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BLACKLINE SYSTEMS

How can CFOs manage controls in a distributed environment?

by Gary Simon

Gary Simon is Group Publisher of FSN Publishing Limited and Managing Editor of FSN Newswire. He is a graduate of London University, a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the British Computer Society with more than 27 years' experience of implementing management and financial reporting systems. He is the author of four books, many product reviews and whitepapers and as a leading authority on the financial systems market is a popular and independent speaker on market developments. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

Introduction

According to a survey[1] by the International Federation of Accountant's (IFAC) the drive to integrate risk management and internal control systems is gaining momentum, but the tools and guidance to develop and implement a genuinely integrated system do not really exist. Although the study is three years old, for many organizations this still reflects a real dilemma. Their control and risk environment is fragmented, a natural consequence of the fractured applications architectures which have underpinned their processes for more than two decades.

Take for example, ERP and financial ledgers. A 2014 survey[2] found that nearly half (49%) of organizations had more than six different packages and it's a similar picture across other core financial processes such as budgeting, planning and forecasting (43%). Implicit in these fragmented systems architectures is the realization that improvements in financial controls and automation in one area do not benefit another and with the limited tools at their disposal the full value of investments in enhancing controls cannot be realized across the enterprise.

So how can an organization develop and sustain a suitable controls environment when its core financial processes are devolved and scattered between, say, different process owners, the corporate centre, shared services operations and business process outsourcers? And could a new category of "Enhanced Financial Controls and Automation" (EFCA) applications, help CFOs reassert control?

The drive towards standardization

In recent years transformation of the finance function has been a priority for CFOs seeking to drive effectiveness and efficiency in finance activities[3] and these initiatives have met with some success as enterprises move increasingly from decentralized to centralized operations. Indeed, most finance functions in countries with more mature economies are evolving toward more centralized operating models. On average, respondents to a 2013 KPMG survey[4] say they perform 51% of finance activities centrally and more specifically, finance operations of larger companies (having over USD 1 billion in revenue) are consistently more centralized.

Shared Service Centres (SSC) have played a vital role in this, allowing organizations to standardize on a single supplier platform, strip out wasteful 'non-value' added tasks, concentrate resources on the essentials, improve process visibility, reduce error rates and enhance management controls.

Indeed, according to another recent survey[5] 34% of organizations have had one or more SSC's. And although cost reduction is the main driver in 87% of cases and finance continues to be the process area most often moved into Shared Services (93% of Shared Services Centres) most organizations declare a favourable impact on controls. But this still leaves around 50% of the activities of large scale organizations outside the ambit of a centralized controls environment, with applications residing in different SSCs or with split responsibility between the corporate centre, its SSCs and its major operating units.

The global process owner

In an attempt to reign in the dilution of control and move to a more centrist approach, some companies have sought other models, for example by appointing global process owners or establishing Centres of Excellence (teams of specialists who work together to develop and promote best practices in their area of responsibility, provide subject matter guidance to the rest of the enterprise, or deliver business services).

In fact Deloitte's 2013 Global Shared Services study confirms that organizations are increasingly using global process owners to drive process efficiencies and standardization across shared services organizations.

And while these initiatives focused on organization and process have helped to partially redress the balance and exert more control they are hampered by the complexity of the underlying systems architectures and lack of comprehensive software solutions which support the process.

Existing approaches have not delivered

Historically, organizations have struggled to create a uniform and simplified controls environment because financial controls have typically resided in discrete ERP and corporate performance management (CPM) applications. This has presented significant management challenges because of the uniqueness of the controls environment in each application, the limited extent of automated controls and the many and varied financial applications supported by businesses.

Traditional Governance Risk and Controls (GRC) products are often seen as cumbersome and unwieldy and are unable to plug the functional gaps left by ERP and CPM solutions. At the same time recent research illustrate the folly of 'point solutions' designed to address controls in parts of the financial close process. A 2012 study[7], found that although 47% of companies have made "substantial" investments in the financial close, filing and reporting processes, 84% of finance managers surveyed said that they found it difficult to control the quality of financial data across the entire reporting process.

So could the emerging category of EFCA applications transform the situation?

Enhancing and automating controls with EFCA

In the past, functional gaps between traditional ERP and CPM applications have been filled by specialist vendors offering specific solutions to support common needs in areas such as reconciliation management, task management and the financial close. Over time these have blossomed and been added to as other common needs arise such as automated support for journal entry, variance analysis and intercompany eliminations. These applications have grown to such an extent that they have *de facto* established their own category of applications, now referred to as "Enhanced Financial Controls and Automation" (EFCA).

In the case of 'market makers' such as BlackLine, EFCA applications have been melded from their separate origins into a cohesive (and increasingly integrated) set of solutions residing on a single platform in the cloud. This presents businesses with a unique opportunity to bridge the gap between ERP and CPM while at the same time providing the enterprise with a single controls environment that can be readily super-imposed on whatever application architecture sits beneath it.

A cloud platform is fundamental to the success of EFCA in distributed organizations in which functional responsibility for controls is devolved. The cloud enables all parts of the organization to enjoy access to the extra functionality it needs wherever it may reside and this is particularly important in a financial controls setting in which there is a need to (i) reach out across the entire organization with high user participation; (ii) where management needs complete visibility of the process, on-demand and (iii) where there is a need to support collaboration between individuals within business function and between business functions.

EFCA in the cloud is now 'codifying' and confirming a new paradigm for managing controls in a complex distributed environment.

Summary

A joint survey by Deloitte and Forbes in 2012 found that fewer than 25% of respondents indicated that most risks are continuously monitored in their companies. Even in the areas that are considered to be most volatile, namely financial and strategic risk, relatively few companies use technology to continuously monitor risks. Instead, more than two-thirds say they only periodically monitor risk across the organization[5]. And while SSCs and global process owners have had a positive impact the overall effect has been limited by the complexity of systems architectures, mixed processing environments and a shortage of appropriate software solutions.

However, newly emerging EFCA platforms in the cloud, such as that from BlackLine, provide organizations with shared access to solutions which, for the first time close the gap between ERP and CPM, automate critical financial processes and unify controls across the organization whether these reside in the corporate centre, SSCs or operating units.

Bibliography

Note[1] IFAC Global Survey on Risk Management and Internal Control 2011

Note[2] Empowering the Modern Finance Function, Longitude Research, Accenture & Oracle 2014

Note[3] The Complete Finance Professional 2013, ACCA Global and Accountants for Business

Note[4] Inside the Intelligent Finance Function, KPMG 2013

Note[5] Global Shared Services Survey" Deloitte 2011

Note[6] Global Shared Services Survey" Deloitte 2013

Note[7] The Challenges of Corporate Financial Reporting, Accenture and Oracle May 2012

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