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How Do You Get Financial Reporting Right in a Challenging World?

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A structured and scalable reporting Center of Excellence (CoE) can deliver financial transparency and powerful insights

In recent years, the CFO's role has grown more complex as it now encompasses a multitude of responsibilities around four key parameters — **profitability, improved cash flow, operational effectiveness, and governance, risk and compliance.** For most CFOs, these are the top four imperatives that drive the business towards excellence. Delivering rigorous information on each of these imperatives is a core part of the finance agenda, intensified by greater regulatory scrutiny following scandals such as WorldCom and Enron. In 2014, the adage 'you can't manage what you can't measure' can more accurately be read as 'you can't manage what you can't measure with consistency and speed.'

Reliable financial metrics underpin crucial equity, credit and investment decisions. They build confidence among auditors, investors and regulators, contributing to a superior business reputation and stronger external relationships. Management teams also look to the CFO's office for assurance that legal obligations are being met in full. A robust reporting framework must provide not just integrated performance reporting, but also insights into

- Capital requirements
- Environmental performance
- Shareholder value creation
- Total value creation
- Evolving regulatory environments

However, achieving excellence in reporting necessitates meeting challenges around regulations, technology and human capital. Stringent legal requirements coupled with inflexible IT systems and people issues can lead to delays, errors and non-compliance risks. They can also prevent the finance team from generating insights that allow the CFO to advise the business on strategic goals.

It's a Complex Matrix of Challenges for Financial Reporting

An unforgiving regulatory environment

In the aftermath of the global downturn, several governments tightened compliance standards or set entirely new requirements, such as through the Sarbanes-Oxley Act. Looking ahead, industry-specific regulations — such as IFRS 4 Phase II and Solvency II for insurers and Dodd-Frank for financial services in general — will force companies to revisit their financial reporting infrastructure. Across industries, the challenge is to manage the increasing complexity of reporting requirements while controlling costs. Companies unable to adapt, will see spiraling costs and exposure of their weaknesses, as one global bank discovered recently. The Wall Street Journal has reported that the Federal Reserve Bank of New York found that financial reports produced by the organization's US arm were 'of low quality, inaccurate and unreliable.' The report further said that as a result, the bank will have to spend USD 1.35 Billion and hire 1,300 people to strengthen its systems and controls.

Hamstrung by inflexible technology

Most current reporting systems lack the ability to adapt to shifting business and compliance needs. Upgrades can be complex; and legacy systems require elaborate workarounds and expensive reporting engines to produce customized reports. What global businesses need is the ability to capture all necessary data in an appropriate form; and deliver flexible reports as the need arises in an economical way. For instance, enterprises need to be able to rapidly assess past financial performance based on current Generally Accepted Accounting Principles (GAAP), or re-interpret results based on whether US GAAP or International Financial Reporting Standards (IFRS) are being applied.

The people paradox: Plain reporting versus actionable analytics

With limited staff, organizations struggle to go beyond 'vanilla reporting' and spend adequate time analyzing the information in those reports to generate valuable analytics. Consequently, finance organizations often restrict themselves to must-have reporting, at the cost of analysis that could improve compliance and financial insight. Nor is analytics talent easy to come by. A recent McKinsey report estimates that by 2018, the United States alone could face a shortage of up to 190,000 people with analytics expertise.

