Financial close, consolidation, and reporting

Leveraging process alignment and Oracle Hyperion EPM Tools

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Today's finance organizations face multiple priorities that include the oversight of financial transactions, management of enterprise performance, attestation of financial reporting, and timely close and consolidation of financial data. As they grapple with these issues, Chief Financial Officers (CFOs) are always seeking ways to increase the efficiency and timeliness of their financial close and compliance processes. However, merely improving the speed of the financial close process is not enough. There is a competing demand for improved financial governance and increased transparency and reliability of data. The pace of regulatory change also continues to increase as a result of the current economic challenges as well as on-going regulatory initiatives such as the mandate of eXtensible Business Reporting Language (XBRL) as the reporting standard format and the likely move to International Financial Reporting Standards (IFRS). Finance organizations need to proactively manage the challenges of data quality and prepare for new regulatory requirements to avoid creating a "perfect storm" for their financial close and consolidation processes.

> "Finance organizations need to proactively manage the challenges of data quality and prepare for the upcoming regulatory requirements to avoid creating a perfect storm for their financial close and consolidation processes."

Over the last decade, the financial reporting landscape has seen significant change. Finance executives face mounting pressure to increase the accuracy of financial reporting while decreasing turnaround time. Costs are being highly scrutinized as the longest recession in U.S. history continues. Regulatory agencies have introduced a host of new standards and accounting rules changing materiality thresholds, requiring detailed schedules, and new disclosures for public filings. To complicate matters, many finance organizations are being asked to do more with less, as headcounts are reduced in response to economic pressures.

Examples of the challenges faced by finance organizations today include:

- Typical public filings have grown from 10-15 pages to up to 75. Regulators and agencies continue to require more detailed explanations of public filings.
- Regulators have shortened the timeframe for filing requirements while increasing the demand for detail. Quarterly submissions are due within 40 days (down from 45) and annual filings due within 75 days (down from 90).
- The convergence of accounting principles generally accepted in the United States of America (U.S. GAAP), IFRS, along with XBRL requirements requires new definitions for financial statements. Compliance has taken on a life of its own — requiring more time and expense for technical accounting and financial reporting.
- Faced with reduced staffs and high burnout, employee turnover continues to be very high as many CFOs have determined the stress and risks outweigh the benefits of the role.

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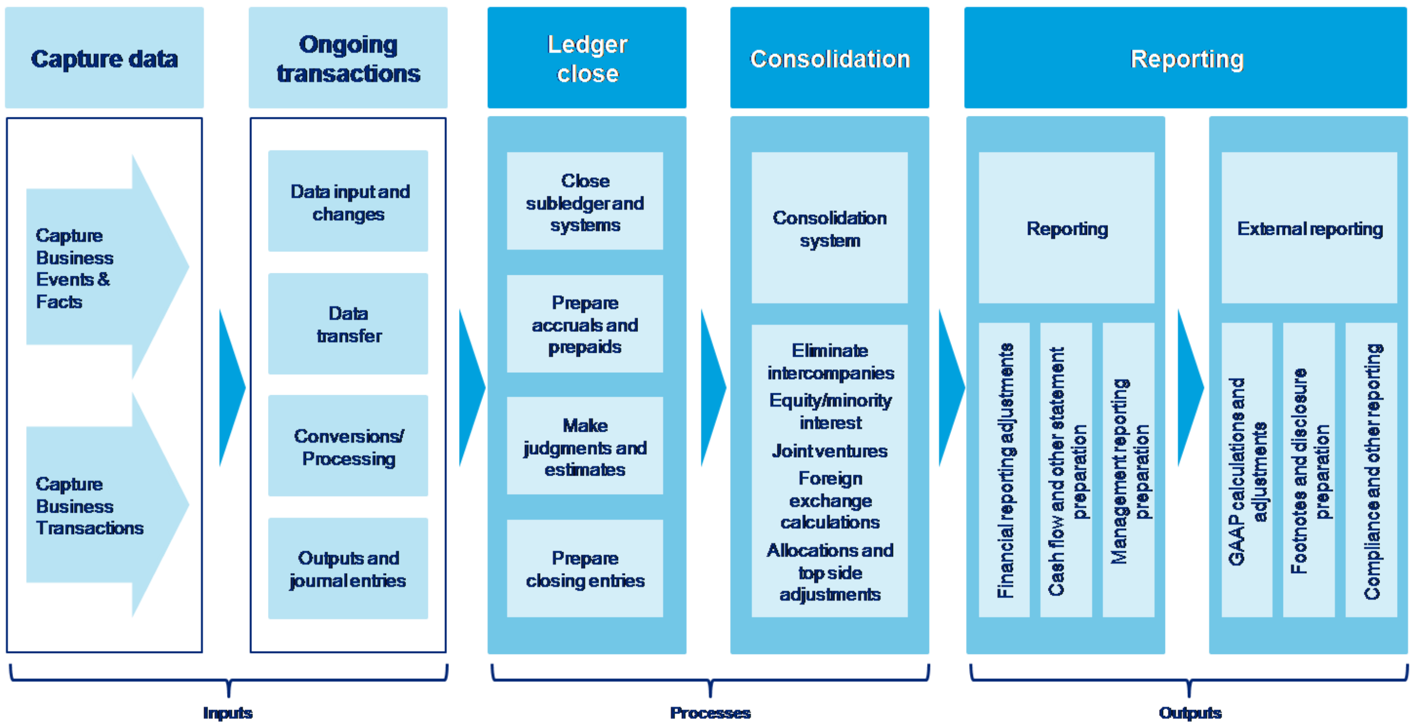
Finance leaders find themselves squeezed between meeting public demands, attempting to ease the burden on overworked staff, and meeting the technical requirement of regulators. With limited resources, how can finance organizations deliver accurate, useful, and timely data to an increasing number of stakeholders? What effective practices do organizations follow to streamline processes while meeting regulatory obligations and increasing transparency?

