



Optimising your financial reporting systems for long-term value

Presentation and speaker notes

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Presentation overview

Financial reporting systems are the ‘engine room’ for data collection, extraction and usage. This session will discuss:

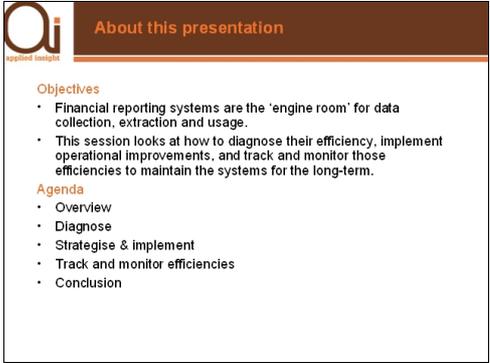
- Diagnosing the efficiency of your reporting systems: practical steps
- Implementing operational improvements or building new systems: decisions and costs
- Tracking and monitoring efficiencies: data quality and effective usage

Micheal Axelsen is Director of Applied Insight Pty Ltd, and is based in Brisbane. Applied Insight Pty Ltd provides business systems consulting advice to clients to help them ‘get their IT right’ (strategy, IT services, and project review) and to ‘know what they know’ (information management, business reporting, and social networking review).

Micheal has had several articles published through his role as Chairman for the CPA Australia Information Technology & Management Centre of Excellence and in undertaking systems research at the University of Queensland. Micheal is an FCPA, holds a Bachelor of Commerce (Hons) and a Masters of Information Systems.

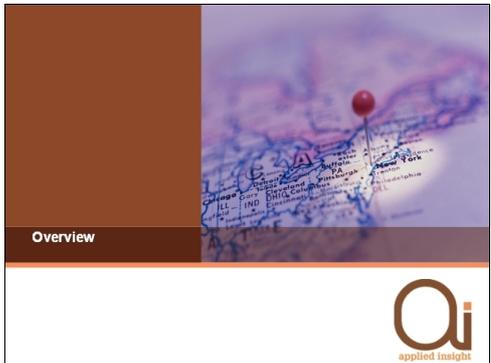
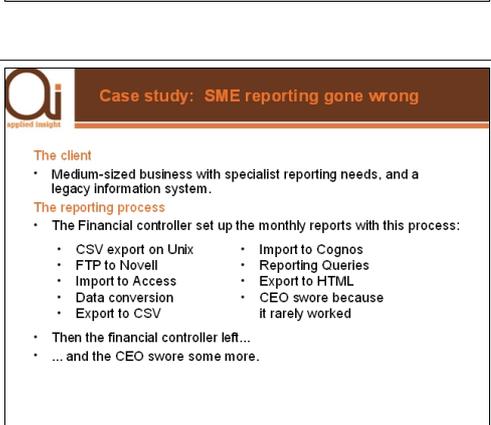
Further details are available on Micheal’s blog: www.michealaxelsen.com. Micheal can be contacted on 0412 526 375 or micheal.axelsen@appliedinsight.com.au at any time.

Introduction

 <p>Optimising your Financial Reporting Systems for Long-Term Value</p> <p>Presented by: Micheal Axelsen Director Applied Insight Pty Ltd</p> 	<p>Slide 1: Title Slide</p>
 <p>INTRODUCTION</p> 	<p>Slide 2: Introduction</p> <p>Welcome to this presentation.</p> <p>This presentation is about how you can get your financial reporting systems right for long-term value. That's the focus – we'll be diagnosing, presenting strategies, and monitoring what we're doing as best we can.</p> <p>I'll be looking for some feedback and participation from the audience though – I will be looking to achieve some discussion and shared experience.</p> <p>There is some hopefully new content for participants in the form of using the COBIT framework for the design of a better reporting system. We'll hopefully get to discuss some 'war stories' as well around financial reporting systems.</p>
 <p> About this presentation</p> <p>Objectives</p> <ul style="list-style-type: none">• Financial reporting systems are the 'engine room' for data collection, extraction and usage.• This session looks at how to diagnose their efficiency, implement operational improvements, and track and monitor those efficiencies to maintain the systems for the long-term. <p>Agenda</p> <ul style="list-style-type: none">• Overview• Diagnose• Strategise & implement• Track and monitor efficiencies• Conclusion	<p>Slide 3: About this presentation</p> <p>Everyone in this room knows how important the financial reporting systems are. I suppose one problem is that the people that need to be here, aren't!</p> <p>Still, as it says in the handout we are looking for hints and tips on how to diagnose the efficiency of your reporting systems, and how to organise them to get operational improvements. A bit of what goes along with that too, of course, is a framework you can use to convince people to give over the resources to get this important function right – which means success in the long-term, not just today.</p> <p>To do this, we'll be going through the agenda that we</p>