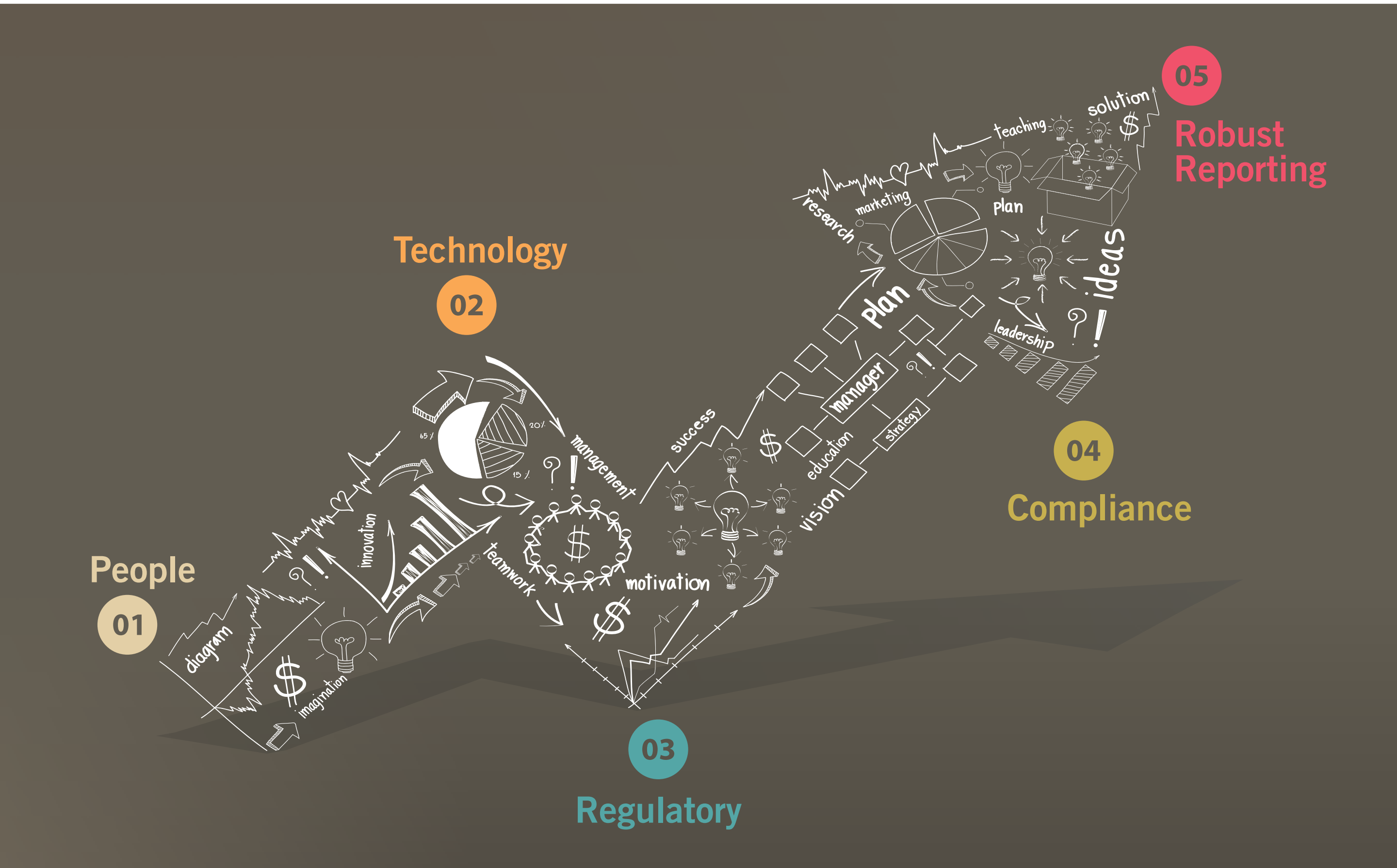
Quashing the Challenges with a Structured and Scalable Reporting CoE

To solve the triple challenge of regulations, technology and people, enterprises require an effective, efficient and inclusive reporting model that can deliver compliance as well as additional analytics. As companies from a wide range of industries are beginning to understand, the optimum solution is a Reporting Center of Excellence — one that has the requisite skills, best-of-breed technologies and deep regulatory knowledge.

Not all centralized reporting centers are created equal, however. The ability to ramp up or down at short notice and a well-defined organizational arrangement distinguish those that can deliver information with precision and speed. Without them, a CoE could quickly be overwhelmed by real-world pressures such as month- and quarter-end spikes in workloads.

A structured and scalable CoE is able to monitor and interpret complex regulatory changes, for example retrospective changes in IFRS financial presentations. It can also assess the impact of regulatory change on business operations, assess existing compliance levels, and support a wide range of reporting demands. With access to industry benchmarks, it identifies gaps between 'as is' and best-in-class, and works towards closing them.

If tracking profitability, cash flow, operational effectiveness, and governance, risk and compliance keep you up at night, consider adopting a structured and scalable CoE. Do it right and you will equip your organization with painless reporting and insightful analytics.



Five questions CFOs should ask before signing off on a reporting solution

01

Can it audit my current organizational reporting capabilities, systems and resource mix?

02

Can it assess confidence levels of currently published reports versus the desired state?

03

Can it accurately assess the current state of governance compared to the efficiency in producing clearly explicable results?

04

Can it shorten reporting timelines?

05

Can it identify improvement opportunities in my financial reporting process and help me report total value creation?

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