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# “Beyond the ‘final mile’ of group (corporate) financial reporting”

A FSN & Oracle White Paper

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**Introduction** The group (corporate) financial reporting process has been in a constant state of flux since the introduction of the Sarbanes Oxley Act in 2002. Regulation and compliance have been in the ‘driving seat’, stretching the breadth of reporting, accelerating reporting deadlines, introducing new information requirements and ushering in a new era of electronic filing based on the global XBRL standard.

But the greatest impact has been on the final throes of the financial reporting supply chain – the so called ‘final mile’ – loosely defined as the stage between the final group consolidation and the presentation of the fully adjusted results and disclosures to internal and external stakeholders.

In many cases the response to the demands of the final mile has been haphazard, with temporary fixes and ‘bolt on’ solutions for XBRL, document management, collaboration and financial control, jeopardising productivity in the group finance department and increasing compliance costs.

It’s an approach which is strikingly at odds with the clear trend for integration over the last decade in which the earlier stages of group (corporate) reporting have become increasingly joined up and streamlined. This has created a yawning gap between the tightly integrated pre-consolidation phase of the reporting supply chain and the poorly supported processes around the production of financial statements, management accounts and statutory filings.

So the challenge facing the group (corporate) reporting function is twofold. Firstly, how to integrate the key process steps within the final mile and, secondly, how to integrate the final mile with the earlier pre-consolidation phase of the reporting cycle so that the benefits of data quality, enhanced control, process visibility, speed and productivity flow seamlessly through the reporting supply chain – from start to finish.

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## The challenges of the financial reporting chain

Over the last decade, tremendous progress has been made in the pre-consolidation phase of the financial reporting supply chain, for example, the ease with which data can be harvested from subsidiaries and submitted to group. The ability to readily capture information from integrated ERP systems together with financial data quality management and advanced analytical and reporting tools has led to a step change in financial integrity and the ability to respond to new information requirements.

Fig 1: The extended financial close processes



But significant challenges remain in integrating the pre and post consolidation phases and in responding to the special challenges of the post-consolidation phase namely;

- the increasing burden of regulation and compliance
- the number of stakeholders
- shift towards real time reporting

### Regulation and compliance

International Financial Reporting Standards (IFRS) and other regulatory requirements continue to take their toll on the group (corporate) reporting process. Sector specific, financial and non-financial information requirements have all expanded as governments respond to the public clamour for more transparency and accountability. Basel 3 has introduced new solvency requirements for the financial services sector, carbon trading and reporting schemes have produced the need to gather new information about energy use and concerns about institutional fraud and bribery have produced a whole raft of needs (Dodd-Frank Act, Foreign Corrupt Practices Act) around governance, risk and compliance.

But there are significant impediments to the seamless introduction of these changes. The sheer scale of many multinationals, the number of reporting hierarchies and the varied time zones in which they operate can mean that the roll out of even the simplest changes can have serious repercussions for the organization, its processes and technology. Businesses with multi-vendor platforms and an over-reliance on the IT department and spreadsheets (see more later) are particularly exposed to implementation complexity, costly delays and loss of productivity. These difficulties are exacerbated by inconsistent accounting policies and poor ‘line of sight’ between the group (corporate) finance function and local operations.

### Stakeholder Management

Regulated industries, such as financial services and pharmaceuticals have become accustomed to responding to the specific needs of their sector, but more recent changes in the regulatory environment have expanded the number of stakeholders to which organizations are either directly or indirectly answerable. Environmental reporting, sustainability reporting and CSR (Corporate Social Responsibility) have become permanent ‘fixtures’ for many organizations. Trade Unions, the public, investors, fund managers, employees, lobby groups and environmental specialists are just some of stakeholders with an interest in this aspect of reporting. Compliance reporting also touches a wide range of internal and external stakeholders, from regulatory supervisors, to audit committees, internal and external auditors.

The net result is that organizations are operating in a profoundly different and more challenging stakeholder environment from 10 years ago; namely;

- Core financial and non-financial information is ‘re-purposed’ many times for different stakeholders. For example; the way that revenue information is presented to the public and employees is quite different from statutory filings such as the 10K or a CSR report.
- Quantitative information appears in different presentations and documents according to different stakeholder needs, raising the risk of inconsistencies in reporting and communications to the capital markets.

- The technologies used to deliver information are more varied; HTML on the web; multimedia presentations, PDF, XBRL, Adobe InDesign, Microsoft Word and PowerPoint, stretching the skills of the finance function.

