

The Impact of Compliance on Finance Operations

RevenueRecognition.com
*Revenue Management Resources for
Today's Financial Executive*

FINANCIAL EXECUTIVE BENCHMARKING SURVEY

Compliance Edition

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EXECUTIVE SUMMARY

RevenueRecognition.com in association with International Data Corporation (IDC) recently surveyed 118 business leaders about how they are responding to the challenges of compliance. The survey was conducted by email and all responses were on an anonymous basis. More than 85% of respondents are CFOs, Controllers, and other senior finance executives. A majority is from companies with up to \$200 million in sales.

Key Findings

- 50% of respondents have initiated a compliance effort even though approximately three-quarters are from private companies.
- 73% reported that compliance is leading to broader business performance initiatives.
- Most companies are still working to complete the early stage tasks associated with Sarbanes-Oxley compliance.
- Revenue Recognition Accounting and Contract Management and Administration pose the most difficulty for establishing internal controls.
- 65% are using desktop tools such as word processing and spreadsheets to document their internal controls
- 80% intend to reduce the use of spreadsheets for key accounting activities.
- Revenue recognition, budgeting/planning, and contract management and administration systems top the list of solutions having the most potential to improve compliance initiatives.

COMPLIANCE TEAMS

As illustrated in Figure 1, half of respondents have established a compliance organization, even though approximately 75% are from private companies. However, Figure 2 does seem to indicate an ad hoc approach with 43% reporting having project teams and only 36% claiming to have appointed a formal officer or team. Roughly a third of respondents reported that outside auditors, consultants, and advisors are also included, as shown in Figure 2. In fact, as Figure 3 shows, more than one-quarter of Sarbanes-Oxley compliance efforts are exclusively comprised of outside resources. The vast majority of are made up of 1-5 individuals.

Figure 1

Have you established a compliance organization? (n=118)

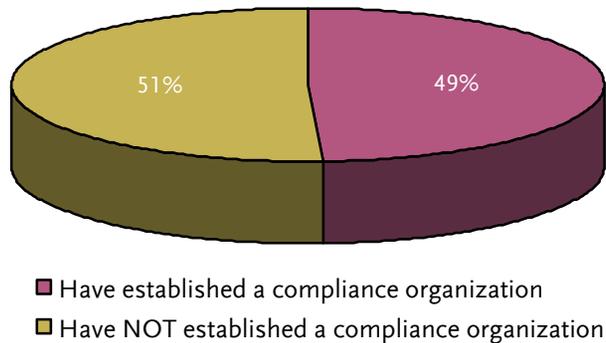


Figure 2

What type of compliance organization have you established?
Multiple responses accepted (n=58)

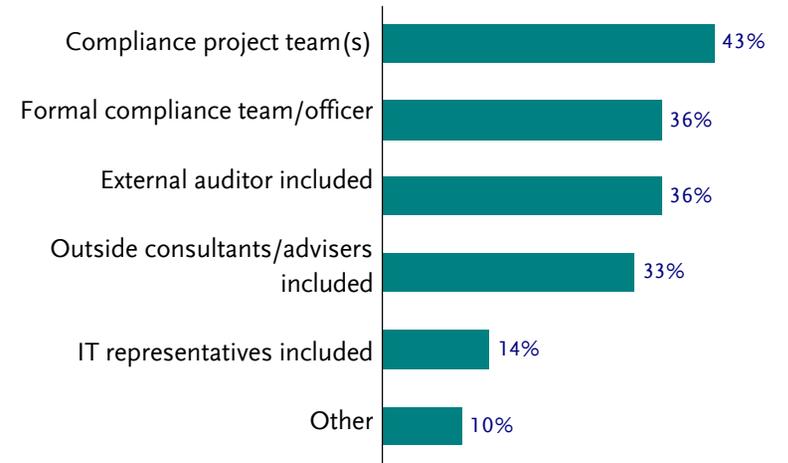
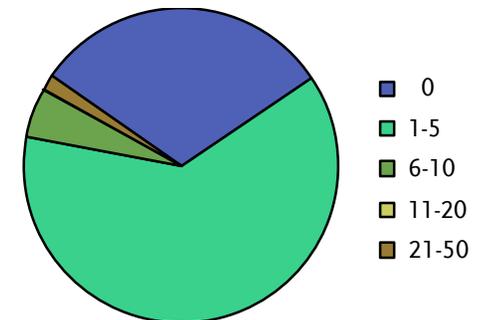


