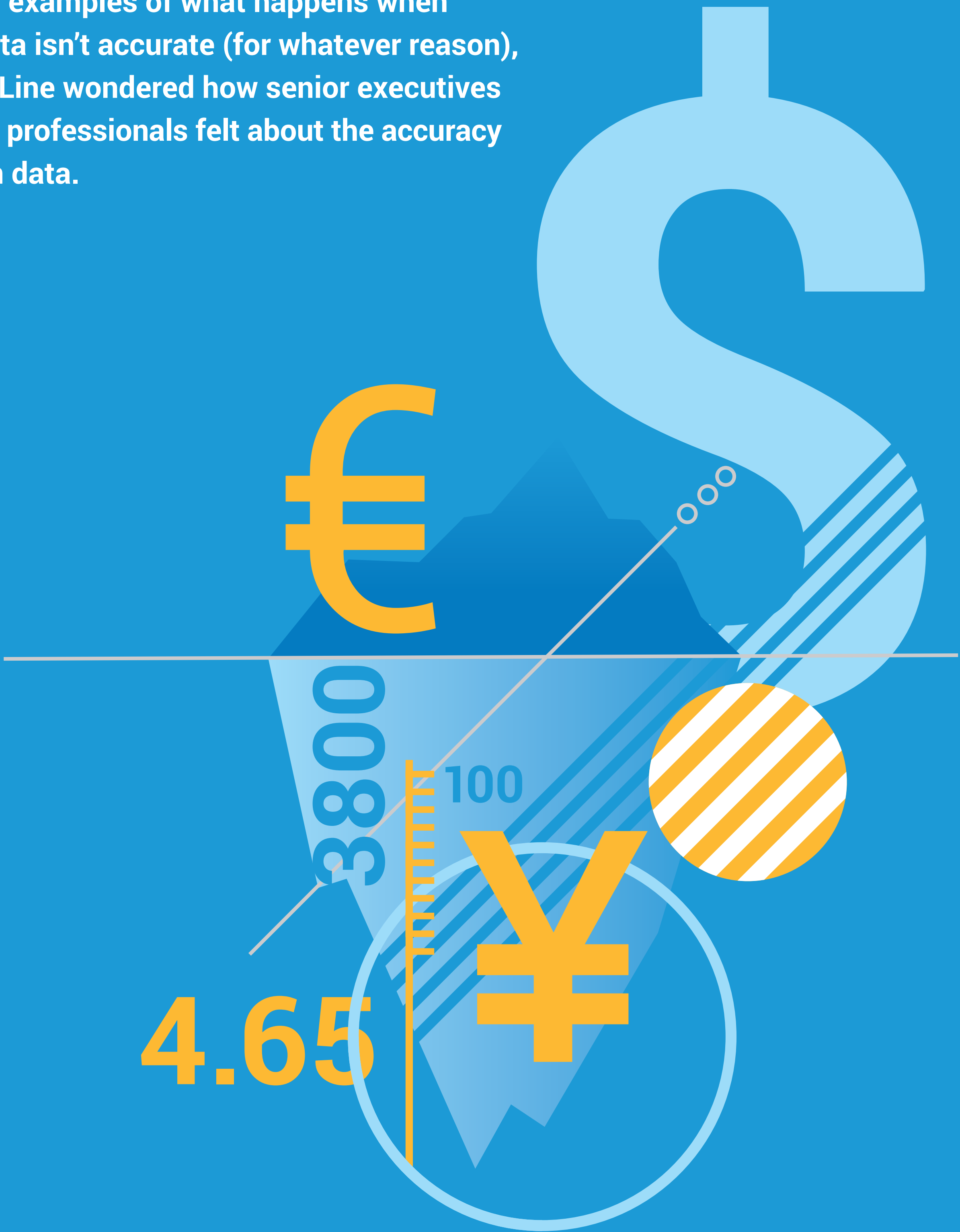
BLACKLINE

# MISTRUST IN THE NUMBERS

BlackLine Study into the Potential Global Scale
of Financial Data Inaccuracies

WHITEPAPER

**What keeps C-suite executives and finance professionals awake at night? Is it the thought of new tax regulation, the next round of investor meetings — or something even more fundamental? Are the numbers right? Given the many recent high-profile examples of what happens when financial data isn't accurate (for whatever reason), we at BlackLine wondered how senior executives and finance professionals felt about the accuracy of their own data.**



**In a world where there seems to be a new story every week about misreporting (be it deliberate fraud or genuine mistakes) and the resultant impact on the organization, we wondered how the people in charge felt about their own numbers. Do they feel they have adequate visibility of potential inaccuracies? How prevalent do they think inaccuracies are within their own organization? What are the perceived implications of getting it wrong, and what processes are in place to ensure this does not happen?**

Most businesses today are operating in a fiercely competitive environment, where real-time insight into an organization's financial data can provide a make-or-break edge over the competition. Add to this plummeting public trust in large organizations and wider socio-economic and geo-political pressures — such as the relative strengths and weaknesses of key economies and trade wars — and the broader importance of having access to the right data becomes clear.