### Real-time reporting

The introduction of XBRL (Extensible Business Reporting Language) and its iXBRL variant has raised the tempo of group (corporate) reporting from the passive submission of statutory filings to the instant delivery of digital packets of information to regulators. Furthermore, in the fullness of time, users of XBRL will have the tools to make instant enquiries on XBRL databases to compare performance of companies around the world and to inform investment decisions, increasing the pressure on the group finance function.

What regulation and compliance, stakeholder management and real-time reporting have in common is that they are all totally reliant on every step of the underlying group reporting process for their integrity. Yet the pace of change in the final mile has been so rapid that the response to each requirement has been reactive and isolated. For example,

- Organizations have applied a variety of XBRL approaches, ranging from XBRL solutions embedded in group (corporate) reporting software to standalone conversion tools and outsourced tagging services.
- Varied stakeholder requirements continue to be managed in process silos, limiting the opportunities for collaboration, process automation and control.
- New information requirements, for example, conversion to IFRS, have been implemented at the level of the group accounts because there is insufficient time, at least initially, to roll them out across the enterprise.

So what sort of architecture is needed to meld the technical, process and organizational requirements of the final mile yet integrate it with the pre-consolidation phase, i.e. to regain mastery of the financial reporting process and put group finance back in the driving seat?

## What sort of architecture would work?

### Pre-consolidation

For most organizations, ERP or financial management systems form the bedrock of their operational systems. The value of the ERP system in group reporting terms is that it captures transactions at source and imposes a high level of validation to ensure that transactions are completely and accurately recorded. So by extension, an ERP system which is tightly integrated with a group (corporate) reporting system preserves the integrity of these transactions (and hence balances) as they are propagated through the reporting supply chain to their final destination in the group (corporate) accounts.

Financial data quality management tools ensure that structural changes in metadata (for example, cost centres, versions of reporting, charts of accounts, reporting currencies) are trapped so that transactions are accurately mapped from operational charts of account to the summarised charts of accounts used by groups as the basis of their statutory, regulatory and management reporting.

The same data quality management tools also ensure that specialised data residing in third party applications, i.e. outside of the ERP systems, such as environmental data can be brought in and governed by the same set of data quality management disciplines as the information derived from the native ERP systems.

In recent years, this tightly integrated architecture in the pre-consolidation phase has been highly successful in ensuring that most businesses can consolidate financial and non-financial information and have confidence in the results. The challenge is what happens post-consolidation and what safeguards are needed to ensure a similar level of dependability in the ‘final mile’.

The first thing to recognise is that the processing demands of the ‘final mile’ are very different from the earlier stages of the group (corporate) reporting process which largely manages the flow of transactions.

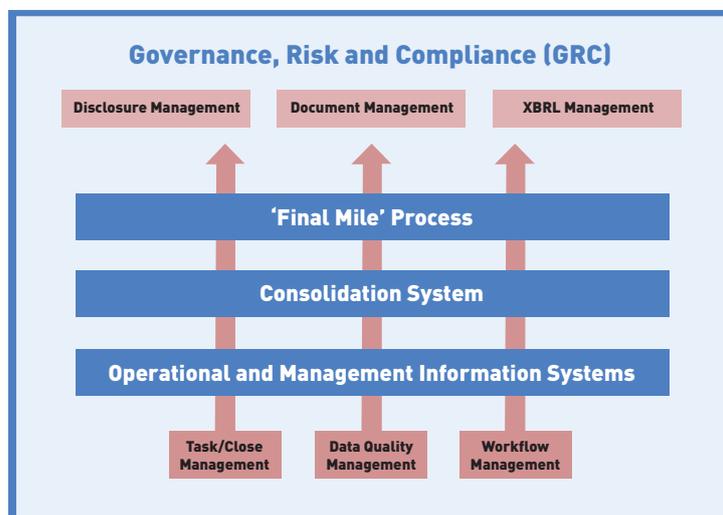
Table 1: Notable differences between the pre and post consolidation phases of the extended financial close

