FSN White Paper

"Supporting the Fast Close"

An examination of the 'hidden' applications that are essential to streamlining the close process and improving finance organisation productivity.

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CONTENTS

Introduction- the drivers of financial reporting:

Group financial reporting is a dynamic and challenging environment. A succession of compliance and regulatory changes coupled with significant advances in global financial reporting standards have created a reporting landscape that is in a constant state of flux, placing heavy demands on already overstretched group finance departments. However there are now signs that the pace of change is accelerating as financial reporting enters a new era characterised by the digitisation of company information together with new methods of publishing and end-user deployment.

For those companies that grasp the nettle, the 'democratisation' of corporate information offers the opportunity to increase brand strength and company reputation – ultimately leading to enhanced market value. Good governance, timely and reliable reporting are frequently regarded as a proxy for strong management and a tightly run ship. But securing a better market standing crucially depends on robust processes capable of underpinning accurate and dependable reporting. So what are the key drivers of group financial reporting?

Regulation & Compliance:

The impact of regulation and compliance around the globe has been growing, in the main with one common purpose in mind, which is to make large and medium size enterprises more accountable to their shareholders and increasingly, a wide range of other stakeholders and readers of financial statements. Companies (especially listed entities) are now regarded as having broader responsibilities than making adequate returns for shareholders. Enterprises are considered to have a duty to manage their environmental impacts, the way that they interact with the communities around them as well as their employees, suppliers and customers. All of this has led to the burgeoning growth of business reviews, environmental reporting and voluntary corporate social reporting alongside the traditional statutory filings.

Accounting standards:

Not only has there been a move towards greater accountability in company reporting but also towards harmonisation of what is reported in different geographies around the globe. The introduction of IFRS (International Financial Reporting Standards) has been a major undertaking and has been widely adopted as the mandatory reporting standard for most industrialised nations around the world, as well as many developing economies. The introduction of IFRS in 2005 was a hugely ambitious project and in large measure has been very successful. But many international businesses still have to manage simultaneously local GAAP accounting with IFRS and, although well down the path to full convergence, the United States is in a transitional phase. Harmonisation of reporting should lead to considerable long term benefits between trading nations but there is undoubtedly a price to pay in coping with the short term

complexities that accompany such a significant change to the basis of accounting and measurement.

Digitisation:

Accompanying the desire to provide investors and other interested parties with more information has been a parallel initiative to increase the frequency of reporting, accelerate the delivery of information after each accounting period and to make the information more accessible so that, for example, investors and others can selectively download key parts of the financial statements for review and to support investment decisions. This is the main thrust behind the digitisation of financial reporting and the move to XBRL (Extensible Business Reporting Language) although regulators stand to benefit greatly from electronic filing as well.

In the first wave of on-line delivery of financial statements, companies published their financial results in Adobe PDF format on the web, but XBRL ushers in the possibility of 'interactive' data that can be furnished on demand at the end users' request.

The Fast Close:

The group financial reporting process together with the associated applications and people who 'own' it are central to achieving accurate and compliant disclosures in a timely fashion. But an efficient fast close also depends on a large number of sub-processes and tasks around the central consolidation to work effectively. In this white paper we explore these additional processes and demonstrate that against the backcloth of ever changing information and regulatory needs, dependable financial reporting requires a broader vision of the reporting supply chain than the strict consolidation process.

How well has business coped with the new demands?

In a period of significant change reporting systems and specifically group consolidation systems appear to have stood up reasonably well to the growth in information requirements and the introduction of IFRS. But timely delivery of information remains an issue and somewhat masked by external benchmarks that concentrate on the elapsed days to report after the year end rather than the man-effort involved. What remains unclear is just how many finance professionals are burning the midnight oil in order to produce their financial results within required management or statutory deadlines.

There is no doubt that the popular consolidation 'engines' produce a competent consolidation but the delivery challenge now vests in all of the surrounding close processes rather than the strict 'number crunching' which accounts for only a small proportion of the time consumed in the end-to-end reporting supply chain. Compliance, reconciliations, document production and

electronic filing have added considerably to the burden on the group finance department yet these elements have not been well served by ageing consolidation systems which, with little re-development of their core capability, have failed to keep up with the pace of change.