Avoid the domino effect

The financial close is a set of sequential steps requiring alignment and a clear direction across the organization. Each step in the process has dependencies on others, and delays result in a domino effect, pushing each subsequent activity back and resulting in more manual efforts and decreased transparency. Organizations that are able to monitor and react during the close cycle can reduce the impact of a breakdown in the process.

The figure below illustrates the typical financial close process within the context of other finance operations:

Figure 1



Source: Raj Chhabra

Plotting the course: Phase I — Ledger close

Most organizations are faced with a similar set of challenges during the ledger close phase. While some accounting processes vary between industries, the underlying themes remain the same.

Table 1

Challenge	Why?
Nonintegrated systems slow the flow of data required to close subledgers and business units	Manual adjustments are typically required to finalize data Submission is impacted due to limited ability to extract a complete data set without time-consuming manual intervention
Nonclose related accounting activity is performed during the critical ledger close period	Corporate ledger closing requirements have not been formally defined resulting in site-specific processes Status quo has evolved over time resulting in unclear roles and responsibilities
No capabilities to track performance to identify bottlenecks or recurring issues	Routine occurrences are known only at the source and do not get resolved Environments are reactive when issues arise because expectations are not communicated

Effective finance organizations address these issues by establishing a ledger close governance framework. Central components of this governance include:

- **Policies and procedures** — establishing rules and defining requirements for accounting activities can lead to standardized processes and help mitigate the risk of accounting errors. Creating policy and procedure manuals is a good way to help achieve knowledge transfer.
- **Roles and responsibilities** — defining tasks and dependencies when ambiguities exist between functional areas can help clarify key activities and decision points. This can help increase the efficiency of a close process by reducing duplication of efforts.
- **Ledger close calendar** — developing a close calendar can provide finance with the ability to identify dependent sources of information for key activities and track progress against milestones. Additionally, assigning ownership to individual tasks can help improve status reporting and accountability.
- **Ledger close scorecard** — defining and tracking key close metrics can enable organizations to perform post-mortem evaluations to more easily identify improvement opportunities and facilitate target setting for future initiatives.

If you don't have a plan, you typically won't reach your destination on time. An effective ledger close governance framework should provide the tools to develop the plan, communicate it globally, and reinforce the roles and responsibilities that lead to greater accountability. Additionally, it should help encourage a proactive environment where more issues can be solved.

Create pieces to one puzzle not many: Phase II — Consolidation

The close and consolidation of financial books is the process that corporations use on a monthly or quarterly basis to reconcile, translate, eliminate, consolidate, and report financial information. Each company has their own recipe of closing and consolidating their financials with varying degree of efficiency and standardization.

