Financial Reporting Fatigue™

What is your limit?

Your team is the foundation anchor of the financial reporting production function. You have strict deadlines to meet with voluminous deliverables, but that isn't anything unusual for the team. You have a routine to run key critical processes, and you are fairly confident internal controls in place are adequate. Yet, as another reporting cycle is upon you something is different in the report production process. There is an unanticipated failure and data integrity critical to the reporting cycle is suspect. You discover that the impediment affects more than one process because financial functions are intertwined. Checks and balances? Not likely to save a catastrophic failure. What happened? You've fallen victim to Financial Reporting Fatigue™.

 White paper

Financial Reporting Fatigue™ refers to a condition when a weak link(s) in the chain of the financial production process places stress on other stages within the reporting cycle that are reliant upon the other. If a bridge has weakened stress points in critical areas of its structure propagate could result causing catastrophic failure ultimately ending in bridge collapse. Financial Reporting Fatigue™ (FRF) risk is akin to bridge support erosion because of the interconnection of data and process. *Left unattended, this condition will fester throughout your production reporting cycle.*

What causes FRF? The investigation can potentially drill to the lowest denomination covering both skill and automation.

Our recent survey touched upon this subject matter. The financial professional respondents displayed a common theme worth exploring. The extracted data displayed below is pertinent to the subject at hand:

1. Do you feel pressured during the financial close cycle in meeting closing deadlines?
   Yes 48%
   No 52%
2. Does your organization use tradition enterprise resource planning software to record business transactions?
   Yes 82%
   No 18%
3. Does your financial team have to create supplemental spreadsheet reports and analytics to disclose and report your business financial information?
   Yes 100%
   No 0%
4. Do you feel your financial team's offline reporting could pose a risk if something went wrong?
   Yes 65%
   No 35%
5. Does your team suffer from Financial Reporting Fatigue™?
   Yes 42%
   No 58%

The above provides an interesting interpretation of what is occurring within these financial departments. Departments operating under pressure and stress are more likely to create a rush to close, not quality to close. The use of an automated system to record business transactions provides the level of comfort and security needed to support the financial close process. It is what happens beyond the financial database extraction that poses the most risk and uncertainty. Items 3 & 4 tie together. Human intervention engaging the best thought out process is not air tight. As 100% of respondents use spreadsheets to disclose and report financial results, statistical odds are working against you that an internal reporting error will rise up in the production process.

I had the opportunity to sit with a financial head of a mid-market sized organization and witness firsthand, why real automation, not automated spreadsheets, need to take hold of the production reporting cycle. This visit entailed a review of a V3-spreadsheet statement of cash flow that was not calculating properly. When the spreadsheet was put up on a projector for us to see, I noted tracing through the data, a number of cells within the spreadsheet had errors. Reference points appeared to hold the majority of mistakes, though we did discover other mathematical formula errors. When the data was dumped from the mainframe to workable spreadsheet files something got lost in translation. I asked a very basic question; ‘how can you be sure nothing has been manipulated through this point? That the raw data extracted from your database is the reflection you are viewing now? This is the third attempt.’ After a few hmmms...it was decided the best course of action was to trash the spreadsheet and start again. It takes hours to check and correct reference point mistakes and mathematical errors in large complex workbook files. This is very tedious and time-consuming forensic work that eats away at reporting deadlines. How does your team determine the internal process causing variation? Ask yourself these thought provoking questions:

What causes defects and/or errors?

What are the ways to address the defects?

What needs to be developed to measure changes made in the process?

Get the hmmm out of the financial report production process. Look at what needs to be brought in to change the process. A financial reporting team reports; they should not hold positions of ‘in-house software developers’ creating home-grown external reports. Bad idea.

What’s the risk? That’s a bit of a loaded question. Sitting through an audit committee review of financial data is not a pleasurable experience. What would occur if your external auditor discovered the financial reporting error? That’s at least a 1/2 day discussion of vetting the root cause. The majority of survey respondents deemed a breakdown within the financial reporting production led to audit risk.

That brings us to the last item pulled from the survey. Though 100% of the respondents use spreadsheets to disclose and report their financial reports, 42% of the same respondents were concerned about FRF. How does the other 58% reconcile the disparity? Are you that certain? What is the limit of risk you can live with?

How often do spreadsheets used in the financial report production process change hands? Do you allow spreadsheet modifications to be performed by new staff? How would you even know if that happened?

To further illustrate, a multi-national company uses a traditional financial database in which a download is performed to extract the entire trial balance to a spreadsheet. Upon extraction, in-house finance personnel create spreadsheet pivots to format the data for management reporting. Note to self; a pivot table is only as good as the data you put into it. The values were off as lines were not picked up. In addition, when a pivot recipient further extracts data by some defined parameter out of the pivot table, those values are easily overwritten. Who corrects that? Does something along the way get 'forced to fix'? Hmmm… that's an OMG moment.

Automating your financial report production process will improve efficiency, integrity and reduce FRF risk. Automate as much as possible in reporting, planning, cash flow and working capital performance measures.

You've come full circle. Between budgetary and time constraints how can you view opportunity for improvement? The answer is a simple one. Either you make time in search of innovative solutions to improve, enhance, speed-up and secure by automation the financial report production process, or maintain the status quo and wait for the hammer to fall. In the meantime, the internal clock ticks away with Financial Reporting Fatigue™ silently percolating.

Smart selection; our value proposition-
OIKOS Software offers secure, permission based access to our suite of cloud-based applications for financial reporting and analytics. Unlike traditional financial software systems, OIKOS Software applications are accessed via a computer and the internet. There are no servers to buy, no capital expenditure investment, no upfront costs, and no additional IT staff needed. We provide training, support and if needed, custom implementations so your financial team can immediately increase productivity, reduce cycle time to close, view critical data in real time, and, by harnessing the power of proprietary analytics, lower company risk from inaccurate measurement of working capital, cash flow, financial planning and reporting. Use OIKOS Software in-house, or our OIKOS Software consultants can manage the applications for you.

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