Rapid consolidation of the largest software vendors in the industry has not helped. Internally focussed and distracted by the demands of large scale acquisitions many are struggling to develop coherent migration and development paths for their overlapping product portfolios. By the same token the very nature of sourcing software solutions from different 'stables' makes it more difficult to create seamless integration between the different components and present a common user interface.

As a result, the ubiquitous spreadsheet is often used to pave over the cracks. The familiarity of the Excel interface to finance professionals around the world certainly has its benefits, but it comes at a price since the functionality of a spreadsheet is no match for specialised applications, for example, the;

- inability to create a multidimensional perspective, critical for performance and segmental reporting, without cumbersome pivot tables.

- lack of specialised functionality and financial intelligence that help to preserve financial integrity, for example, in data collection templates.

- absence of data integration tools and quality management tools that permit data to be 'harvested' in a controlled way from underlying operational systems such as ERP systems.

- difficulty of consolidating templates from different reporting entities based on individually captured spreadsheets.

- inability to report flexibly across business units and other dimensions.

- complexity of formula building and maintaining a model once developed.

- Lack of reporting capability, commentary and drill down.

These limitations strike at the heart of the problem and account for the rise of a number of specialist vendors who provide complementary products which provide support for the group reporting process whist simultaneously reducing reliance on the troublesome spreadsheet.

Responding to the challenge

The efficiency of the close process in the 21st Century relies on a number of stretching needs which are beyond the reach of traditional approaches to group reporting based on ERP systems, consolidation systems and a patchwork quilt of spreadsheets, for example;

- The need to provide end-to-end visibility of the entire group reporting supply chain for all finance personnel involved in the reporting process.

- The requirement to deeply embed data quality management, reconciliation, control and compliance procedures in financial reporting to provide assurance that reported results are underpinned by working and effective controls.

- The requirement to implement user defined workflows that streamline and standardise informal but regular processes around the close and which have to be managed in different time zones.

- The ability to hold narrative, commentary and exchange instant messages to help iron out problems as they occur and to keep all finance professionals closely coupled with the processes under their charge.

- High quality document production, management and version control to hasten the controlled delivery of information in a variety of web-based and traditional formats.

In order to meet these pressing needs a parallel industry is emerging to provide complementary applications in support of core financial consolidation processes. Architecturally, this new capability can be viewed as a "Financial Control Ring" with traditional consolidation systems at the centre, surrounded by a ring of interleaved applications offering enhanced control and productivity whilst covering essential but often neglected applications around the outside. So what are the applications that matter?

Balance sheet reconciliations:

Ask an auditor where one is likely to find problems during the course of an internal or external audit and the answer is likely to be "un-reconciled accounts". The task of reconciliation may be at the unglamorous end of management processes but few companies can afford to ignore the perils of un-reconciled accounts.

The issue is even more critical for those organisations caught by Sarbanes Oxley (SOX) legislation or in heavily regulated industries, such as financial services and the professions. Nowadays, non-compliance can lead to hefty fines and reputational damage.

Naturally, not all general ledger accounts need reconciling on a regular basis and clearly any regular programme of review should ideally be risk based in order to optimise the use of scarce accounting resource. But certain accounts are prone to error and can give rise to material accounting adjustments if left un-reviewed for any length of time. The problem isn't just confined to general ledger accounts with high transaction volumes such as bank accounts and other forms of control account. Inter-company accounts and depreciation accounts can be just as risky, particularly when magnified on a divisional, regional or group-wide basis.

But for many organisations the sheer scale of the task is off-putting and the administrative effort is burdensome. Identifying the accounts for review and setting up a rolling programme of reconciliation in a matrix based organisation is time consuming. Furthermore, keeping an eye on progress usually relies on manually intensive, spreadsheet-bound processes. The result is that many organisations simply neglect important reconciliations hoping that other management controls will compensate.

However recent developments in technology mean it is now possible to take a more systematic, controlled and complete approach to the task of reconciling general ledger accounts. Typically a new breed of applications allows high risk accounts to be identified and the maintenance of policies, procedures and supporting documents in one place. Information must flow freely, move rapidly, contain audit trails and be tightly integrated because of the reliance upon the reconciliation as the most important internal control over the quality of and confidence in the financial statements.