What if:

- Business unit source ledgers had been absorbed over time and account structures have not been aligned?
- Transaction data required manual intervention in order to provide reporting and analysis?
- The U.S. dollar was not the currency supported in field ledgers?
- Segment and legal entity structures differ?

These are some common questions raised by stakeholders about the challenges of transforming transactional data into high-quality information. Often, the answers leave finance leaders in a position of having to explain why it takes so long to produce "multiple versions of the truth." This can result in increased risk, more time required to reconcile data, and less time available to analyze it.

Table 2

Challenge	Resulting issue
No commonality in account structure	Inconsistent account use Inaccurate financial statements
Multiple currency translations	Different translation rates Unpredictable currency translation implications
Unresolved Intercompany eliminations	Manual corrections Extended reconciliation efforts
Lack of visibility into legal entity or subconsolidations	Offline tax reporting Different rollups = different totals
No established hierarchy structure for accounts or entities	Use of multiple spreadsheets for consolidation Inability to adapt to Securities and Exchange Commission (SEC)/Agency requirements

Unlike the ledger close phase, consolidation does not have a simple blueprint that provides financial executives with a framework for improvement. However, there are guidelines that effective finance organizations follow to make all the pieces fit together better:

- **Define commonality** — defining a common chart of accounts is typically the first step toward aligning local ledger data. Requiring field ledgers to map to a common set of data elements speeds consolidation, can improve accuracy, and help establish the skeleton of financial statements and supportive schedules.
- **Create flexibility** — creating flexible hierarchy structures can enable the consolidation tool to serve as the central repository for financial data. Establishing a multidimensional, multiscenario solution can provide financial reporting a single platform to develop financial statements and schedules to help meet accounting and compliance requirements.
- **Combine process and technology** — before implementing technology, process owners and the technical design team need to collaborate on business requirements to better understand the current state. Combined efforts can result in a solution that will help reduce manual data entry, improve controls, and move the organization toward standardization.

The overall goal of the consolidation process is to collect and transform data into financial statements. Leveraging the principles listed above will help finance leaders in their efforts to provide tools and data to their growing number of stakeholders who rely on accurate and timely financial results to evaluate and measure performance, devise business strategy, and meet regulatory requirements.

Communicate with stakeholders through reporting: Phase III — Reporting

Financial reporting standards are under constant modification. The investment community and regulators continue to require more organized and systematic exchanges of financial information. This impacts both how and when financial data is distributed and communicated. In recent years, organizational and regulatory changes have increased both the level of effort and technology required to meet an ever increasing demand for more standardized data, quicker access to financial data, and visibility into financial reports and disclosures.

Reporting was once considered an outcome of the consolidation process; however, effective finance organizations now drive design of financial consolidation and reporting technology solutions by first defining the financial data detail requirements of compliance reports and schedules. Given today's landscape, reporting requirements must be fully understood and taken into consideration when designing policies and procedures for all aspects of the financial close process.

What is being asked of financial reports and disclosure schedules?

Table 3

Requirement	Challenge
Standardization and consistency in data	Multiple financial statement hierarchy definitions Time consuming manual efforts to prepare useful results
Flexibility and adaptability	Inability to add or modify financial data structures High cost to update and maintain systems
Transparency and visibility	Lack of access to financial statement details due to offline combinations Reliance on Excel spreadsheets and manual processes
Repurpose financial data	Multiple versions of the truth Disparate and nonintegrated reporting
Global applicability	Different regions, different requirements No universal or common unit for rollup and reporting

Effective organizations are taking steps to automate this function to control versions, improve communication, and ensure accuracy. To address these challenges finance leaders turn to new technological solutions such as XBRL. Regulatory mandates are driving the implementation of XBRL-based reporting as it is rapidly emerging as the standard for the reporting and exchange of financial information.