Working with independent researchers Censuswide, we asked over 1,100 C-level executives and finance professionals in midsize and large organizations in the UK, US, France, Germany, Australia, Hong Kong and Singapore* what they thought.

Here's what we found...

## Discovering the full extent of the problem

Although there is an overwhelming acknowledgment that inaccurate financial data has negative implications both externally and internally, the research revealed a widespread problem.

Namely, that over half (55%) of respondents are not completely confident they can identify financial errors before reporting results. In fact, nearly 70% of global business leaders and finance professionals claim their organization has made a significant business decision based on inaccurate financial data. Many identified this as a hidden problem, with over a quarter (26%) stating concern over errors that they know must exist, but of which they have no visibility.

Furthermore, there is evidence of a disconnect between C-level respondents and finance professionals in terms of level of confidence in financial data. This is perhaps unsurprising given that many organizations continue to be challenged by human error, ever-increasing data sources and volume, as well as outdated technology.

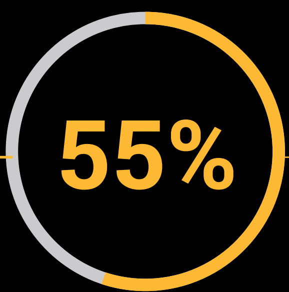
"It is concerning that so many organizations are not confident in their ability to identify errors and ensure accurate reporting," Mario Spanicciati, chief strategy officer at BlackLine, said. "Not just for compliance purposes, but also, as respondents themselves identified, the acceptable margin of error with accounts is decreasing in today's technology-driven world. In reality, there is no longer any excuse for not having full visibility into accurate numbers from which to report and drive business forward."

## Misplaced C-suite trust in the numbers

Only around one third (35%) of respondents indicated that their organization would consider billions of dollars' worth of accounting errors reported in financial statements as material, suggesting many have a phlegmatic attitude toward the issue. However, there was a significant discrepancy between the views of the C-suite and that of finance professionals:

- 71% of C-suite respondents claimed to completely trust the accuracy of their financial data, but only 38% of finance professionals said the same.

- Only 8% of C-suite respondents said that they do not have access to accurate figures on a regular basis, while more than twice as many (20%) finance professionals admitted this was the case.

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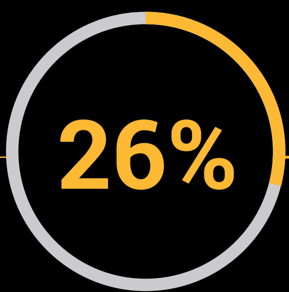



Over a quarter (26%) stated concern over errors that they know must exist, but of which they have no visibility.

> As business gets more global and complex the definition of accuracy also becomes more complex. Whether something is accurate depends on the question being asked. Today's strategy is challenged by dimensions beyond reporting legal entity. Customer, market and product line information is required by executives to compete in today's environment. Enhanced data models augmented with new cloud technology can be a key component in the response to accuracy.
>
> — RALPH CANTER, MANAGING DIRECTOR, FINANCIAL MANAGEMENT, KPMG

## Betting the business on inaccurate financial data

Although 84% of all respondents are 100% confident that their finance department has full visibility into the entirety of their organization's financial data, in many cases this insight is not being used strategically:

- Almost 7 in 10 (69%) respondents think that they/their CEO/their CFO has made a significant business decision based on out of date or incorrect financial data. 36% think that they definitely have.

> **Unlocking the value of information and financial data is much more important than routine reporting and if done well, a key competitive advantage. Yet many companies still haven't implemented technology to enable this capability despite the many advances in automation and cloud-based solutions, which reduce the required investment and time to implement. It is time for businesses to treat their financial data like an asset and invest in the technology, tools and people to turn information and data into strategic insights.**
>
> — TONY KLIMAS, PRINCIPAL, GLOBAL PERFORMANCE IMPROVEMENT FINANCE LEADER, EY

## Counting the cost of hidden inaccuracies

96% of C-suite respondents agree that there would be some form of negative impact if inaccuracies in financial data were not identified prior to reporting. The impact is not only internal, but also external; ranging from adding weeks of extra work for internal employees to damaging a company's reputation, limiting investment opportunities, fines or even going to jail:

**Compliance and Legal Risk**

- Less than half of respondents are completely confident that they can identify errors in financial figures to ensure accurate reporting.
- During their career, just under two thirds (65%) of respondents said that a company they've worked for had to restate their earnings due to inaccuracies in financial data that weren't identified prior to close.
- Furthermore 32% of C-suite respondents recognized that they would fall foul of regulators, leading to possible fines and jail time.

