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Financial Consolidation:

Building a bridge to operational excellence

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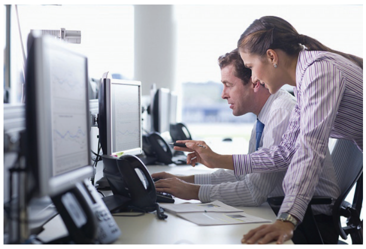

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Executive summary

Financial consolidation in a business involves completing its accounting cycles by closing the books, collecting financial data and producing financial statements for internal management and statutory reporting. The time it takes to finish the process is regarded by many Chief Financial Officers (CFOs) and Finance Directors (FDs) as a key indicator of whether finance processes and systems are healthy.

According to BPM International, "this is because it represents the health of the financial information supply chain across the entire organisation, from the effectiveness of transaction processing systems across the globe, through to the state of the general ledger systems, to the effectiveness and discipline around accounting policies, finance education, training and partnering in the organisation. In fact just about every aspect of the finance function's effectiveness is reflected in and contributes to the speed of the close cycle."

In the following sections, we will explore the benefits, challenges and approaches towards financial close and consolidation. The role of technology and how companies can rely on a specialised consolidation tool will also be discussed.

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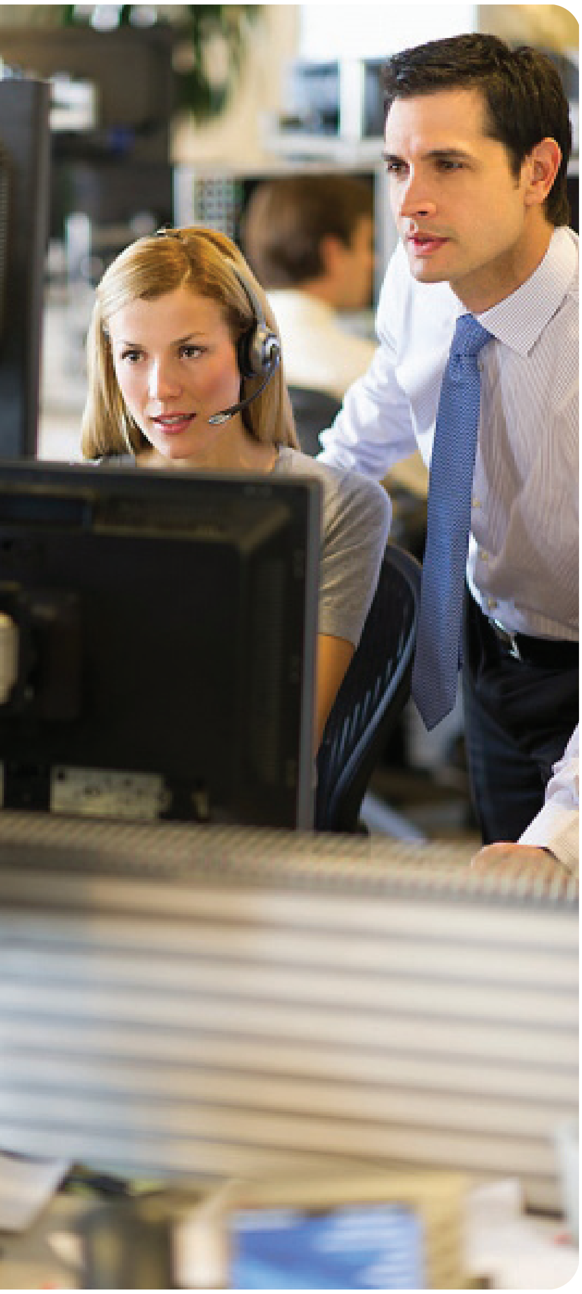

Why you should strive for an efficient financial close

In today's fast-moving world, companies have to juggle multiple priorities when managing their business, such as overseeing financials transactions, measuring corporate performance, attesting financial reports, carrying out timely closings and consolidating financial data. Thus, it is no surprise that CFOs are always aiming to close books and comply with regulations faster and more efficiently. Nonetheless, it is worth noting that speed is only half of the story. Compliance with the increasingly regulation-laden environment is the other.