| Pre-consolidation  | Post-consolidation   |
|--|--|
| Marshals <i>transactions</i> from reporting entities to group  | Captures <i>balances</i> and <i>commentary</i> in documents for internal distribution and external filing  |
| Validation controls applied at source  | Limited validation possibilities post consolidation and over-reliance on standalone spreadsheets means that the integrity of reports relies heavily on manual checking.  |
| Transaction mapping from entities to group (corporate) chart of accounts is a well established process   | Mapping from summary balances to XBRL is a developing science — sometimes outsourced with no internal technology support. Multi-GAAP taxonomies, taxonomy extensions, footnotes and text disclosures add to the complexity.            |
| Task management and work flow manage the status of balance submissions through various organizational hierarchies.   | The process is largely manual between stakeholders. Where document management, workflow and XBRL tools exist they are almost always standalone.  |
| Leading consolidation systems allow balances and data to be traced backwards or forwards through any stage of the process, giving complete visibility to authorized users. | Documents and disclosures cannot be readily traced through different iterations (versions) and the link between the final consolidation and disclosures is broken, reducing productivity and raising doubts about reporting integrity. |
| The control environment up to the point of consolidation is embedded in the process  | The control environment is fractured within the final mile and between this stage <i>and</i> the pre-consolidation phase of the reporting supply chain.  |

**The need for shared capability**

Although the nature of the pre-consolidation phase of the financial reporting supply chain is different in some respects from the final mile process there is clearly a case for overarching technology which straddles both phases. For example, both phases should leverage the same task management and workflow platform allowing rapid remediation of problems and clear visibility of all of the tasks right across the reporting supply chain. Furthermore, with an explicit link (integration) between these two phases it becomes feasible to trace disclosures in the final accounts back and forth to the source systems.

Fig 2: Target architecture for financial close and reporting



Source: FSN Publishing 2011

In this target architecture, task management, data quality management and workflow management are shared between the pre- and post consolidation phases of the reporting supply chain. The argument for integration using these tools is compelling.

Task management gives a complete compendium of all of the tasks necessary to execute the reporting supply chain effectively. Used across the pre- and post consolidation phases it gives management complete visibility of progress status, outstanding tasks, issues arising and bottlenecks across the entire process.

Data quality management provides the traceability or audit trail to allow balances to be traced backwards and forwards to original transactions. Finally, workflow provides the organizational ‘glue’ which ensures, for example, that tasks are managed in an orderly fashion, that authorizations, approvals and rejections are routed to the right people and that issues are escalated for remediation in a timely fashion.

### **Post-consolidation**

Disclosure management, document management and XBRL management pertain almost exclusively to the final mile phase of the process. These applications are needed to govern the management and dissemination of sensitive financial disclosures and to deliver them safely in whatever output format is needed – overcoming the substantial organizational problems normally associated with this phase (see below).

The critical role of integrated Governance, Risk and Compliance (GRC) as part of the broader reporting landscape is a perspective that few organizations can afford to overlook. Changes in the regulatory environment are forcing a heightened awareness of risk management and the need for the continuous monitoring of controls and transactions needs to be ‘baked’ into any target architecture.

## **The organizational challenge in the final mile**

In the ‘final mile’ phase of the process, workflow, document management and XBRL capability take on a special significance, as the emphasis changes from managing transactions residing in the consolidation system to the more labour intensive process of managing documents and filings. When workflow capability is integrated with document management functionality and Microsoft Office, the resulting synergy can produce a step-change in user productivity and control. But for many finance functions the benefits remain elusive because of an over-reliance on ad-hoc technologies (especially spreadsheets) or stand alone ‘last mile’ solutions.

### **The ad-hoc approach**

Despite the considerable effort expended on managing data quality, improving collaboration and honing the efficiency of the pre-consolidation process many of these benefits are frittered away because of a lack of integration between applications, a miscellany of document/file formats and a high degree of manual intervention leading up to the final creation of results.

**Table 2: The varied file formats encountered in the final mile**

| Report object            | Illustrative use  | File format                               |
|--------------------------|---|---|
| Bar chart and pie charts | Turnover, profit, volumes, segmental analysis, market share | Excel®, .xls                              |
| Tables                   | Financial results and comparatives                          | Word, .doc                                |
| Diagrams                 | Production processes, product descriptions                  | PowerPoint®, .ppt                         |
| Photographs              | Employees, management buildings                             | Bit map or jpeg                           |
| Text                     | Narrative and footnotes                                     | Word, .doc; Adobe InDesign; Quark Express |
| XBRL                     | Regulatory filings  | XBRL and iXBRL                            |

In organizational terms, high quality document production sits uneasily with group (corporate) reporting applications. The scope for error as successive users ‘cut and paste’ structured and unstructured information from Microsoft Excel reports to Microsoft PowerPoint and Microsoft Word or from the group system to a file format acceptable to external printers is significant.