**69%**

of respondents think that they/their CEO/their CFO has made a significant business decision based on out of date or incorrect financial data.

**Days Wasted**

- During the month-end close process, nearly a quarter of C-suite respondents (22%) think that it takes between 9 and 10 days to identify potential errors and record the necessary accounting adjustments. This is equivalent to 9.5 days per month, or 114 extra days per year.

> **I know from my own experience using BlackLine at multiple companies that it is possible to reduce this time significantly, simply by implementing the right technology. This enables us to ensure that our finance teams are spending time on the real high-value work that helps drive our business forward strategically and efficiently.**
>
> — WENDY SHAPIRO, SENIOR VICE PRESIDENT, FINANCE TRANSFORMATION, TELADOC HEALTH

**32%**

of C-suite respondents recognized that they would fall foul of regulators, leading to possible fines and jail time.

> Wasting considerable time and energy on manual, repetitive processes is not only disheartening for workers, but it also reduces the amount of time they can spend on providing financial insights and analysis, which can provide a make-or-break edge over the competition.
>
> — WENDY SHAPIRO, SENIOR VICE PRESIDENT, FINANCE TRANSFORMATION, TELADOC HEALTH

**Reputational Risk and Future Investment**

- Nearly half (40%) of respondents say that they would suffer significant reputational damage with their investors if inaccuracies in financial data were not identified prior to reporting.
- 41% of C-suite respondents say that it would impact their ability to secure additional investment if inaccuracies in financial data were not identified prior to reporting.

## Human error, multiple data sources and clunky tech all contributing factors

Of those who did not completely trust the accuracy of their financial data, manual inputting leading to human error topped the list of reasons, with 41% of overall responses. However, the C-suite's top perceived challenge was that the data was from too many sources and there was uncertainty over whether it was all being accounted for.

- Over a quarter (28%) of those asked claimed that there were not enough automated controls and checks for the volume of data they had to deal with and that the process of collecting and processing the data was too complex (also 28%).
- An additional 28% blamed reliance on clunky spreadsheets and outdated processes which left finance teams in the dark until month-end.

## But no more excuses

Despite these challenges, 41% of respondents are more aware of the risks that incorrect reporting can cause and are ready to see more accountability within the industry. Over three quarters (77%) of respondents agree that the audit committee should have the same accountability as the CFO for reporting inaccurate financials, with 34% of those strongly agreeing.

> What's interesting about this research is that it highlights a real desire for more accountability across the industry. Finance professionals are tired of unacceptably high margins of error and are becoming far more aware of the risks associated with incorrect reporting. Clearly it is time for a culture change; one that sees every level of an organization become more transparent and accountable.
>
> — WENDY SHAPIRO, SENIOR VICE PRESIDENT, FINANCE TRANSFORMATION, TELADOC HEALTH

It is also positive to see that 41% claim they have implemented technology in order to mitigate the risk of inaccuracy, while 38% have reviewed internal and external audit processes, with 28% claiming that they have changed their company's reporting processes.

**41%**

claim they have implemented technology to mitigate the risk of inaccuracy

**38%**

have reviewed internal and external audit processes

**28%**

claim they have changed their company's reporting processes

> Competing today requires accurate data to support increasing complex growth strategies. The demand for financial information isn't just each month, but weekly and for some companies daily. This is not a problem that can be solved by adding more humans to process more data or reports. Greater transaction volumes, more complex operating models, and demands for greater business insights will need improved application of process automation and improved data models.
>
> — RALPH CANTER, MANAGING DIRECTOR, FINANCIAL MANAGEMENT, KPMG