"Companies that take six days or fewer after the end of the period to close their monthly, quarterly or semi-annual accounts demonstrate a basic level of effectiveness that those that take longer do not" (Ventana Research, 2012). The benefits can be felt not only within but also outside the enterprise, such as a fast close creates a healthy image in the eyes of investors, shareholders, trade exchanges and regulatory agencies. An efficient financial close will help companies:

- **Access financial information faster:** reduced closing times give companies much faster access to information relating to their corporate performance, which allows management to quickly spot and address problem areas. As a result, companies can make business decisions faster to improve future performance.

- **Free up more time for value-added analysis:** by streamlining the close process, companies can free up significant time for accounting staff, which allows them to add more depth and value to the written reports produced at the end of the quarter and year. Besides, there is more time for ad hoc financial analysis during the monthly cycle, thus improving the quality of decision-making.

- **Save time and cost:** an efficient financial close helps reduce the time it takes to manually intervene, reconcile errors, analyse variances, and process and collect data across a variety of close processes. In addition, being able to automate the close process means there is no need to hire a lot of people or ask staff to work longer hours. This means reduced HR costs.

- **Improve quality and control systems:** the quality of reports can be greatly improved if companies can get them right the first time with an efficient close process. This is because more time can be dedicated to analysis rather than to correcting errors. Moreover, internal control systems are subsequently enhanced if companies have a streamlined close process in place, thus improving the audit signoff process.

- **Maintain strong relationships with stakeholders:** a fast close helps companies deliver financial information to the stakeholders faster than their industry peers, which implies a higher level of management expertise. Such companies communicate with their investors and analysts at greater speed and detail as well, giving them greater comfort. Thus, businesses can have bigger access to capital for reporting earlier.

Hurdles to a fast, effective financial consolidation process

According to Ventana Research 2012, the majority of companies (83%) view the ability to close their books quickly as important or very important. However, businesses nowadays take longer to close than they did five years ago. This is due to mounting pressures from both within and outside of organisations.

External demands

In addition to demands for better internal controls and corporate governance practices, companies are facing tighter regulations regarding filing deadlines, integrity and business disclosures from global financial markets.

Customers, partners, employees and communities are demanding more transparency into the inner workings of companies and how companies impact the environments in which they operate. It is no longer sufficient to report only income statements, balance sheets and cash flows. Stakeholders are calling for disclosure of executive remuneration, energy usage, environmental issues, tax reserves and liabilities and hiring and labour practices, as well as charitable programmes and other social issues.

Internal	Human-related	Late delivery of data from reporting units	Lack of contribution from departments	Internal politics between HQ and subsidiaries	Limited experience with systems and close processes	Heightened internal control activities	
	Process-related	Multiple charts of accounts or GAAP	Intercompany transactions	Inefficient audit trails	Data quality and correction errors	Reconciliation of management and statutory reporting	Delayed understanding of variances
	IT-related	Data transmission errors	Lack of automation	Lack of integration with data sources, plans and budgets	Weak consolidation capabilities of software	Disconnected close systems	Poor maintenance of metadata
External	Regulatory Framework	Compliance with various regulations, e.g., IFRS, SOX	Disclosure demands from stakeholders				

Figure 1: Categories of barriers to a fast close

Internal problems

Some of the most prominent issues include:

- **Data Quality and Collection Errors:** companies, especially those with multiple branches in different locations, will need to put in extra effort to achieve a "right-first-time" financial close process. First, they have to collect data—financial and non-financial—from different charts of accounts and multiple sources, including ledger systems, HR systems and spreadsheets. Then, they have to normalise the collected data into a common chart of accounts, and overcome issues that may arise during the process, such as:

