Cognos Disclosure Management for the “Last Mile of Finance”

Introduction

Today's CFOs are under pressure to control costs, meet expanding reporting and compliance requirements and support corporate growth initiatives (capital investment, foreign expansion, mergers and acquisitions, etc.). To meet all of these requirements, CFOs should consider the "Last Mile of Finance" as a an optimal target for cost control, process optimization and risk reduction that can enable the finance team to better support the strategic goals of the organization.

The expanding role of the CFO

The power and influence of the CFO has expanded substantially in recent years. The IBM® Global CFO Study of more than 1,900 CFOs found that while "the importance of core Finance responsibilities has not diminished in any way, CFOs' focus on company-wide concerns has increased sharply." According to the survey, 70 percent of CFOs are advising or playing a critical decision-making role in areas such as enterprise risk mitigation, business model innovation and the selection of the key metrics linking performance to strategy execution.[1]

CFOs are now routinely in charge (at least on a dotted-line basis and frequently on a direct-report basis) of a broad range of regulatory, governance and strategy functions, especially investor/public relations, strategic planning, corporate development, and mergers and acquisitions (M&A). They are also frequently taking more prominent leadership roles in risk management, transactions, and IT decision making.

Today's CFOs should find ways to continue to automate and optimize finance processes so that they have more time and resources to fulfill this expanding role. The Last Mile of Finance is one area where the CFO can meet fiduciary responsibilities and fulfill several of their expanding responsibilities.

Why now is the time to address the Last Mile of Finance

The Last Mile of Finance is a term popularized by analysts to describe the finance processes and activities that are undertaken between financial consolidation and the filing of external financial statements and other mandatory compliance reporting. While much attention has been focused on improving the planning, consolidation and statutory reporting processes, the post-consolidation processes that comprise the Last Mile of Finance (see Table 1) have remained manual in most organizations.

Process	Definition
Account reconciliation	Despite increased regulatory requirements, the process for reconciling accounts is still most often performed using spreadsheets. Reconciliation processes still involve a significant amount of manual effort that results in an inconsistent, cumbersome and resource-intensive process that lacks sufficient controls, tracking and transparency.
Internal management and financial reporting	Financial and management reporting are often separate processes. They originate from the same data sources but during the reporting process they diverge to the point that financial and management reports must be reconciled at the end of the cycle. This typically results in discrepancies that require manual intervention and documentation, causing longer reporting cycles that delay access by decision-makers.
Financial controls and workflow	The Last Mile process involves many activities performed by many different people using different tools and systems. Financial controls and workflow cross these interrelationships to ensure that document compliance is traceable by finance and external auditors. Finance should be able to monitor and update financial controls as compliance requirements change. "Stale" controls can be worse than no controls at all.
Disclosure management and regulatory reporting	The development of compliant disclosure documents including 10-Ks, 10-Qs and annual reports, as well as XBRL-tagged documents and IFRS submissions, often involves manual processes that combine data from multiple sources into documents that include text, data, graphics, narrative commentary and footnotes. Finance often needs to manage many documents and versions and use email to track down details, facilitate reviews and gather necessary approvals. Automation of the participation, accountability, workflow, review and approvals in the preparation and submission of these documents offers an opportunity to reduce development time and reduce risk from manual errors, inadequate review or rushing to meet looming deadlines.

Table 1: Last Mile of Finance processes

Applications that help Finance organizations automate and optimize the Last Mile have been around for many years. Many started as niche solutions for Sarbanes-Oxley (SOX) requirements and a recent wave has surfaced to address additional disclosure management and Extensible Business Reporting Language (XBRL) tagging requirements. The Last Mile presents finance organizations with opportunities to reduce costs, improve efficiency and reduce risk by automating manual processes and creating a more transparent, collaborative and auditable process from financial close to final reporting and disclosure.

Finance has been performing Last Mile processes for decades, albeit mostly manually. So why should finance organizations make the effort to automate and enrich the Last Mile now? Many factors converging on finance are driving this need to change.

The XBRL imperative

CFOs should consider improving their Last Mile processes now because of increasing regulatory requirements. Since June 2011, virtually all U.S. public companies have been required to file reports in XBRL-tagged format and the requirements for detailed tagging expanded exponentially after the second year of filing. Some companies have found that keeping the process in-house has saved them time and reduced cost, while others have found that an in-house process also provides greater auditability and accountability. XBRL and IFRS (International Financial Reporting Standards) get much of the attention, but CFOs have many other filing requirements to consider as well. [2]

Current, pending, and unknown regulatory requirements

CFOs can count on the fact that new reporting standards such as Dodd-Frank, Basel III and others will come to fruition, forcing them to file more documents in more formats than they do today. At the same time that financial regulation is increasing, so too is industry regulation.

Regardless of the expanded filing requirements CFOs face from governments and industry regulators, finance may not have the luxury to expand their organizations with additional resources to meet the growing requirements. A focus now on automating the Last Mile of Finance can help CFOs do more with less and help finance organizations meet expanding compliance requirements and narrow filing windows without significant staffing or outsourcing cost increases.

Increasing burden on finance

Increasing compliance reporting requirements and a greater demand for auditability and detailed traceability is placing a greater burden on finance staff. But CFOs are under pressure to keep costs down. History shows that when Sarbanes-Oxley requirements took hold, it created the first increase in finance cost as a percentage of revenue in 14 years. The current wave of regulation could bump up this ratio again. But most CEOs will insist that finance cost as a percentage of revenue remain flat or even decrease, and CFOs will be under continued pressure to keep costs in line. CFOs should seek greater efficiencies in their finance organizations to prevent the increased burden from escalating the cost of finance. Outsourcing regulatory filings to third parties is one way to avoid adding staff. But many organizations are finding this path to be costly as requirements expand, such as detail XBRL tagging in filings.