## BLACKLINE'S TAKE

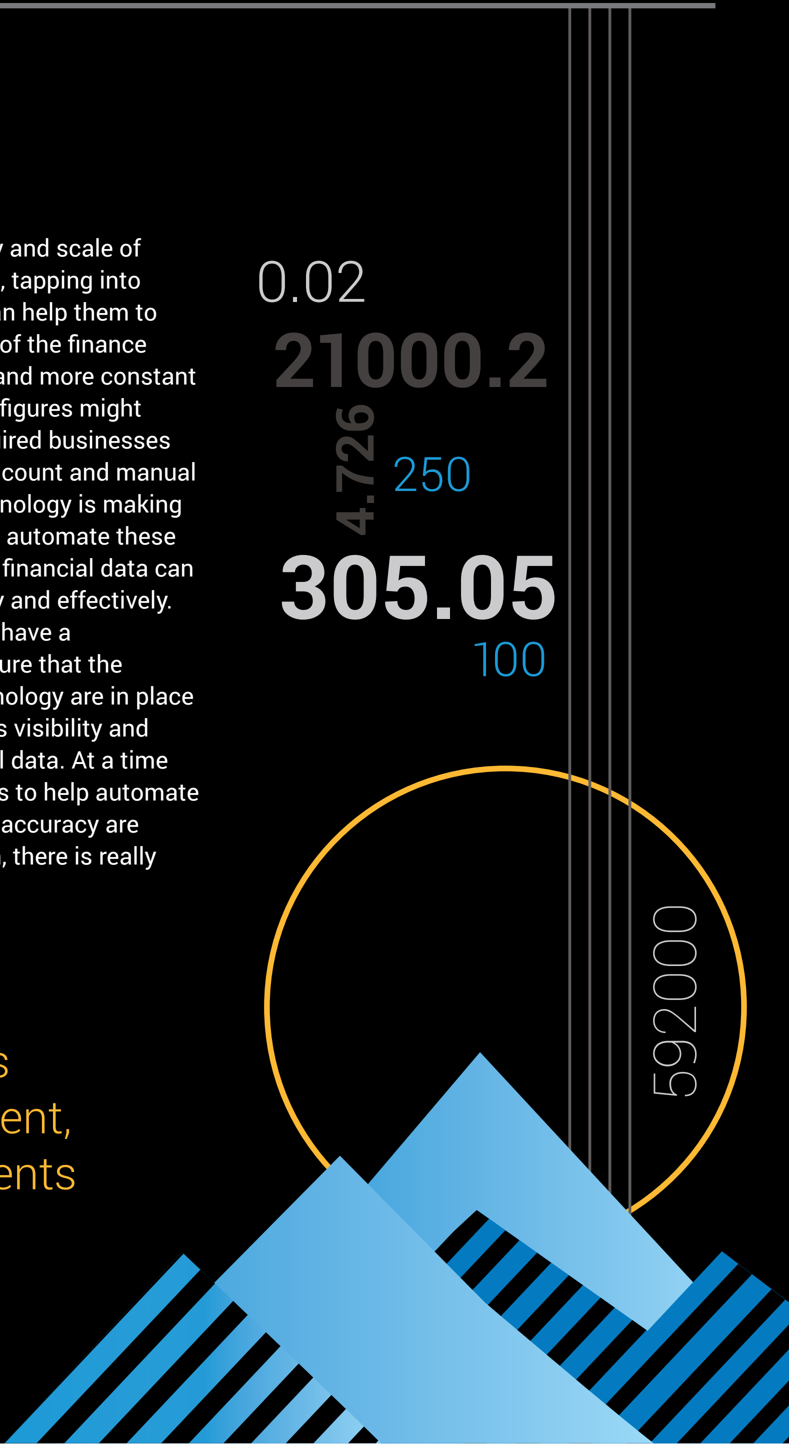
It seems clear that not only are reporting errors prevalent, but that many of these inaccuracies remain hidden. In the meantime, the survey revealed that CEOs are making business decisions on numbers in which they are confident, but the people preparing the statements and reports are not. The result is a heightened and unnecessary level of risk for many large organizations.

The implications of this are potentially severe. Not only the financially negative impact of strategic decisions based on inaccurate numbers, but also the repercussions of failing to comply in an ever-expanding regulatory global business environment.

Unless there is recognition that this is an unacceptable and unnecessary level of risk, we can expect to see an increasing number of cases of large-scale financial misreporting.

As the complexity and scale of businesses increase, tapping into new technologies can help them to overcome the limits of the finance department. Closer and more constant scrutiny of financial figures might previously have required businesses to expand their headcount and manual processing, but technology is making it easier than ever to automate these processes, ensuring financial data can be used strategically and effectively.

Business leaders have a responsibility to ensure that the processes and technology are in place to enable continuous visibility and accuracy of financial data. At a time when advanced tools to help automate controls and ensure accuracy are available and proven, there is really no excuse.

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**Notes on methodologies and research criteria**

*The research was conducted by Censuswide, with 579 C-level and 575 finance professionals in seven markets (the UK, US, France, Germany, Australia, Hong Kong and Singapore), with minimum annual revenues as follows:
- UK: 50m GBP
- France: 50m EURO
- Germany: 50m EURO
- Singapore: 20m SGD
- Hong Kong: 140m HKD
- USA: 150m USD
- Australia: 20m AUD

The survey was conducted online between Aug. 15th and Sept. 12th, 2018.

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