  » Manual data entry errors

  » Late delivery from reporting units

  » A lack of validation and controls

  » Poor integration with source systems

  » Lack of integration across multiple close processes

- **Intercompany Reconciliation:** intercompany transactions more often than not become major obstructions on the critical path for the close cycle, causing significant delays. Staff at both HQs and local branches have to spend time on resource-intensive tasks, such as eliminating intercompany transactions, calculating group ownership and minority interests.
- **Weak Performance of Consolidation Applications:** financial consolidation is inherently iterative and involves many rounds of consolidation, review and adjustment before the process is finalised. Hence, limited capabilities of financial close software can seriously hinder the whole process, such as slow processing speed and lack of scalability, especially during peak close periods.
- **Lack of Automation:** many elements of financial consolidation can be automated to speed up the close process and reduce errors as well as increase staff availability. For example, key processes that can be automated include intercompany matching and elimination, consolidation of entries, currency conversion, ownership and control calculations for minority interests, equity elimination, cash flow and GAAP conversions. Without automation and guided workflow, issues associated with staff that may be unfamiliar with business processes and reporting systems may arise.
- **Inefficient Audit Trails:** a lack of strong audit trails is not only an internal issue where central finance may seek to investigate and verify figures, but also an external issue where post close audit sign-off takes place. Moreover, when a close process entails a lot of late data changes and journal entries, a detailed and automated audit trail from source to disclosure can be a key tool. According to the Business Objects and BPM Magazine survey in 2006, 43% of respondents felt that improved audit trails were very important in achieving a fast close. (See Figure 2)

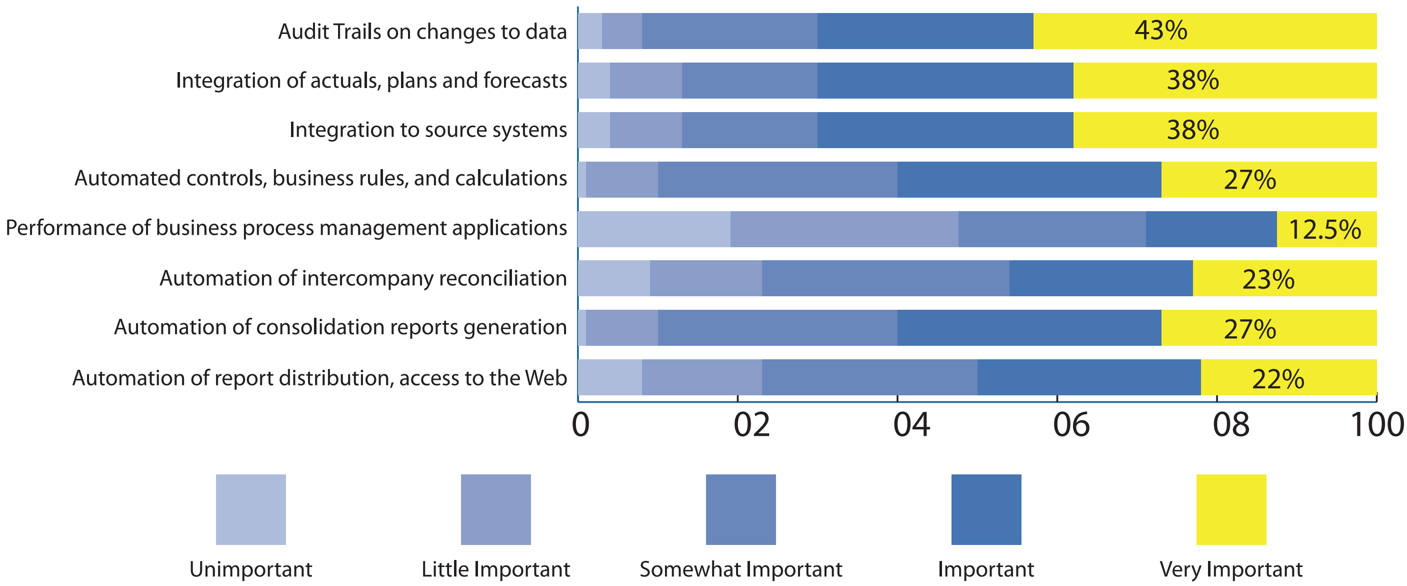

Figure 2: Importance of Factors Affecting the Fast Close

Approaches towards book closing and financial consolidation

Financial consolidation is far from simply merging together a series of accounts from different entities. Depending on their situation and strategies, companies approach the process in different ways. It is important that businesses thoroughly understand their choices so as to achieve an efficient financial close. The main approaches, some of which may be combined, are discussed below.

Using spreadsheets

The most common approach involves the use of spreadsheets to manually process and consolidate data exported from disparate financial systems. Being one of the most common office tools, this approach with a familiar user-interface is also the fastest and cheapest solution in the short-term.

