



# Best Practices

Read about some best practices on reporting and consolidation and performance management.

The CFO's organization must be the guardians of the management reporting and consolidation process. This is the natural choice as the CFO's team is responsible for and has long experience of compiling and creating financial reports. They also own and control most of the data and processes that form the foundation for performance management.

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## Data Quality and Standardization

Data standardization impacts the speed and efficiency of consolidation. Best practice organizations standardize the sets of data across each reporting month reflecting management reporting requirements.

Some of our fast close companies have adopted standard chart of accounts at local levels. However, this requires more or less a single ERP system throughout the enterprise and homogenous operations. Studies indicate that US companies show a higher adoption rate of a global chart of accounts than European companies.

The other alternative used by fast close companies is to agree on a high level chart of accounts shared throughout the group and implemented in a financial consolidation system. Most of these high performing companies adhere to IFRS or US GAAP as their group reporting standard. They have consolidation systems that support both local and group GAAP with dimensions for the local and group close as well as the adjustments needed to for the complete audit trail. Disparate data is imported to the group chart of accounts with mapping.

The financial consolidation system should allow for the finance team to easily add new accounts, entities, dimensions, accounts, reports, scenarios and what if analysis. The system will act as the financial data warehouse for the enterprise – or at least, from an IT perspective, an ETL (extract transform and load) or AII (application integration interface) tool. The data integrity and quality will become high, will be reviewed, reconciled, adjusted and approved by the CFOs team, living and knowing the data.

For management analysis of income statement, balance sheet or cash flow by business area, customer or product the transactions in the ERP system need to be posted by any of these operative dimensions. In this case the group chart of accounts needs to be prepared for this analysis.

Best practice companies employ less staff in the consolidation and reporting functions on average and significantly have been more likely to reduce the number of staff in the function over the last few years. This is verified in a recent study conducted by PWC. The staff in the fastest companies spends less time correcting errors, chasing late work, producing reports, re-keying data, and posting journals. Instead, they spend more time analyzing data.

It is clear that a great benefit of faster close is reduced low value-added activities allowing more time on analysis. Companies need to focus on measuring the quality of their reporting process, structuring, standardizing and automating these processes. They need to increase time spent on coaching and training the subsidiary finance staff.

#### Process improvement – increased efficiency

The data entry, closing schedule and procedures should be managed through a well communicated and documented on-line workflow and reporting manual. This should also be the case for reporting, analysis and dissemination, with a clear mutual agreement on data and definitions.

Many enterprises are still spending a great deal of time with low value added activities in the close process. Key reasons for delays in the reporting process are late delivery, data with errors and inter company reconciliation. These enterprises need to focus on quality, standardize these processes and data sets and increase time spent on coaching and training subsidiary finance staff.

With a centralized reporting environment, all subsidiaries report directly into the central database over the web, providing real-time information. This will improve efficiency and effectiveness in data collection by avoiding error prone work of sending files back and forth via e-mail.

Standardization of local ERP systems and chart of accounts will reduce time spent on converting local account codes to the group's chart of ac-

counts and time spent on updating different mapping tables.

From a process point of view there is also a centralized approach to consolidation that many follow. It seems that there is a correlation between fast close and a centralized consolidation. Furthermore, the number of companies using this approach is increasing. This is probably not a matter of cutting lead times only, but a cultural move towards centralized management and a greater transparency at corporate with visibility across and all the way down in the company hierarchy.

The other approach – decentralized performance management – is more often found in Europe especially in countries like Sweden and Switzerland. It calls for system support for a local parallel view on how for instance a business area wants to monitor and follow their performance.

Timing and discipline are two key factors for a fast close. The reporting sites need to report on time and with a minimum of errors. Reconciliation of inter company transactions is normally the most time consuming activity. Performing hard close monthly will get the subsidiaries used to the reporting principles and get practiced in reconciliation and correcting errors without having head office to intervene.

Head office and group accounting need to have automatic tools for viewing and monitoring the status of the reporting process. They need real-time information on who has reported, which companies are still missing or having reconciliation errors.

### Data Capture

Data capture should be designed to be as fast, reliable, safe and automatic as possible. Automatic import from local systems without any manual steps will speed up the process and make the reported numbers consistent from one reporting period to the next. Manual entries are sometimes required, but should be kept at a minimum.

Splitting the reporting period into different submissions will make the reconciliations easier and more efficient. Many best practice companies report and reconcile for example inter-company transactions on the first submission, report full income statement and balance sheet on the second and all the specification and notes later in a third submission.

Reporting entities should not only be trained, they also need to buy into the reporting process and be aligned around metrics and definitions. They need to be motivated and fed back with information such as benchmark reporting and key ratios.

### Consolidation

Most standard and recurring closing adjustments like investments elimination, shareholders funds elimination, dividends, minority interests, calculations, equity account for associated companies' profit and loss,

should be automated with minimal manual and reconciliation entries required, completed within 0-2 days with automated production of regulatory reports and complete audit trail.

The number of iterations in the consolidation process should be kept at a minimum. The more standard the reporting and consolidation process and the more frequently reported, the better the quality of data produced. Fast closers perform hard closes every month to cut lead times for the quarterly reports filed to the stock exchanges.

For management consolidation, the quick analysis for verifying the close should be made by the business controllers at the divisional level who know their figures. The analysis can then continue into insight in the business performance.

Today currency translation takes place at corporate, very few make it the responsibility of local reporting entities. Best practice enterprises report their consolidated results in multiple currencies, Euro, US dollar and a local currency if available.

#### Reporting and analysis – combining performance and financial needs

Once the period is reported and consolidated with “good enough” reconciliations and eliminations, data is released for further analysis by business controllers and others. This can be done by staging data into a data mart or data warehouse, publishing predefined reports on an intranet or web portal. Avoiding a premature release of the numbers will ensure all analysis is done on the same basis, meaning avoiding discussions such as which result is the most correct one. The group accountants and financial controller on their fine tune the statutory consolidated results with notes and final adjustments.

Management and statutory consolidated reports include:

- Financial data such as consolidated income statement, balance sheet and cash flow by group, company as well as by business area, customer, product or any other management dimension.
- IFRS or US GAAP compliant reports
- Operational data of strategic importance at group level.
- Relevant metrics linked to missions and goals. A methodology should be used to determine appropriate metrics.

Different statutory and multi-dimensional management reports can be complemented by:

- Product profitability reports (through the use of a cost allocation methodology such as e.g. activity-based management).
- Comparison of actual cost to standard cost

#### Budgeting, plan and consolidation

Many best practice companies have improved on their operational budget processes, cut lead times and implemented a specialized budget

tool, some have even started to link their operational budgets with their strategic financial budget.

There has been less attention on the budget or planning process at corporate finance, where time rather has been spent on process and system improvements for reporting and consolidation. Most companies today use Excel and the consolidation system for pulling together and reporting their budget or plan figures at corporate level. Even though there is an emerging trend among best practice companies to replace Excel also for this process with a planning application.

Operational budgets and the supporting applications hold often more dimensions as well as other information than the consolidation system. In best practice plan models, the operational budgets are driver-based as opposed to account-based. However, there is always a connection point from the operational budgets (sales, personnel costs etc) to a row in the strategic financial budget. The strategic financial budget model should as far as possible map the setup in the consolidation system providing group actual figures, for ease of comparison with plan, budget and forecast figures supporting variance analysis.



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