Effective organizations seek to:

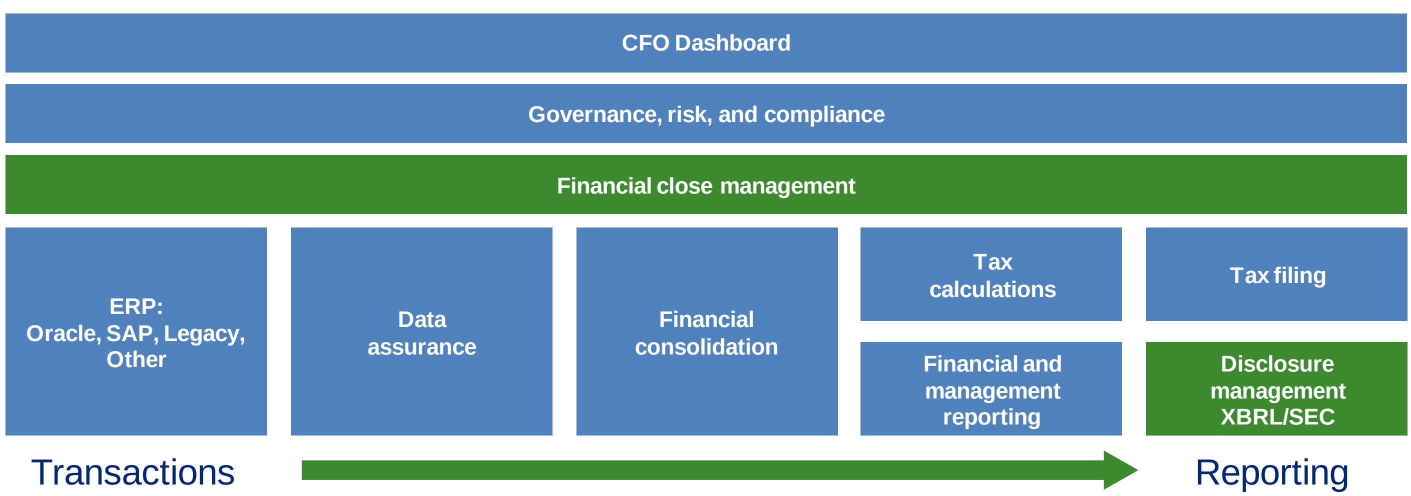
- Align XBRL taxonomies with the current multidimensional hierarchies that are the backbone for financial statements and supportive schedules.
- Increase the internal capabilities for XBRL reporting to help reduce the costs and gaps in information sharing that are associated with outsourcing.
- Improve efficiency in reporting by monitoring who is responsible for data and when, similar to close process management.
- Reduce the number of current versions and streamline the review, approval, and update cycles by developing a control document and origination ownership.

Financial results have never been more scrutinized. The traditional requests for transparency and improved accuracy are being taken to new levels by the requirements of Sarbanes-Oxley (SOX), IFRS, and XBRL. Quality results need to be provided timely, accurately, and to multiple stakeholders in regulatory agencies and the investment community. Effective finance organizations consider reporting the most critical component of the financial close, and therefore let reporting requirements drive the design of the entire process.

Leveraging Oracle to optimize financial close, consolidation, and reporting

To fully support the extended financial close process, from the closing of subledgers and general ledgers to the creation of financial reports and regulatory filings, a broad set of technology solutions and capabilities is required. Oracle is taking a broad view of the extended financial close and reporting process and provides an integrated software solution to address the full range of requirements. Included in the solution are financial accounting applications, data assurance tools for collecting and integrating financial data from Oracle and non-Oracle transactional systems, market-leading financial consolidation applications, tools to support both internal management reporting and external financial reporting, as well as best of breed governance, risk, and compliance solutions to enforce internal controls.

Figure 2



Oracle's world class financial close and reporting solution

Oracle has recently introduced two new applications to help customers navigate the "perfect storm" of increasing regulations, higher scrutiny, and a difficult economy. Built specifically for consolidation and reporting applications, Oracle Hyperion Financial Close Management and Oracle Hyperion Disclosure Management assists with streamlining the extended financial close cycle and takes regulatory reporting to the next level with automated XBRL reporting.

Oracle Hyperion Financial Close Management

The Oracle Hyperion Financial Close Management application is built for centralized, web-based management of period-end close activities across the extended financial close cycle. Oracle Hyperion Financial Close Management is designed to manage all financial close cycle tasks including ledger and subledger close, data loading and mapping, financial consolidation, reconciliation, tax/treasury, and internal and external reporting processes and tasks associated with the extended financial close.