Figure 3

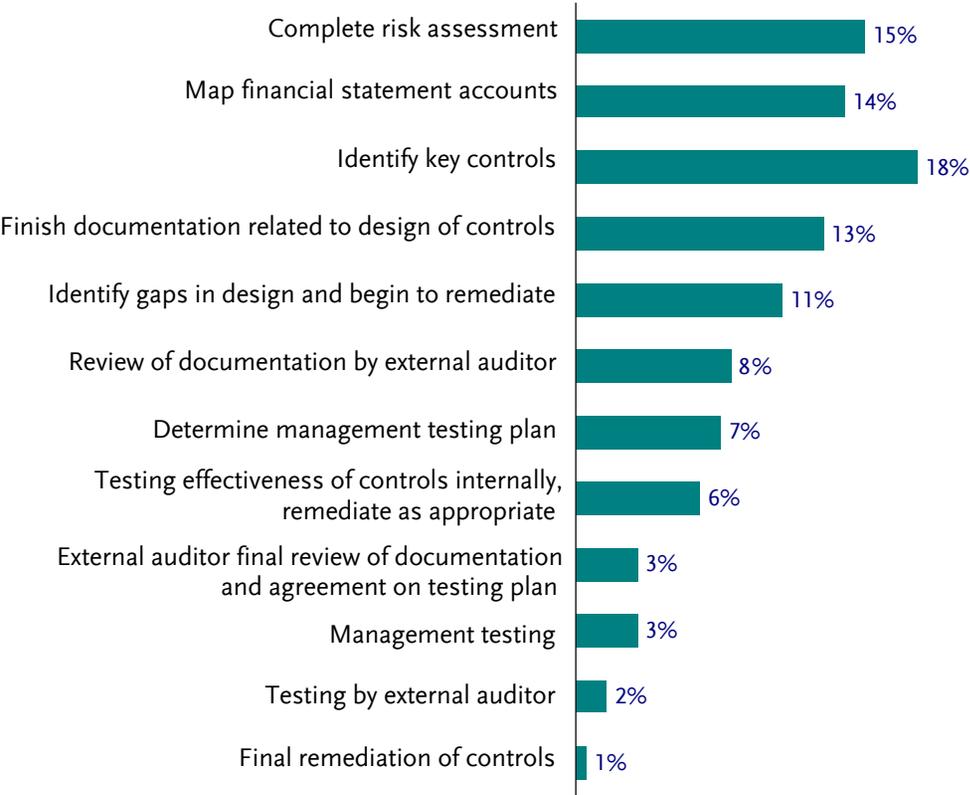
How many individuals have most or all of their job dedicated to compliance with Sarbanes-Oxley? (n=58)



SARBANES-OXLEY PROGRESS

The great task for most compliance organizations is, of course, meeting Sarbanes-Oxley requirements. There is a very complex set of tasks that many companies must accomplish in order to be completely assured that their internal controls meet the higher standards that auditors are applying. Figure 4 depicts a logical sequence of compliance tasks from the top down. As you can see, the curve is still peaking in the early stages of the process and most companies have a way to go before they will have fully implemented all the controls, testing and remediation necessary.

Figure 4
 To date, which Sarbanes-Oxley compliance tasks are mostly complete (80% or higher) at your company?
 Multiple responses accepted (n=45)



INTERNAL CONTROLS

Internal controls are what make a compliance regime function. Without proper separation of duties, checks and balances, process visibility, and documentation even the best intentions can be foiled. But, in order to be fully operational, internal controls must exist across an entire process. As Figure 5 shows, most financial processes present few challenges, possibly because they exist largely within the walls of the finance department. But, two areas clearly stand out as being difficult to establish good controls:

- Revenue Recognition Accounting
- Contract Administration and Management

80% of respondents reported that they are documenting their internal controls. Figure 6 shows that companies are heavily relying on tools such as word processing and spreadsheets to document their internal controls, with very few electing to use a compliance specific solution.