	<p>have set out here: Overview, diagnose, strategise and implement, track and monitor efficiencies, and a conclusion.</p> <p>It should be noted that these slides and speaker notes will be available on my blog, www.michealaxelsen.com, and on my business website, www.appliedinsight.com.au.</p>
 <p>Audience expectations</p> <p>Audience profile</p> <ul style="list-style-type: none">• How many participants from:<ul style="list-style-type: none">– Public sector?– Private consulting practices?– Not-for-profit organisations?– Small to Medium Enterprises?• Who is happy with their current financial reporting systems? <p>Expectations</p> <ul style="list-style-type: none">• What is your key expectation or outcome from today that we absolutely must cover?	<p>Slide 4: Audience expectations</p> <p>I have a demographic profile from CPA's, but I'd still like to get a feel for who is in my audience.</p> <p>Activity: breakdown audience into their sectors.</p> <p>Activity: who is happy with their current financial reporting systems?</p> <p>Activity: What are people's key expectations?</p>
	<p>These will be written up and we will return to these later in the presentation.</p>

Overview

	<p>Slide 5: Overview</p> <p>Today I thought we'd start by giving a bit of an overview as to exactly what we are talking about when we 'optimise' a financial reporting system.</p> <p>I think a key understanding that we all need to keep in mind is that this is actually very hard to do, in case you haven't noticed. As well, this is something that needs to be looked at in the long-term.</p>
 <p>Case study: SME reporting gone wrong</p> <p>The client</p> <ul style="list-style-type: none">• Medium-sized business with specialist reporting needs, and a legacy information system. <p>The reporting process</p> <ul style="list-style-type: none">• The Financial controller set up the monthly reports with this process:<ul style="list-style-type: none">• CSV export on Unix• FTP to Novell• Import to Access• Data conversion• Export to CSV• Import to Cognos• Reporting Queries• Export to HTML• CEO swore because it rarely worked• Then the financial controller left...• ... and the CEO swore some more.	<p>Slide 6: Case Study: SME reporting gone wrong</p> <p>I am an accountant, and proud of it. Sometimes though we, as a profession, do things in the name of productivity that are perhaps a little less than productive. This is an example of what an actual client of mine once did with their approach to reporting.</p> <p>As can be seen from the slide, the steps were fairly convoluted, 'done on the cheap', and took a great deal of time to put together and were unreliable.</p>
	<p>As another aside, a recent client of mine used ODBC to report directly out of their financial system and had written a great many Crystal reports to get their reporting right. Which is not uncommon, and is in fact a fairly advanced thing to do. However, when they implemented their new systems (long before my time, let me tell you) there is a chance – just a chance mind you! - that someone forgot to update the ODBC driver.</p> <p>They were reporting out of the old financial system for about two months before someone noticed the numbers weren't moving.</p> <p>Which leads off into a discussion as to whether these reports were really needed, doesn't it?</p>

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The reporting process

Business reporting

- Business reporting is the process of manipulating and presenting information held within one or many systems so that the information can inform operational, tactical, and strategic decisions.
- This is not just financial accounting information, but much of the information we report is.

Financial reporting system

- The financial reporting system is fundamental to effective business reporting. It may be integrated with the accounting system, but frequently it is not.
- Produces financial reports that link to data in non-financial systems to produce management information.

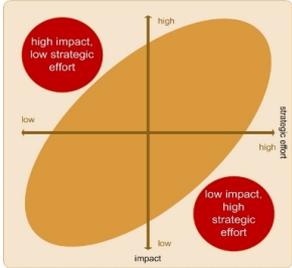
Slide 7: The reporting process

So let's put a bit of a framework around the reporting process. I hate it when I see someone's ad hoc ideas presented as 'stuff you should do' without giving a bit of an understanding of why you should do it.

So what is 'business reporting' and what is a 'financial reporting system'?

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The right strategic effort



Slide 8: The right strategic effort

We need to get the amount of effort we put into our reporting system design. Are we a business that is heavily dependent upon the reporting system? I have worked with many clients that put in the wrong amount of effort into their reporting system.

If your business runs on numbers – then you need to invest appropriately. By the same token, if it doesn't, then perhaps the investment can be less. So often we get that wrong.

Ask yourself how much the traditional issues – accuracy, timeliness, completeness -and confidentiality – matter to the business. Then you will have an idea as to how much effort you need to put into your reporting system.

As with everything with your IT, you need to aim for the alignment of IT with the strategic goals of the business. If you don't at least try for this, you will absolutely not be putting the right amount of strategic effort in.

So, the first step in optimising your reporting systems is to understand what your benefits will be – 'why' do you have your reporting system?

Really, a lot of this comes back to what can be considered good IT Governance.