With comprehensive reporting, alerting and workflow, these systems allow companies to take control of reconciliations, improve productivity whilst reducing the risk of miss-statements, turning reconciliations from a haphazard management effort into a dependable process.

MeadWestvaco automates 63 percent of its general ledger account reconciliations

MeadWestvaco is a leading manufacturer of packaging products to the healthcare, food, beverage, media and entertainment, and home and garden industries. The company's individual businesses specialise in the consumer and office products, specialty chemicals, community development, and land management fields.

To manage the 20,000 individual general ledger accounts in its North America business, MeadWestvaco used a centralised corporate accounting department running SAP's financials software. The accounting staff manually reconciled any discrepancies between ledgers and sub-ledgers. Account reconciliation was paper-based, slow, error prone, and inefficient.

To automate the reconciliation process, the company first installed an in-house tool that used workflows from IBM's Lotus software. However, this lacked reporting capabilities. The company next implemented a third-party account reconciliation tool, but found the reporting capabilities still inadequate and relied onExcel spreadsheets.

After considering several vendors, MeadWestvaco selected BlackLine Systems' Account reconciliation module. BlackLine has an auto-certification capability that applies auditor approved rules to automatically reconcile general ledger and sub-ledger entries so they do not need to be reviewed manually. The company is now capable of reconciling 63 percent of its accounts automatically which speeds the closing process and frees up staff for more important work. Out-of-box dashboards are used for reporting and monitoring the progress of reconciliations. Managers can get real time finance information and executives can ensure their groups are completing reconciliations quickly enough to meet deadlines.

By retiring the existing legacy tool, MeadWestvaco will save $14,400 per year in software maintenance costs. It will also reduce its internal IT support costs by $3,400 per year. The average time for a reconciliation is now five minutes, saving about three minutes per reconciliation. The system also saves about three hours per month for auditing staff. It has accelerated the processes of reviewing the 19,000 annual accounts, saving thousands of dollars in productivity.

The project resulted in annual ROI (measured over 3 years) of 495% and a payback of 2 months.

Transaction matching:

For businesses with very high transaction volumes, i.e. in excess of hundreds of thousands to tens of millions of transactions per day the management of reconciliations, for example bank

reconciliations, can become a major burden. With volumes as high as these any delays in reconciling transactions can quickly lead to unmanageable backlogs, control failures and economic loss. In the face of increasing regulatory scrutiny, stringent auditing standards and Sarbanes Oxley, few companies can afford to slip up.

But it is not simply a matter of compliance. Managing reconciliations more tightly and efficiently makes good business sense. Best practice controls and workflow reduce the risk of error, improve recoverability of old balances, and through appropriate automation reduce the pressure on hard pressed finance functions – liberating more time for value adding activities and accelerating the period close process.

In broad terms the technology in this area works by managing multiple data sources and setting matching rules to compare and resolve matching transactions or report exceptions. Unmatched transactions are highlighted and under workflow control are devolved to accounts personnel for further investigation.   The whole management process is usually enveloped in a reporting environment that allows progress to be traced and ensure that mismatches are resolved and correcting entries posted.

Managing and controlling interfaces:

Although still relatively new, data integrity management software for financial processes has made a profound impact on the Fast Close process. It manages the controls around data collection, mapping and uploading to a group consolidation system and provides visibility of transactions bi-directionally from source operational systems, such as ERP systems, to final consolidation and visa versa.

An important feature of integrity management tools is that, even where there are quite complex interfaces between local operational and group systems, the process can be managed from within the finance function. This means that where interfaces have unexpectedly changed, mapping tables (which describe the relationships between data either side of the interface) can be adjusted 'on the fly' and, where necessary, correcting entries can be applied to local ERP systems or the Group consolidation system as needed, without relying on the IT function.

Data integrity management software works by drawing together all of the automatic interfaces into one contiguous system and by setting appropriate controls and validations locally for all reporting entities is able to trap errors earlier in the process and raise the quality of data submitted to the centre for consolidation.

