

Financial Consolidation and the Data Warehouse – Getting to the Financial Truth

Best Practice

Global Business Transformation
June, 2009

Frank Buytendijk
Vice President and Fellow
frank.buytendijk@oracle.com

Financial consolidation is at the basis of management information and management processes in most organizations. But financial consolidation has some specific architectural, procedural and practical requirements. This particular management process is better off *not* using a data warehouse as an intermediary in the closing process. The best practice is to directly link financial consolidation to the general ledgers.

Management Processes

- Iterative and explorative of nature, optimize results by going through the process multiple times.
- Hands-on, allowing the users maximal control over how the data looks like
- Off-line, aggregated, to allow users oversight and stability in making analyses.

Transactional Processes

- Linear of nature, optimize results by going through the process once.
- Hands-off, minimal user intervention to secure auditability, traceability, repeatability
- On-line, detailed, working on a transactional, real-time basis

One of the goals of a data warehouse is to provide a single source of the truth, as the basis of management information across the organization. Data is collected from various transactional systems, is integrated and aggregated, and made available through business intelligence tools and performance management applications. Performance management comprises capabilities such as financial consolidation, scenario analysis, scorecards, planning, budgeting, forecasting, and profitability management.

However, many finance professionals question the need for a data warehouse as the source for their financial consolidation process, instead of linking financial consolidation directly to their general ledgers. They are right. In this best practice brief, we'll discuss why, from an architectural, procedural and practical perspective.

Architecture

Although financial consolidation is generally accepted to be an important, if not crucial, part of performance management, financial consolidation has some characteristics fundamentally different from other a management processes. In fact, as a management process it looks more like transactional process. Most management processes, such as plan-to-act or analyze-to-adjust are iterative of nature, and very hands-on. Users take an explorative view on the data, where one question leads to another. Financial consolidation, as part of record-to-report, in contrast, behaves more like transactional process, such as order-to-cash or procure-to-pay. Financial consolidation should be linear of nature, and as hands-off as possible. The level of automation and standardization should be as high as possible, to secure a reliable, auditable and repeatable process. As a consequence, for financial consolidation purposes there is no added value for adding the data warehouse as an intermediate storage stage in a further transactional process.

How to structure a financial consolidation process

- Load data directly from general ledger
- Integrate using pre-built financial intelligence, for compliancy reasons
- Perform financial consolidation as unattended and automated as possible
- Feed results to data warehouse, for dissemination to stakeholders

Oracle Products

- Hyperion Financial Management
- Hyperion Financial Data Quality Management

Procedural

Financial data has specific requirements regarding the chain of custody. It needs to be 100% accounted for, auditable and every step needs to be retraceable. Based on Sarbanes-Oxley regulations both the CFO and CEO need to personally sign for the accuracy of the information. Routing the financial data from the general ledger through the data warehouse before feeding it to the financial consolidation system is not only an unnecessary step, but it endangers the chain of custody. It introduces governance issues, as the data warehouse processes and houses many types of information owned by multiple business domains.

Practical

Due to US GAAP and IFRS regulations, financial data transformations are highly standardized. Although the ETL (extract-transform-load) or data integration tool used by the data warehouse may functionally be able to deal with the complexity of financial data transformation and integration, there is no point in reinventing the wheel, if this logic exists prebuilt in standard financial consolidation packages. Take for instance FAS 103, a complex business rule on recognition of other income on the disposal of fixed assets. Best-of-breed prebuilt functionality allows finance professionals to make ledger-to-headquarters mapping decisions directly, and see the impact on the balance sheet balances, financial ratios and accounts. These requirements, particularly in multiledger environments, can live at odds with IT-managed complex ETL processes that should be focused on maximum control and stability.

Discussion

80% of Fortune 500 organizations bypass the data warehouse for the financial close process. Does this mean that the Finance department should be excluded from the data warehouse? Not at all. The majority of finance-run processes is managerial of nature, and a large part of finance-related information is as well. Operational management needs to have insight in the financial consequences of their operational decisions, and require financial management information. Financial management, in return, needs to be able to access operational management information, to gain insight in the business' value drivers, and as such improve and maintain financial predictability. Also from a planning perspective, operations and finance need to be integrated. Financial and operational information both belong in the data warehouse, in an integrated manner.

Once it is understood that financial consolidation is fundamentally not a management process, but an operational process, the architectural issue disappears. The financial consolidation system, like any other transactional system, should be seen as a source to the data warehouse. This way, the data warehouse still serves as the single source for management reporting. This might raise the issue of timeliness. Financial consolidation takes time, and other types of data might be routed into the data warehouse sooner or with a higher periodicity. That problem can be solved like with any other source system; distinguishing between preliminary and final data loads.

Bottom line

Keeping financial consolidation outside the data warehouse architecture is not an 'exception to the rule', but a matter of architectural soundness, combined with an understanding of governance issues and simply a practical solution. Key to keeping the architecture 'clean' is the understanding that financial consolidation is not a management process, but transactional of nature.



Oracle is committed to developing practices and products that help protect the environment