Figure 5
In your opinion, for which area is it most difficult to establish internal controls? (n=118)

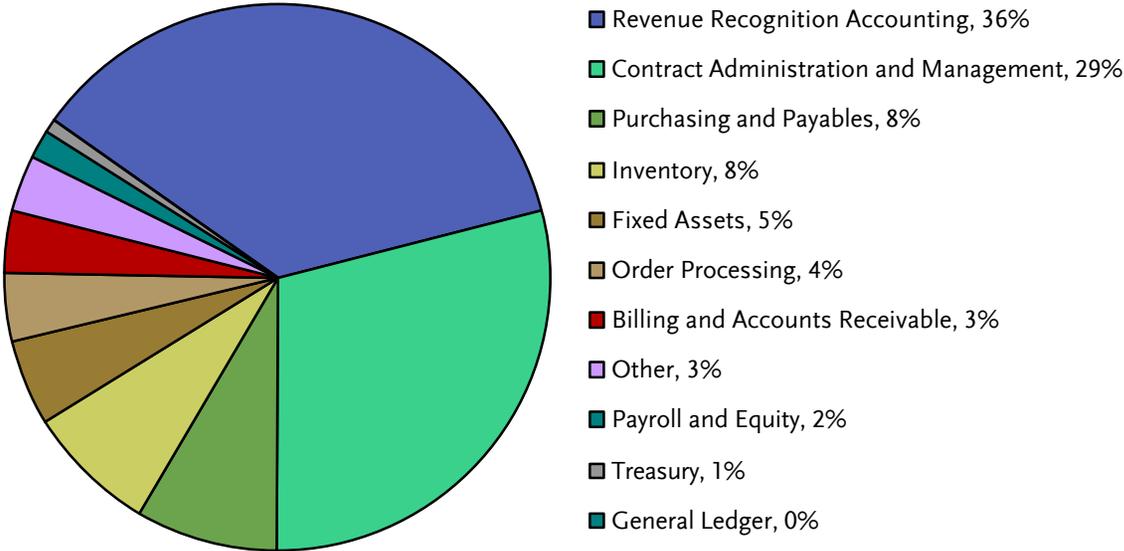
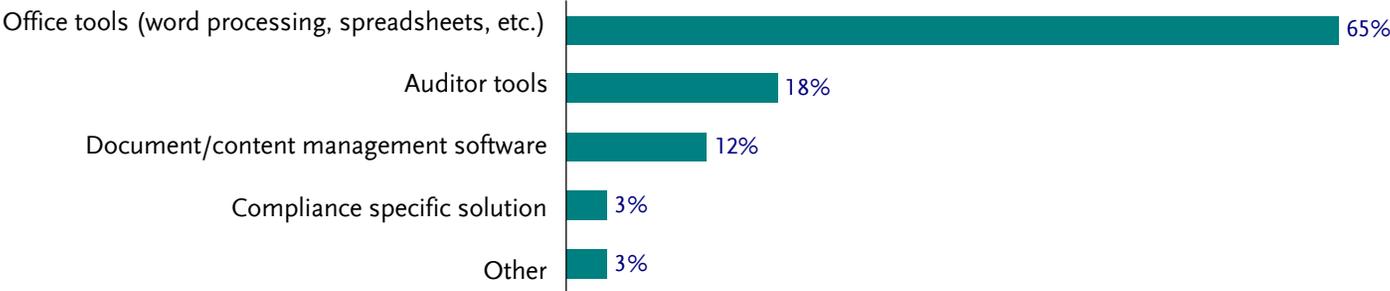


Figure 6
What tools are you using to document your internal controls? Multiple responses accepted, n=58



SPREADSHEETS

Respondents indicated that they are rapidly moving away from spreadsheet-based accounting. As Figure 7 shows, 80% expect spreadsheets to have a somewhat smaller, much smaller, or no role whatsoever in their accounting processes. One might say that the new mantra for financial executives is:

“Spreadsheets are for analysis NOT accounting.”

There were also very strong opinions about the risks that spreadsheets represent as illustrated in Figure 8. Surprisingly, even though most organizations and finance professionals use spreadsheets on a daily basis, errors were the number one risk. The next three top risks are all clearly related to compliance and more than half of respondents indicated that the lack of audit trail, lack of internal controls, and the delays in reporting and analysis all make spreadsheets less than ideal.