Statutory filings and financial reports:

Historically, high quality document production and the generation of statutory filings such as 10K's and 10Q's sits uneasily with group reporting applications. The scope for error as structured and unstructured information is transcribed from reporting system to PowerPoint or Word is significant. A further 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 final stages of document production.

The group finance department has to ensure that late consolidation adjustments, or amendments from external auditors, are not only reflected appropriately in the group reporting system but also flow through to final documents (PDFs) on the web and final galley proofs (standard films produced by external printers) for manual checking. The amendments could be as simple as the correction of a typographical error or could involve the intricate adjustment of a detailed note buried deep within the statutory accounts. Failure to spot a mistake could be deeply embarrassing and damage the company's reputation.

So what can be done to improve the process? Fortunately, a number of new technology options are emerging in the area of document production. These vary from better integration between common Microsoft Office tools and underlying consolidation or operational systems through to sophisticated document production and workflow solutions which allow responsibility for different parts of documents to be assigned and incorporate electronic approvals and audit trails. The result is a streamlined process that improves data accuracy and enhances productivity.

Organisational impacts:

In common with many other business processes, the typical group finance organisation relies on a hotchpotch of informal communication methods, such as email, fax and telephone calls to prop up the close process when things start to go wrong. Unreconciled items, misclassifications, posting errors and queries over inter-company balances are often resolved by lengthy telephone calls and email exchanges. Unfortunately, commonplace productivity tools such as Microsoft Outlook sit outside of the formal reporting process, placing the finance function at a disadvantage.

Worse still the finance organisation is effectively confined to operational silos where each reporting unit in the same organisation is cut off from the other and the key processes in which they are stakeholders. The 'disconnect' between the finance organisation and the process often makes it impracticable to share best practice and to respond efficiently to change.

However, the advent of task management and workflow technologies has the potential to transform the Fast Close process.

Task management and collaborative technologies:

Collaborative technologies such as task management which provide email integration, routing of approvals, rejections, exceptions and alerts help to remove organisational and geographic barriers in the Fast Close process. Structured (transactional information) and unstructured (commentary) such as the way to resolve a reconciliation problem can flow unimpeded along the reporting supply chain so that authorised users have visibility of both the information and the supporting process.

But collaboration is not merely confined to the communication of structured and unstructured information – important as this is. Collaboration also extends to the management of the process itself, such as the prior approval of a change to the chart of accounts, the digital signature on a compliance statement or the rejection of a management commentary and explanation of variances. Informality around these activities frequently reduces the dependability and speed of the Fast Close process, so it is important to support all of these sub-processes with appropriate technology. So what is the ideal technology platform?

Technical architecture:

One of the biggest impediments to the smooth running of the Reporting Supply Chain is that many of these tasks rely on a range of unrelated technical solutions. For example, a policy change may be communicated by an email or conference call, an approval of an account change may be made on a manual form, an explanation of a variance may be buried in a Word document, a reconciliation difference may be in a spreadsheet and a commentary on a performance measure confined to a PowerPoint presentation. Individual finance professionals may have to launch five different applications and trawl through several manual systems to keep their finger on the pulse.

By contrast, combining the applications into a single cohesive environment (or application framework) means that data can be managed consistently and individuals do not have to waste time searching for information, opening and closing different applications with different access rights and passwords. The ability to look across the process is not only time saving but provides a more fulfilling and enjoyable user experience.

An effective application framework should cover all of the processes in the '"Financial Control Ring"' mentioned earlier – i.e. a single technical platform with common tools and user interfaces and crucially with shared access to all of the data within these vital applications. This approach minimises training while promoting collaboration and productivity. More importantly it eliminates the data duplication and attendant errors which pervades the hotch-potch of spreadsheets and informal processes on which many companies currently rely.

Not all applications require an on-premises solution. Modern web deployment makes hosted solutions viable which is helpful in evaluating solutions or moving completely to an outsourced mode of working, for example with third party providers or within shared services centres.

What about the ROI?

Depending on legacy systems, data volumes and mix of applications deployed, the annual return on investment can be very substantial (anywhere from 200 to 500 percent) with payback measured in weeks and months rather than years. The reason is the modest costs of deployment versus the massive costs involved in maintaining spreadsheets, manual systems and other workarounds. In many cases costly standalone solutions can be dispensed with altogether. Indirectly organisations typically benefit from substantial productivity gains because of, say, automated reconciliations and workflow as well as faster close processes, tighter control and lower risk supported by more dependable compliance procedures.