Slide 9: Factors in effective reporting

If we are going to get our financial reporting systems optimised, we need to understand the factors that determine its effectiveness. At a simple level, we are talking about 'why' we do it, 'what we need', and then look at 'how' we do it.

We need to know why and what before we jump straight to the 'how'.

Let's look at the factors that affect our reporting. Invest some time in understanding this.

Firstly, there are compliance frameworks. If you work in an industry that absolutely needs particular reporting information – for example, health, motor dealers, accountancy practices, as well as the requirements of, say, that little government agency known as the Australian Taxation Office – then that's the minimum information you are going to need to produce. So let's understand what compliance reporting we need to carry out.

Next, we need to understand what the business needs. Obviously we need to meet the needs of compliance reporting, but as well as that, our growth strategy – our strategic plan – may have certain implications as well.

These days, businesses are frequently focussing on reporting less numbers, but the more critical ones, more quickly. So, we aren't talking necessarily about last month's numbers, we can in fact be talking about yesterday's numbers. Or, in a world of digital dashboards, today's numbers.

Then take a look at what we do – do we have the right people in place to do it? The right business processes? And then, finally, the technology – do we have the technology in place?

Notice how we haven't leapt straight to looking at the technology that will solve a problem we don't know we have yet.

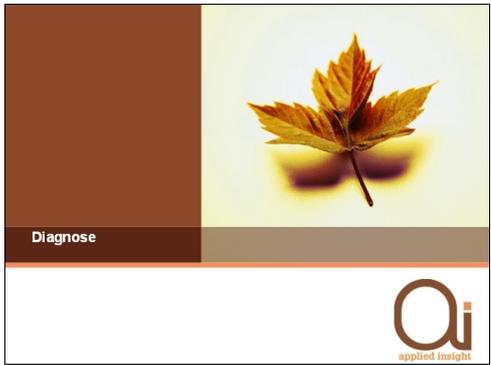
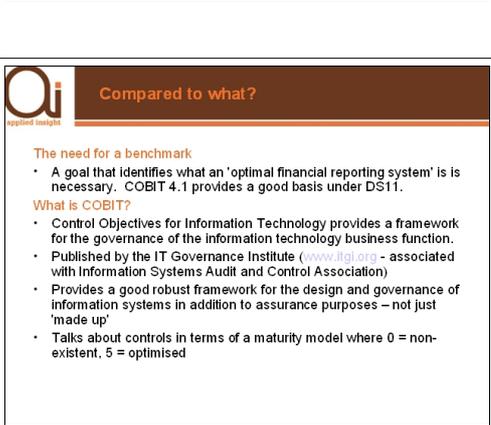
Finally though – we need to take a look at our 'financial capacity'. It really becomes a question of risk-adjusted cost-benefit analysis. Is it, after allowing for the risk, worth it? Remember as accountants there are really two things that matter: Value, and Risk.

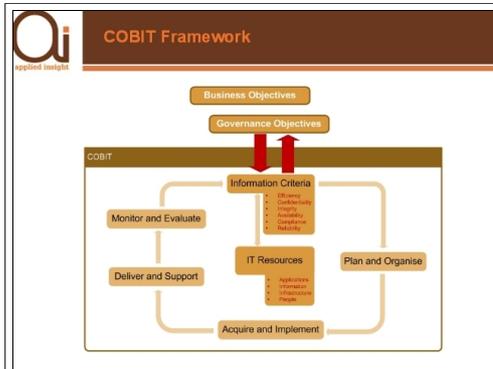
We need to have the capacity to support the system –



	<p>no point in having the best system, people and processes if we can't afford it.</p> <p>Thinking about it in this way will help you 'get it right'. There is no point in addressing the technology if the process is poor (or the process is gathering the wrong data!).</p> <p>As an aside – at my brother-in-law's motor dealership, he was a brand-new dealer principal and thought he'd take a look at the sales process. He went through all the forms that a new car buyer has to sign and see. He discovered two forms there that related to the trucking business of the dealership. Trouble was – that had been sold three years prior.</p> <p>The force of habit is a powerful thing, isn't it?</p>
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Diagnose