Figures 9a and 9b on the following page show how dramatically spreadsheet use is expected to be curtailed in the next 12 months. The steepest percentage declines are expected in managing departmental and subsidiary rolls ups, closing the books, deferred revenue, and reporting and forecasting. Overall, spreadsheet use is expected to decline nearly 30% in 12 months, a remarkably sharp drop for such a pervasive tool.

Figure 7
In your opinion, should spreadsheets play a larger or smaller role in your accounting processes? (n=118)

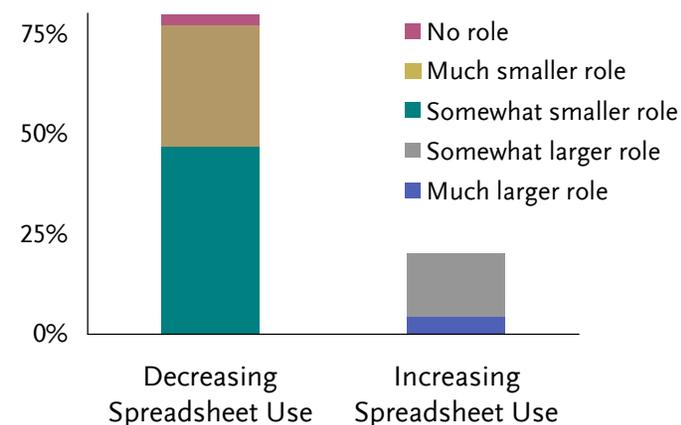
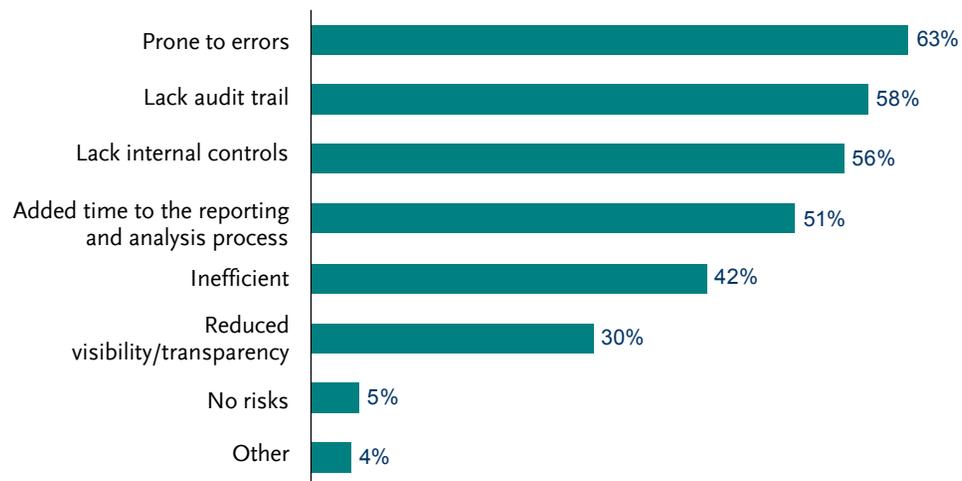


Figure 8
In your opinion, what are the major risks associated with using spreadsheets? Multiple responses accepted (n=118)