However, because the approach is so popular, its disadvantages are commonly felt by businesses. They are:

- High chance of administrative errors resulting in inaccuracies of data
- Issues with version control
- More time and money spent on the close in the long run
- Inability to handle complex operations and requirements

ERP systems

Companies taking this approach want to use the general ledger component of their existing ERP system. For this approach to be viable, businesses need to make minor modifications that allow their current ERP general ledger to be used as the common consolidation platform (e.g., standardising on a single vendor's general ledger). That means:

- All entities must use the same ERP system
- All entities must have the same chart of accounts
- The ERP system has to have consolidation functionality, including intercompany reconciliation, audit trails, etc.

Although this approach may work well for businesses with few subsidiaries and locations and allow them to leverage existing technology, it is not the best approach for bigger organisations using multiple ERP systems and charts of accounts. Moreover, the reporting capabilities of ERP solutions are often limited, lacking the flexibility desired by decision makers at different levels enterprise-wide.

Specialised tools

This method provides a fast track to consistent consolidation and reporting, as companies with disparate systems are integrated through a mapping process. Existing core financial systems and data centres remain intact.

By deploying specialised consolidation tools, companies can enjoy a high level of out-of-the-box functionality, flexible reporting capabilities and easy integration with other ERP systems. They are also relatively fast to implement with low resource impact. The only issue is choosing the most suitable financial consolidation tool available on the somewhat saturated market.

Making the case for specialised financial close software

In 2010, Aberdeen Group carried out a study, which shows the graded popularity of standalone consolidation/reporting tools and consolidation/reporting tools included in ERP systems among best-in-class, industry average and laggard companies.

The results indicate that standalone or specialised financial reporting and consolidation tools (71%) were preferred over consolidation features included in ERP applications (37%) by best-in-class companies. (See Figure 3)