Most companies manage the extended financial close process using offline spreadsheets, e-mails and phone calls. This is cumbersome and time-consuming and can often slow the financial close and make it more errorprone. Another challenge is the wide diversity of the tasks themselves — the financial close can mean different things to different people. To a divisional controller it may mean closing out the subledgers and general ledger at month-end or quarter-end and submitting the results to corporate. To a headquarters accountant the financial close is about collecting the details from the divisions, making final adjustments, and performing the corporate financial consolidation and reporting. And to the CFO and other finance executives it's about finalizing the results, announcing earnings, and creating 10Q/10Ks and other regulatory filings for the SEC and other stakeholders.

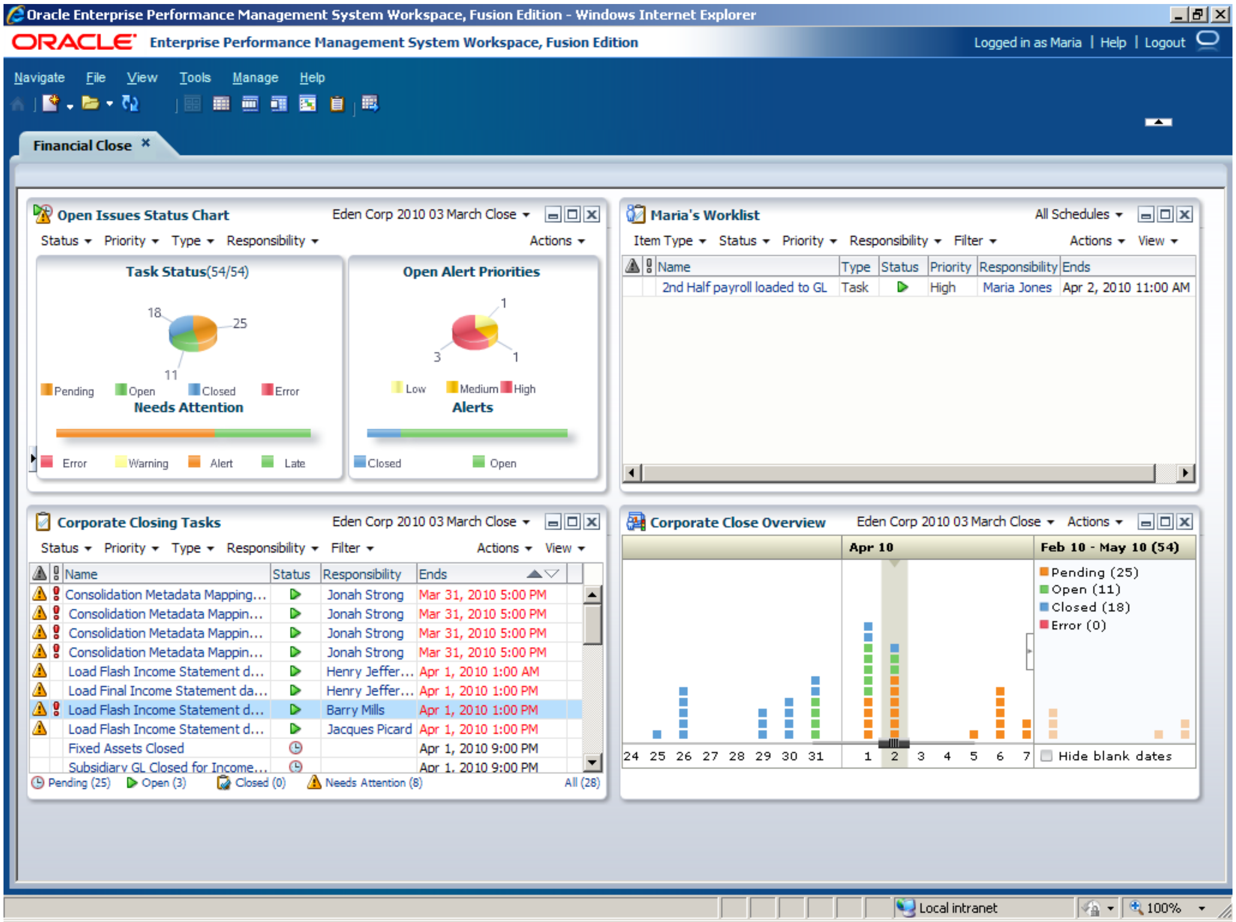
The extended financial close and reporting process is all of the tasks and processes from closing out the subledgers to creating and delivering financial filings to the SEC and other regulatory bodies — which involves many systems, departments, and individuals. This process is very complex to manage and too important to control using "hope and e-mail." Ultimately, without a centralized approach to task management, it becomes more difficult to deliver results quickly to both internal and external stakeholders — while ensuring compliance, auditability, and accuracy. And without an automated system for coordinating and tracking the entire process, identifying bottlenecks and areas for potential improvement, it's very difficult to shave time from the extended close and reporting process.