SPREADSHEETS

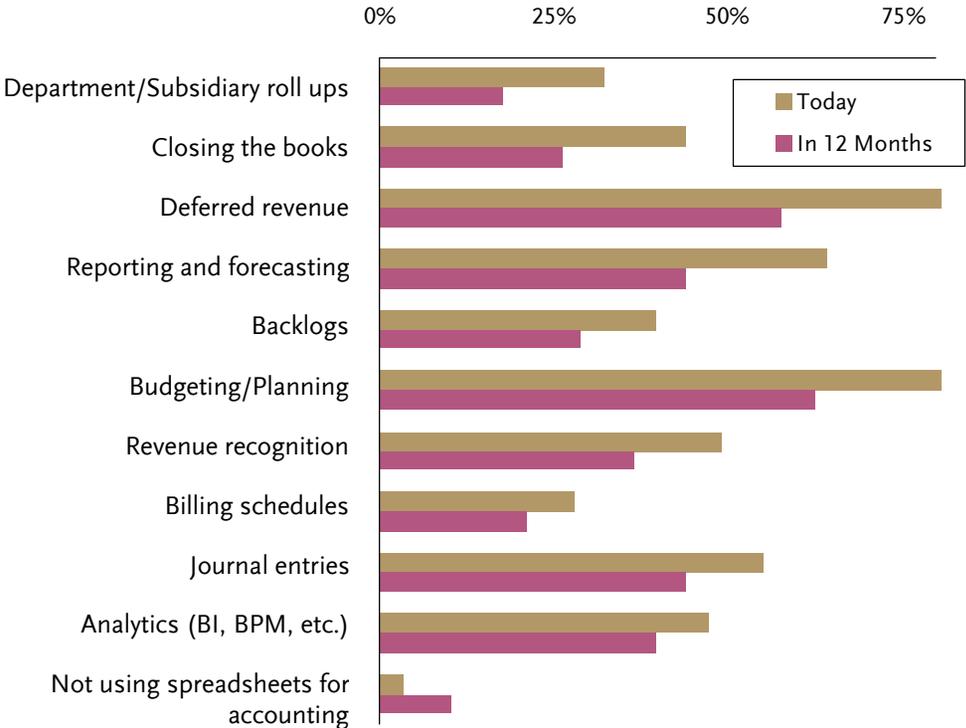
Figure 9a

What accounting functions are you handling or supporting with spreadsheets?
Multiple responses accepted, n=118

| | Today | In 12 Months | % Change |
|--------------------------------|-------|--------------|----------|
| Department/Subsidiary roll ups | 32% | 18% | -45% |
| Closing the books | 44% | 26% | -40% |
| Deferred revenue | 64% | 44% | -32% |
| Reporting and forecasting | 85% | 58% | -32% |
| Backlogs | 40% | 29% | -28% |
| Budgeting/Planning | 85% | 63% | -26% |
| Revenue recognition | 49% | 36% | -26% |
| Billing schedules | 28% | 21% | -24% |
| Journal entries | 55% | 44% | -20% |
| Analytics (BI, BPM, etc.) | 47% | 40% | -16% |
| Average | | | -29% |

Figure 9b

What accounting functions are you handling or supporting with spreadsheets?
Multiple responses accepted, n=118

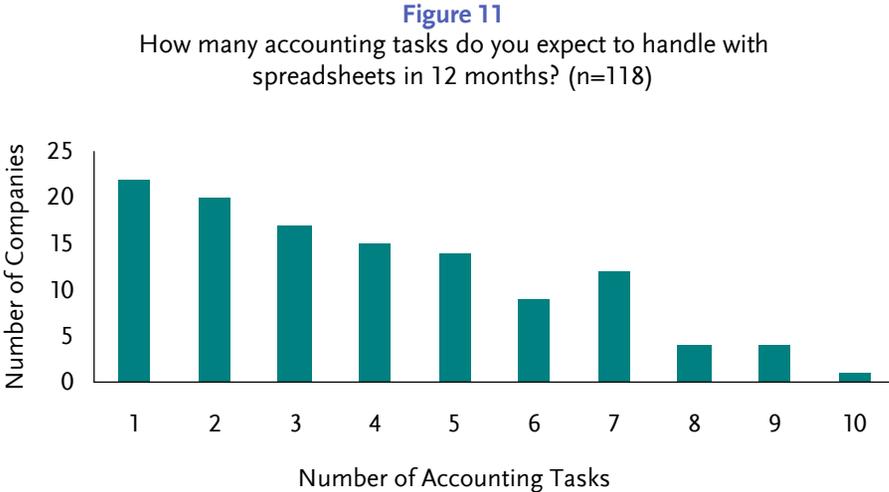
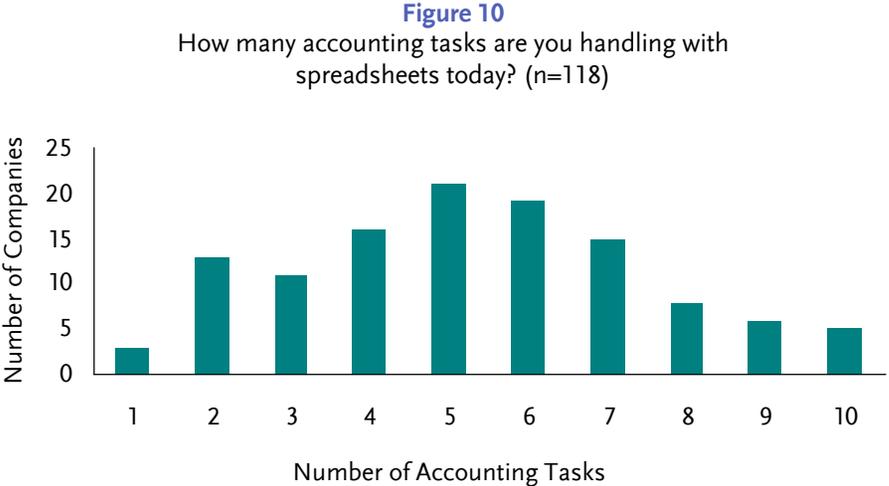