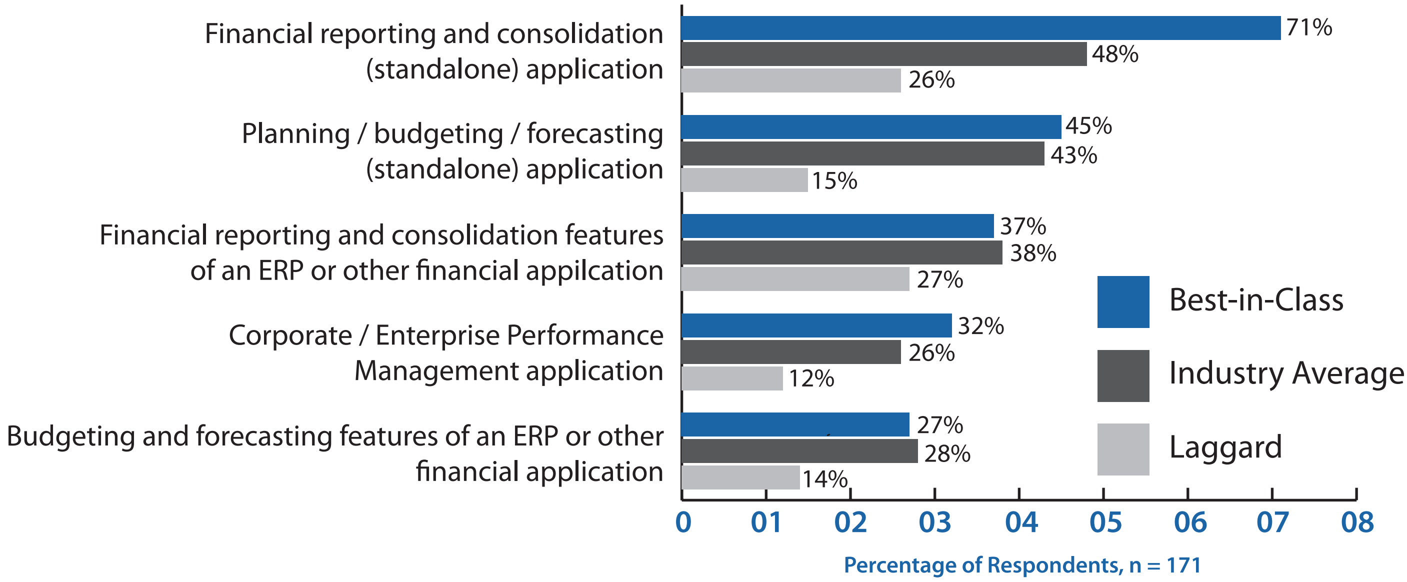

Figure 3: Technologies supporting the process

More recently, Ventana Research (2012) concluded that, on average, businesses that use consolidation software rather than spreadsheets save at least one day in their monthly and quarterly close, and that those using consolidation software close their books 7% faster than companies using their ERP system to do so. In fact, deploying the right software is one of the key components to achieving a faster close, along with good execution of a well-designed process and effective data management.

Specialised consolidation solutions seem to have many advantages and businesses should seriously consider them. But what does an ideal application look like? An ideal application:

Ensures data integrity

Data integrity is measured by the data's accuracy and consistency. The tool must be able to automate data loading, consolidation and validation from multiple entities into a central, secure datacentre, which creates a single version of truth. All changes made are also replicated throughout the system to reduce unnecessary variance analyses.

Moreover, a financial consolidation solution should feature built-in calculations to accurately handle currency conversions, group ownership and so on.

Supports compliance

Financial close software should help ease external compliance pressures rather than complicate things. Companies should be able to adjust data for consolidation issues and reporting requirements, both internally and externally. While being able to do so, businesses should also be able to keep track of all the changes through the audit trail capability.

Also, financial close application should automatically handle exchange gains and losses, and eliminate consolidation adjustments such as minority interests, joint ventures, intercompany eliminations and allocations.

Generates insight

This is considered the main advantage of specialised consolidation tools over ERP systems. Thus, the close software should be able to create standard as well as exception reports and interactive analytics.

Moreover, companies should be able to view data under multiple presentation formats (e.g., graphs, charts, dashboards) as well as perspectives (e.g., region, product line) for optimal analysis. By being able to get an overall view of impacted financial data and journals, management can reasonably determine the most efficient consolidation path to incorporate modified data.

How TRG International can help

We bring you the market-leading solution from Infor, which has helped companies around the globe streamline and improve the effectiveness of their business processes for more than 30 years.

With Infor10 Corporate Performance Management (PM10) Financial Consolidation, companies can now close their books quickly and confidently.

The drag-and-drop simplicity of Infor10 CPM Financial Consolidation enables businesses to easily accommodate mergers, acquisitions, reorganisations and other structure changes. Simply make the change in one place, and the system replicates it throughout the application.

Bringing speed, accuracy, agility, transparency and insight to the process, Infor10 CPM Financial Consolidation simplifies the tasks associated with consolidation so finance leaders can spend more time analysing results and guiding the business—leading to greater return on investment and low total cost of ownership.

Financial Consolidation Key Features:

- Automatically loads, consolidates and validates data from multiple sources
- Handles intercompany eliminations, group ownership and minority interests
- Handles multiple currencies
- Posts closing journal entries
- Provides workflow for submission and approval
- Monitors consolidation process status across the organisation
- Provides built-in audit trails and controls
- Creates flexible, powerful reports

Proven Value Worldwide:

- Supporting multiple languages, currencies and accounting standards
- Developed with 30+ years' industry domain expertise
- Supported by a dedicated global support staff
- Based on open standards
- Supporting lower total cost of ownership
- Scalable to grow as your business grows

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About TRG International

TRG International—a Gold Channel Partner of Infor—is an independent provider of IT business solutions, and supports thousands of users in 70 countries. Clients range from small domestic companies to large global multinationals in both the public and private sectors.

Our activities focus on enabling business and people to perform better.

- Business applications solutions for accounting, strategy, planning, budgeting, retail, hospitality, ERP, business intelligence, golf and virtualisation.
- People solutions to select the right people and develop them to their full potential.

Why choose us for Financial Consolidation?

We bring you a complete package—software plus services—to help you get the most out of technology:

- A market-leading corporate performance management system that adds value to your financial consolidation process.
- 18 years' proven success of implementation services.

Check out our Corporate Performance Management solutions :

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