Apart from the amount of time consumed in the process, managing the flow of individual spreadsheets and documents between, group finance personnel, internal audit, investor relations, PR Agency and, say, a graphic design house, is very testing for the finance function. There is also the inevitable difficulty of verifying the integrity and provenance of the reports created in Microsoft Excel, for example who actually generated the report, made changes and when.

A further strain is the need to maintain version control over documents as well as strict security and confidentiality over the information they contain; a position that is exacerbated by fractured systems, a convoluted process and the increasing number of people involved in the final stages of document production.

**Standalone ‘Last Mile’ solutions**

Standalone or so called, ‘Best of Breed’ solutions seek to overcome the lack of integration of the ad-hoc approach by providing a ‘container’ or single environment from which all users can retrieve documents and disclosures associated with the final mile. Viewed in isolation this approach provides significantly more user control and visibility in the final mile but , through lack of integration, critically fails to leverage the strengths of the pre-consolidation phase, for example;

- The ability to sustain the same level of control and visibility of numbers throughout the process, regardless of phase.
- The facility to manage tasks, workflows, numbers and documents in a single environment.
- The ability to maximize productivity (reduce finance costs) by eliminating process gaps and organizational complexity.

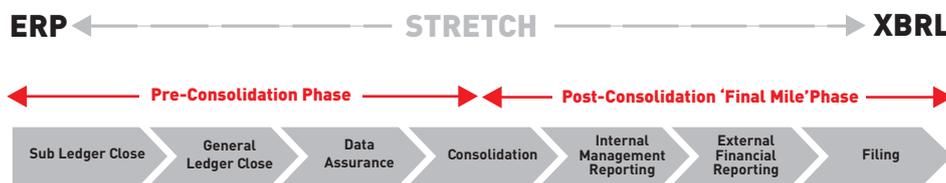
Furthermore, with both the ad-hoc and stand alone approach each of the report objects in the table above (with the exception of photographs) has to be synchronized with the underlying financial systems so that users can be sure that the content is up to date and consistent. This is almost impossible with a standalone solution.

*So what can be done to improve the process?*

### How Oracle responds to the integration challenge

Oracle Hyperion applications have dominated the financial management space for more than 25 years. Initial efforts concentrated on the core financial consolidation requirements of the reporting supply chain but over time these requirements have been progressively stretched at both ends by structural changes in the financial management software market and compliance-led changes in reporting.

Fig 3: The extended financial close processes ‘stretched’



Oracle’s expanding ERP and EPM portfolio has led to greater opportunities to ‘cement’ transaction processing into the financial reporting supply chain, allowing it to impose tighter validation from source, improve data quality management, accelerate reporting cycles and provide visibility of transactions from their origins in entity general ledgers to final reports and filings.

But this platform has also served as the backbone for change in a different dimension. The introduction of the Sarbanes Oxley Act almost a decade ago marked a sea-change in compliance requirements and the start of the rapid coalescence of controls and financial reporting. Integration was once again the hallmark of Oracle’s response as it became clear that the documentation, management, and testing of controls had to be deeply embedded in the financial reporting process. In recent years, with the advent of more advanced technology, the reporting and continuous monitoring of controls (and underlying transactions) has become largely automated, taking advantage of the latest GRC capability and a tightly integrated environment.

Fig 4: Oracle’s architecture ensures an integrated approach to the challenges of the final mile

### Oracle’s Extended Financial Close Solution



The most recent challenges relate to the ‘final mile’ as the finance function grapples with the demands of the new era of digital reporting (XBRL), the multi-stakeholder environment (discussed earlier) and the need for greater formality (control and process efficiency) around the production of financial documents.

Oracle Hyperion Disclosure Management (Disclosure Management) embeds XBRL processing (taxonomies, extended taxonomies, XBRL tagging) within the financial reporting suite, allowing users to link regulatory filings directly to financial applications, mark up financial data with XBRL tags and submit SEC and other statutory filings in XBRL format as required. Once accounts or notes have been tagged there is no need to repeat the process from one period to the next. Disclosure Management ensures that tags are retained when rolling over the period at say, quarter end, the half year and year end. Once again tight integration reduces complexity, allowing the tagging of financial data to take place without leaving the reporting environment and empowering the finance function to manage the process in-house rather than outsource this sensitive process to third party printers and providers.

