of best-practice methodologies these technologies were adopted simply because they were convenient. Spreadsheets are viewed as "low-cost", easy to set up and do not require any support from the information technology (IT) department. Similarly, the ERP is already deployed throughout the organisation and is considered as the definitive corporate financial data store.

Unfortunately, this patchwork of technologies often causes as many problems as it resolves. For example, spreadsheets are excellent personal productivity tools, but without resorting to programming they lack the process control features and audit functions that serious financial governance demands. Indeed, it could be said that excessive reliance upon spreadsheets is likely to encourage the very practices that compliance procedures are

intended to eliminate, to say nothing of the hidden manual labour costs and data integrity issues that spreadsheets incur. Additionally, ERPs do not provide facilities to handle group consolidation or intercompany reporting in enterprises where there are a mixture of ledger systems. Furthermore, ERPs typically lack the ability to restate figures using different reporting formats and recognition methods.

Moreover, this piecemeal approach does little to resolve the underlying challenges that many finance functions face. Firstly, despite being interrelated each financial process is managed in isolation with its own technology. Secondly, despite the spiralling complexity of reporting requirements, finance teams have less time than ever to compile information from the multiple sources required for the financial close. As a consequence, validation becomes a costly luxury and data integrity is low. Thirdly, a lack of rigorous process control and workflow tracking mean that the history of figures cannot be verified accurately. As a result, many financial processes incorporate a high risk of data integrity errors combined with poor transparency and historical tracking.

Financial governance applications

One way that best practice organisations resolve these multiple headaches is by the adoption of a specifically designed integrated technology platform. One that not only addresses the unique challenges of corporate governance, but which also comprises features that aid the CFO in the broader challenge of monitoring enterprise

performance. Such an application typically provides the following features:

- **Financial Consolidation.** The ability to collate, consolidate and then report upon core performance data is a key component of the financial governance process. Consolidation solutions must include double entry logic, journal management, full auditability, management of multiple currencies and complex group accounting structures. The consolidation process should also allow comprehensive reporting and analysis facilities for the preparation of the statutory and management reporting packs as well as handling corporate structures that comprise more than one ERP.
- **Full integration with budgeting, planning and strategic management processes.** In order to provide timely and efficient support for corporate decision making the application should provide a centralised, integrated platform for the consolidation, budgeting and forecasting processes. It should also provide a rich analytical environment for comparative reporting.
- **Intercompany transactions.** The application should enable tracking of intercompany activity at the level of individual transaction as well as allowing automatic transaction mapping to occur between business units. It should also provide a comprehensive approvals and rejections process and associated administrative reports.

- **Access and role management.** This allows the definition and management of individual users or user groups and maps them to roles, responsibilities and steps within the business processes.
- **Risk management.** The application should enable managers to assess a given process and identify and document the risks associated with it. It should also allow the definition and documentation of the appropriate control functions and provide an outline of corrective action where necessary, preferably through the use of a risk control and assessment matrix.
- **Process control.** The application should provide extensive control facilities that allow management and tracking of each step of a financial process. The application should provide sufficient detail to allow users to assess the effectiveness of individual process steps and provide detailed historical tracking of who did what and when.

Financial Governance and performance

Integrated financial governance applications resolve the pressure to provide timely and reliable financial information and guarantee its validity and compliance. They do this by ensuring that the financial planning and reporting processes are managed in an integrated manner and deliver them within the context of a secure process control environment. As a consequence the finance team can monitor performance and be assured that each financial process is rigorously policed.

Moreover, companies that utilise a centralised solution to meet their financial governance needs have a clear business advantage over their competitors. Since each financial process is managed in a more integrated and efficient way, the cost impact of meeting business regulations is reduced. Similarly, as new national and international regulations emerge the flexibility and reliability of the application mean that the organisation is better placed to meet them. Ultimately, this means that the management team are able to spend more time focused on improving business performance safe in the knowledge that their decisions are based on figures that are not only accurate, but meet the highest standards of regulatory control.

“After using a legacy consolidation tool for several years, the implementation of a new CPM solution has not only led to cost savings resulting from reduced man-hours and effort during monthly/annual reporting periods but also improved reliability and consistency of reported information as well.”

*Andrew Bannister
Group Finance Director
Barloworld Holdings Plc*



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