CFOs should look at their post-consolidation processes for opportunities to improve efficiency. And they should consider process automation as a way to control finance costs while satisfying increasing burdens. In many organizations there are opportunities for efficiency in account reconciliation, journal entry processing, intercompany transaction matching, and disclosure reporting. For example, some companies have used their disclosure management solutions to automate previously very manual monthly "blue book" reporting processes.

Risk and liability of manual processes continues to increase

Cost is not the only factor driving the need for improvements in the Last Mile of Finance. Manual processes can lead to insufficient financial controls, inadequate reviews and approvals, and a lack of traceability and auditability. All of these increase the risk of incomplete or inaccurate financial reporting and disclosure. And as filing requirements mature, the modified liability provisions for inaccurate submissions expire (e.g., for XBRL, 24 months after first submission), at which point filers will be subject to the anti-fraud provisions of federal securities laws. CFOs should be sure that their Last Mile processes are buttoned up before the temporary grace period ends.

A manual Last Mile process can also expose the enterprise to the risk of inaccurate or delayed 10-K or 10-Q filings, which can have a significant impact on valuation. Cost, accuracy, risk, and compliance are all factors driving CFOs and their finance organizations to improve their Last Mile processes now rather than later. So, regardless of company or industry, it is apparent that the Last Mile of Finance should be a focal point for any CFO.

IBM Cognos Disclosure Management

IBM Cognos® Disclosure Management can help reduce manual, error-prone processes at each step of the Last Mile of Finance by providing a single, reliable, dynamic reporting and analysis system for the production of financial reports, narrative disclosures and XBRL-tagged reports.

Cognos Disclosure Management helps finance organizations:

- Drive financial and non-financial data commonality
- Interweave business intelligence with valuable performance management data and insights
- Facilitate faster analysis and decision making
- Integrate XBRL tagging for multiple purposes
- Integrate data in multiple repositories for seamless narrative report automation (grid, graph and numbers in text)
- Provide a secure workflow within a collaborative environment
- Consistently apply business rules and validations when data inconsistencies are found
- Follow a controlled change management process with reliable security and audit trail

For statutory filings, the integrated XBRL tagging capabilities of Cognos Disclosure Management can confirm that proper controls have been adhered to and provide an audit trail for the external reporting process, including XBRL mapping and tagging. Cognos Disclosure Management supports many published global GAAP and IFRS taxonomies and has the capacity to output reports in both XBRL and iXBRL formats. In addition to integrated XBRL tagging capabilities, for companies that report to the U. S. Securities and Exchange Commission (SEC), Cognos Disclosure Management provides instant EDGAR conversion capability – ensuring a single source of report data across your EDGAR filings and XBRL submissions.

Process	Description
Evaluate current Last Mile processes	Evaluate all Last Mile processes. Identify process flow, participants, approvals, manual steps, redundancies, interdependencies, data sources and tools.
Identify costs and risks	Estimate the cost to conclude current processes including technology, finance staff, non-finance staff and third parties. Establish risk points and identify the risk impact of manual tasks, lack of controls, auditability, accuracy etc.
Document compliance requirements	Identify what compliance and disclosure requirements are in place today, how they are being met, and what expanded or new requirements are projected over the next several years.
Prioritize	Based on the evaluation of existing processes, cost, risk, and compliance requirements, determine which Last Mile process is the highest priority. Include the need for process change and cultural impact in the prioritization.
Redesign process	Based on the process evaluation, identify the necessary changes to process flow, financial controls, participation, accountability, and approval/sign-off. Do this before beginning software selection to prevent tailoring the process to the software rather than vice versa.
Set goals and measures	Establish specific goals and measures for process improvement. Examples would be: reduce close cycle by x days; reduce reconciliation cost by x%; produce disclosure documents x days after the close; maintain cost of finance as a percentage of revenue at x%.
Select and implement technology	Evaluate solutions for the chosen Last Mile process. Include solutions from preferred vendors as well as niche vendors. Consider vendors' product roadmaps and future plans to expand Last Mile product offerings as part of the evaluation.
Implement and adapt	Work with vendor and service provider to implement solution based on redesign process above. Compliance and disclosure requirements will inevitably evolve, so plan to review the process, reporting and financial controls periodically to ensure these are adapted to changing requirements.

Table 2: Action steps Finance can take

How to gain more control of the Last Mile

Improving the Last Mile of Finance is something that all finance organizations should be paying attention to. CFOs should expect upfront cost and effort on the part of the finance organization, but that is outweighed by the potential risks of delay. The effort and time-to-value can be minimized by focusing on one specific Last Mile process successfully and then addressing others in turn, rather than attempting to revamp all Last Mile processes at once. Finance organizations should take the above steps to get started.

Summary

The Last Mile of Finance is an area that is ripe for improvement, cost control, and risk reduction. Regulatory and compliance requirements are expanding and more detailed documentation, accountability and traceability is needed. Automation of the Last Mile can enable finance to meet expanding requirements and help reduce risk without significant incremental costs. Finally, all finance organizations should investigate the potential to improve their Last Mile of Finance processes before issues arise, and not after.

About IBM Business Analytics

IBM Business Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

Business Analytics solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals. For further information please visit **ibm.com**/business-analytics.

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1 IBM Institute for Business Value, The New Value Integrator: Insights from the Global Chief Financial Officer Study, March 2010

2 Sarah Johnson, A Heightened Demand for Disclosures, CFO.com, August 18, 2010

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