Key features of Oracle Hyperion Financial Close Management include:

- An easy to use task scheduling and management feature to ensure the correct prioritization of closing tasks
- Pre-built, web-based dashboards for monitoring the progress of the financial close
- Common calendar views, task list views, and Gantt views are leveraged for each user's tasks based on security
- Active calendars and task lists that allow you to launch applications to complete tasks from the calendar itself
- An automation feature — allows scheduling tasks for lights-out processing
- A roll-forward feature that allows quick set up of new financial close calendars based on the prior financial close

Tasks can be anything that needs to be done during the close process — whether in the transaction system, general ledger, consolidation system, or reporting system. Employees are assigned to each task and given a due date relative to each period so it's also easy to identify bottlenecks in the process.

Figure 3



Oracle Hyperion Financial Close Management assists companies with managing the financial close process proactively, rather than being surprised by failures in the process that can cause extensive delays. In addition, once bottlenecks and inefficient processes are made visible, they can be dealt with through process improvements and clear communication of objectives.

Oracle Hyperion Disclosure Management

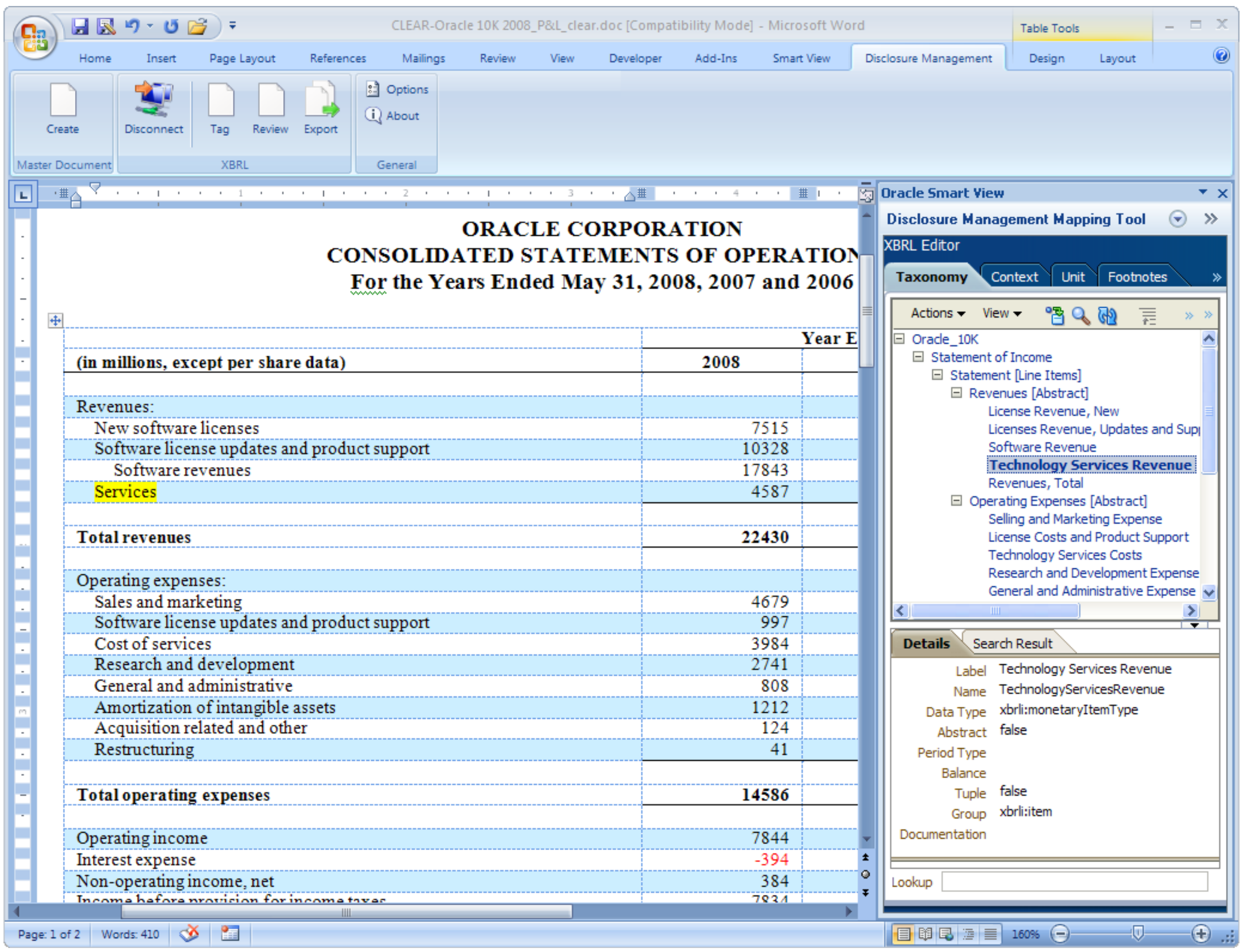
The second of the two new applications, Oracle Hyperion Disclosure Management is an application designed to help with the creation of XBRL documents. This application is integrated with Oracle financial reporting and EPM tools. For larger companies that file with the United States SEC, supplemental 10K/10Q submissions in XBRL are now required by law. The XBRL standard has also been adopted by a number of stock exchanges and regulatory bodies around the world. XBRL is designed to make it easier for regulators, analysts, and investors to consume and analyze financial information, but it can be a technical challenge to create complete and accurate SEC filings in this new format. Most SEC filers are using expensive third-party publishers for this process today, and for the small minority of SEC filers who are creating XBRL filings themselves, they are often hampered by software that can be difficult to use, and that is not integrated with their underlying financial reporting process and technology. The requirement to create XBRL “tags” associated with each line of a financial statement, as well as the supporting schedules, footnotes, and disclosures is difficult today, and it will become more difficult in the future as the SEC begins to require detailed tagging of the information within the footnotes in 2010. Disconnected spreadsheets and documents, third-party tools, or expensive third-party experts are the typical approach to XBRL filings today.

Using Microsoft Word as the authoring environment, along with Oracle Hyperion Smart View for Office and/or Oracle Hyperion Financial Reporting, Oracle Hyperion Disclosure Management can “hot link” 10K/10Q and XBRL filings directly to Oracle's financial reporting applications to ensure completeness, accuracy, easy updates, and roll-forwards. The filings can then be produced in multiple formats — i.e., Microsoft Word, HTML, PDF as well as XBRL. The output from the application will support various regulatory authorities and reporting standards: U.S. GAAP — SEC, IFRS — European Exchanges, Asia — anywhere XBRL filings are required.

Key features of Oracle Hyperion Disclosure Management include:

- A taxonomy extension and management tool for customizing taxonomies
- The ability to load and map any XBRL taxonomy
- An XBRL validation tool that will check the XBRL calculations against the calculations from Oracle's enterprise performance management applications and identify any errors
- A drag and drop feature for tagging new accounts
- Tagging at the application metadata level or report level. When XBRL tags are created at the metadata level (i.e., application account level) the tags become automatically available in any new report.

Figure 4



Oracle Hyperion Disclosure Management is a XBRL creation and management solution that helps demystify XBRL. With Oracle Hyperion Disclosure Management customers will come to view XBRL as "just another reporting format" like PDF, HTML, etc.

Conclusion

An Integrated close that links financial numbers with workflow, relevant controls, disclosure, reconciliations, and close tasks can help improve transparency, predictability, and flexibility for the finance organizations. Improved processes with optimized technology can help increase productivity, improve cycle time, and governance. Finance organizations can more effectively navigate the "perfect storm" resulting from their close activities by optimizing their processes and implementing appropriate technology.

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