SPREADSHEETS

The dramatic decline can also be seen in terms of how many of the accounting tasks listed above respondents expect to perform with spreadsheets in the next 12 months. Figures 10 and 11 show the number of companies using spreadsheets for multiple accounting tasks. Today, in Figure 10, more than 20 companies are using spreadsheets for five of the accounting tasks in our list. In 12 months, Figure 11 shows that more than 20 companies plan to use spreadsheets for only a single task. There is a distinct shift from a bell curve in Figure 10 to a nearly straight declining slope in Figure 11 as companies aggressively eliminate spreadsheets in their accounting processes.

"It is clear that spreadsheets play, and will continue to play, a role in the analysis and reporting of information, but are not the basis for auditable accounting information and related processes."

Kathleen Wilhide Research Director, Corporate Compliance Applications and Business Performance Management Software, IDC.



SOLUTIONS

Compliance initiatives are revealing broken data flows, potentials for inaccuracies, and tools that are insufficient for establishing strong control over critical financial processes. Much of the discovery work has been accomplished. The next stage is finding solutions that can provide better data faster. One of the keys for accomplishing this is for financial managers to take a process approach to the solution, and focus especially on tasks that take place outside the walls of the accounting department.

Accordingly, Figure 12 shows enterprise software solutions for managing revenue, budgeting, and contracts were identified as having the most potential for improving compliance initiatives. These processes extend across multiple departments and are therefore extremely difficult to control with desktop tools. This conclusion is further reinforced by the fact that issues such as general ledger, consolidation, and billing that happen largely within finance departments rated at the bottom of the list.

SUMMARY

The message is clear – finance must become more assertive throughout the enterprise and implement processes and systems that put key financial data under their direct control, regardless of where the data flows. As Figure 13 illustrates, with proper systems in place, compliance can be a steppingstone to making broader improvements in overall business performance.

Figure 12

In your opinion which of the following enterprise software solutions have the most potential for improving your compliance initiative?
Multiple responses accepted (n=118)

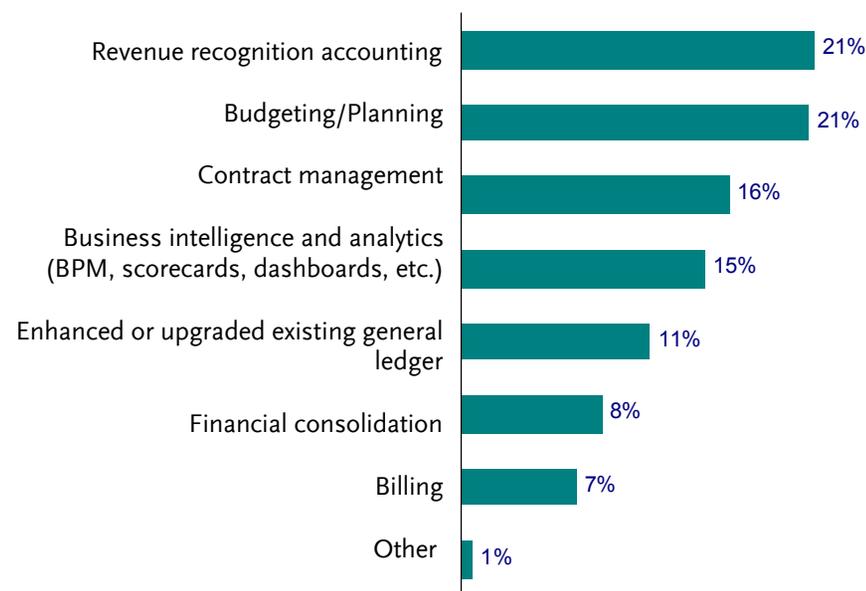
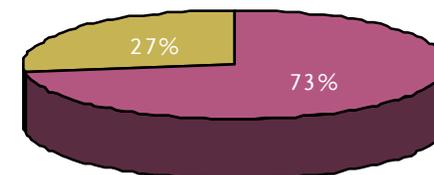