A different challenge is to ensure that any last minute changes such as final accounting adjustments or refinements to wording of statutory notes and narrative are accurately reflected in the final version of earnings releases and financial statements. When several individuals, in different functional areas are permitted to make changes, version control can quickly become problematic especially when there is heavy reliance on independently authored Microsoft Word and Excel files. Oracle Universal Content Management (UCM), a component of “Disclosure Management” is Oracle’s response to the thorny problem of managing and marshalling the wide variety of content (mainly Microsoft Word, Excel and XBRL files) that pervade the final mile of finance. In broad terms it allows the finance function to put its ‘arms’ around all of the key documents, organize them into logical compartments (disclosures, e-filings, statutory reports, management reports, CSR, footnotes, tables, numbers) and manage the routing of them between stakeholders for amendment, approvals and re-submissions.

Critically, UCM allows the finance function to continue to use familiar Microsoft technologies such as Word, Excel and PowerPoint, without jeopardising control. Version control ensures that only authorized users can see sensitive information and that they are working on the right version. Changes can be tracked and strict limits can also be placed on the distribution of information.

One of the differentiating features of Oracle’s offering is the completeness of the solution – specifically the ability to intimately link the pre- and post-consolidation phase to provide a continuous process flow. This capability manifests itself in two vital ways.

Firstly, task management, Oracle Hyperion Financial Close Management (FCM) spans the entire process allowing the finance function to orchestrate and manage all of the activities in the corporate reporting process from its inception in an entity’s period close through to the final adjustments to numbers and/or text in reports and disclosures.

Secondly, items surfaced in Microsoft Word documents, Microsoft PowerPoint or other reports via Oracle Hyperion Smart View for Microsoft Office are intimately linked along the whole breadth of the financial reporting supply chain. This means that when transactions are subject to change at a moment’s notice (anywhere along the process chain), that they automatically refresh the output – regardless of its format – so that reports are always up to date and accurate. Vitality, this capability is bi-directional so that the office of the CFO can drill back from disclosures in a report or Microsoft PowerPoint presentation right through to the originating transactions – extending the reach of the Final Mile back into the pre-consolidation phase and re-defining its boundaries.

Ultimately it is the integration of all of this capability within the final mile and between the final mile and the pre-consolidation phase that makes the overall architecture so compelling. Going beyond the traditional view of the final mile means that there is traceability between final accounts and the underlying transactions and, equally importantly that changes made to information in the pre-consolidation phase are automatically reflected in final documents and disclosures regardless of the technical format in which they are rendered.

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**Summary** The unrelenting pace of change in regulation and compliance over the last decade has pressured the so called ‘final mile’ of finance. The finance function has struggled to keep up with the pace of change which has led to a fragmented technical and organizational response, culminating in disconnected processes in the final mile and a yawning gap between the final mile and the relatively streamlined activities of the pre-consolidation phase of the reporting supply chain.

The market has been driven by an increasingly complex multi-stakeholder environment, continuing changes to accounting standards and the introduction of mandatory filings in XBRL. But each of these needs has been approached on an individual basis and the solutions have not benefited from a common infrastructure. Yet task management, data quality management and workflow, which are established technologies in the pre-consolidation phase, have been largely ignored in the post consolidation phase, which is poorly served by a myriad of standalone technical solutions and a patchwork of stop gap measures based on popular Microsoft Office tools. As a result, collaboration, productivity, automation and control have all suffered.

This has presented group finance with a twofold challenge. Firstly, how to bring cohesion to the disparate processes in the final mile and, secondly how to leverage the capability in the pre-consolidation phase.

The key to resolving this conundrum is an integrated architecture which uses common technologies wherever feasible across the pre- and post consolidation phases of the reporting supply chain yet provides integrated capability to the more specialized applications of the final mile, such as XBRL, content management and document publishing.

Oracle, not only achieves this but also provides extended capability through tight links to its ERP systems, an overarching framework for governance, risk and compliance and the ability to leverage popular Microsoft Office technologies in a more controlled setting.

This comprehensive architecture provides the essential conditions for increased collaboration, process efficiency and control, giving the finance function the visibility it needs, the bandwidth to take on more change and renewed confidence in the integrity of its reporting.

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**Smart** Enable advanced integration that improves agility and lowers costs of ownership

**Agile** Integrate information from your financial performance management, operational intelligence, and transactional applications

**Aligned** Drive pervasive intelligence across the enterprise by linking strategic, financial and operational management processes

**About FSN** FSN Publishing Limited is an independent research, news and publishing organization catering for the needs of the finance function. This white paper is written by Gary Simon, Group Publisher of FSN and Managing Editor of FSN Newswire. He is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 27 years experience of implementing management and financial reporting systems. 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.

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