Automating General Ledger reconciliations generates massive savings at Cox Communications

Cox Communications is one of the largest telecommunications providers in the United States, with 22,000 employees servicing 6 million residential customers. The company specialises in broadband and entertainment services, providing advanced digital video, high-speed Internet, and telephony products over its own nationwide IP network.

Cox has 18 different field locations nationwide that use an Oracle E-Business Suite 11i financials and a PeopleSoft payroll ERP backbone. Each of these field sites developed their own processes and formulas to perform balance sheet account reconciliations for the company's 30,000 accounts.

The account reconciliation process required manual extractions of data from Cox's different applications, such as accounts payable, accounts receivable, and payroll, and keying transactions into Microsoft Excel spreadsheets. The process was slow, error-prone, and lacked consistency. Often reconciliations were performed without proper documentation or with the documentation kept separately. Best practices require monthly reconciliations, but Cox was unable to make that official policy given the cumbersome manual processes in place, as well as the need for more advanced staff software skills. Some reconciliations with high-transaction volume required days of time-consuming data manipulation and analysis. To complete the monthly financial close required the employees to work overtime, which they found challenging, resulting in high levels of turnover. Potentially, the situation also made it more difficult to comply with financial reporting regulations such as Sarbanes-Oxley.

In November 2005, the company selected BlackLine's Account Reconciliation module. BlackLine had the rich features that Cox needed, along with an intuitive user interface that would boost

end user adoption and help generate significant cost savings. Direct benefits quantified included reduced consulting and contractor fees and paper and printing costs. Also included were the savings Cox would receive when its current bank matching application is retired in the third year, which is costing $100,000 in maintenance and support. Indirect benefits included greater productivity for accounting and audit and IT staff, faster financial close, and faster financial information access.

The project resulted in annual ROI (measured over 3 years) of 227% and a payback of 0.54 years

Summary

Recent years have seen unprecedented changes in the financial reporting landscape that have led to unfettered growth in disclosure requirements, increasing complexity and accelerated timescales for reporting.

Traditional consolidation engines have coped well with some of these changes but a period of underinvestment exacerbated by rapid consolidation of the major software suppliers has left many of the close processes that surround the production of consolidated management and statutory accounts under-served by technology solutions. As a result many companies remain heavily reliant on spreadsheets and a hotch potch of other work-around solutions that impede the close process and increase the risk of errors and misstatements.

In recent years a new industry has grown up around the close process to provide the supporting applications that the ERP and consolidation vendors have been unable or unwilling to provide. These include support for reconciliations, transaction management, document production, data integrity, task management and workflow. Built within a single application framework and utilising a common technology platform these solutions which share data and provide a single user interface act as a '"Financial Control Ring"' surrounding and enhancing the core consolidation system with essential capability designed to accelerate and streamline the close process.

So successful have these technologies been that implementations are characterised by substantial ROI and project payback measured in months rather than years.

About BlackLine

Founded in 2001, BlackLine Systems was the first to develop and offer a commercially available Balance Sheet Account Reconciliation solution. An experienced provider of software to companies from the Fortune 100 to beyond the Fortune 1,000, BlackLine provides quick-to-implement, scalable and easy-to-use applications that automate the entire financial close process to help improve financial controls for companies of all sizes. BlackLine software applications complement and are an integral component of existing Enterprise Performance Management (EPM), Governance Risk and Compliance (GRC) and Enterprise Resource Planning (ERP) systems.

BlackLine offers clients its enterprise-class software in an easy to implement OnDemand platform. With a proven track record and a commitment to customer success, BlackLine seeks to reduce the effort the financial close places on the CFO. For more information, please visit www.blackline.com.

About FSN

FSN Publishing Limited is an independent research, news and publishing organisation catering for the needs of the finance function. The report is written by Gary Simon, Group Publisher of FSN and Managing Editor of FSN Newswire. He 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 information management assignments for global enterprises in the private and public sector. His book, "Fast Close to the MAX" was published in 2008.

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