Figure 13

Has compliance led to a broader business performance initiative in your company? (n=118)



- Compliance has led to broader business performance issues
- Compliance has NOT led to broader business performance issues

DEMOGRAPHICS

Figure 14
What is your title? (n=118)

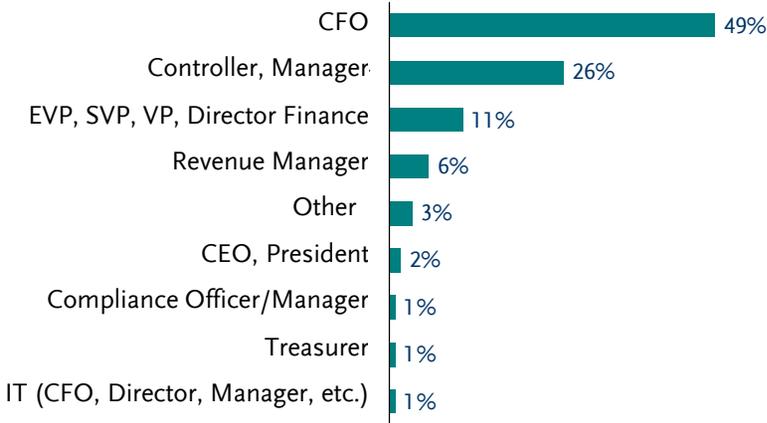


Figure 16
What is your annual revenue? (n=118)

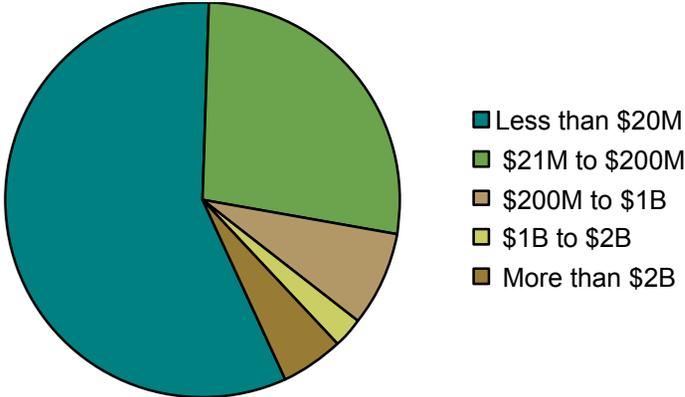


Figure 15
What is the ownership structure of your company? (n=118)

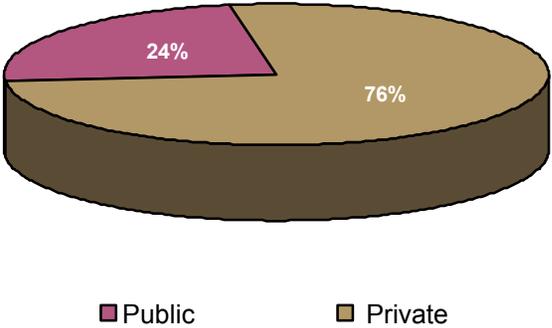
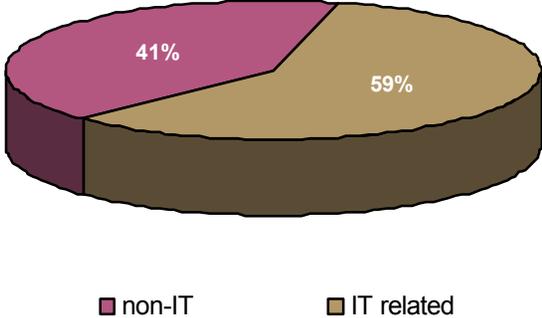


Figure 17
What is your company's main industry? (n=118)



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