 <p>Diagnose</p>	<p>Slide 10: Diagnose</p> <p>So, before we lift a finger, let's think about what is needed. Let's diagnose that patient of ours.</p>
 <p>Compared to what?</p> <p>The need for a benchmark</p> <ul style="list-style-type: none">• A goal that identifies what an 'optimal financial reporting system' is is necessary. COBIT 4.1 provides a good basis under DS11. <p>What is COBIT?</p> <ul style="list-style-type: none">• Control Objectives for Information Technology provides a framework for the governance of the information technology business function.• Published by the IT Governance Institute (www.itgi.org - associated with Information Systems Audit and Control Association)• Provides a good robust framework for the design and governance of information systems in addition to assurance purposes – not just 'made up'• Talks about controls in terms of a maturity model where 0 = non-existent, 5 = optimised	<p>Slide 11: Compared to what?</p> <p>If we are going to diagnose, we need to know what we need to look like. A benchmark if you like, and although you may hate the term, 'best-practice' is probably relevant here.</p> <p>The benchmark here to use is something called COBIT. I didn't make this up, it was built by accountants (IT auditors, actually, but they're still accountants).</p>
	<p>So! A good reporting system is paramount to good controls. It just may be that if you are having difficulties getting approval for a better financial reporting system, this may be a good place for you to start a discussion around getting the resources you need.</p> <p>The COBIT framework allows you to diagnose/assess your reporting system in terms of its maturity. This scale goes from '0' ('what's that?') to 5 ('Nirvana').</p> <p>Note that for an auditor, you'll probably get the tick at a level three maturity; you don't need Nirvana to meet control requirements. But, if your business needs optimisation – then level 5 is where it's at.</p>



Slide 12: COBIT Frameworks

As an overview, and for your information, this is an outline of the COBIT framework.

You will note the different elements here: plan and organise, acquire and implement, deliver and support, and, finally, monitor and evaluate.

There are 34 IT processes, each with their own control objectives in COBIT. We, on the other hand, are focussing on only a few of these.

You can go to www.itgi.org to see more about COBIT if you'd like.

What is optimisation?

Managing optimised financial reporting systems (See DS11)

- The need for data management and the understanding of all required actions is understood and accepted within the organisation.
- Future needs and requirements are explored in a proactive manner.
- The responsibilities for data ownership and data management are clearly established and widely known.
- Procedures are formalised and widely known.
- Sophisticated tools are used with maximum automation.
- Goal and performance indicators are consistently monitored.
- Opportunities for improvement are constantly explored.
- Training for data management staff members is instituted.

Our business goal

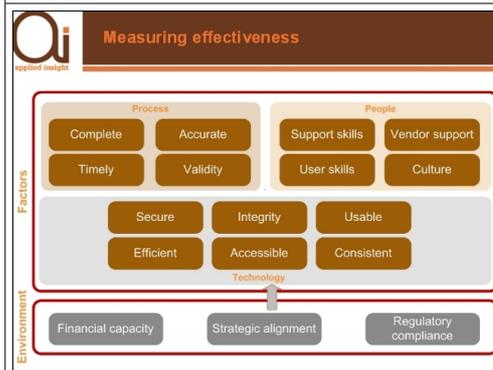
- All data expected for processing are received and processed completely, accurately and in a timely manner.
- All output is delivered in accordance with business requirements

Slide 13: What is optimisation?

So what do we mean when we are looking for 'optimised' financial reporting systems? Well, this is what COBIT would say is an optimised reporting system.

This may be more than we need, but if you want optimal, here it is!

Note especially the business goals. We need to be complete, accurate, and timely. The output needs to be delivered in accordance with the business requirements.



Slide 14: Measuring effectiveness

Note that at the end of this presentation I will be identifying some specific metrics around the measurement of these factors.

The first step in diagnosis though is understanding the environment in which we operate. So, let's take a look at these in some detail.

Slide 15: Measuring effectiveness

COBIT as a starting point is great because it gives us the next steps. We have a tool that we can use to assess or diagnose these factors.

Let me emphasise at this point that I will have on my website a sample survey you can use as at least a starting to getting this right.

Refer to each of the control objectives.

DS1.1 Service Level Management Framework: Define a framework that provides a formalised service level management process between the customer and service provider. The framework should maintain continuous alignment with business requirements and priorities and facilitate common understanding between the customer and provider(s). The framework should include processes for creating service requirements, service definitions, SLAs, OLAs and funding sources. These attributes should be organised in a service catalogue. The framework should define the organisational structure for service level management, covering the roles, tasks and responsibilities of internal and external service providers and customers.

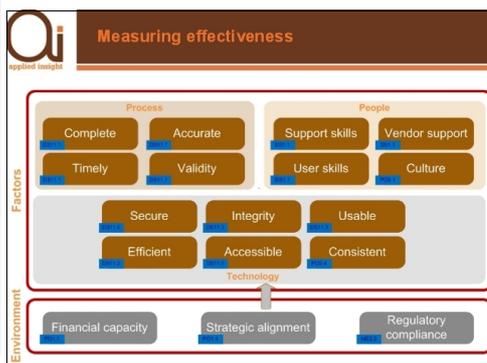
DS11.1 Business Requirements for Data Management: Verify that all data expected for processing are received and processed completely, accurately and in a timely manner, and all output is delivered in accordance with business requirements. Support restart and reprocessing needs.

DS11.2 Storage and Retention Arrangements: Define and implement procedures for effective and efficient data storage, retention and archiving to meet business objectives, the organisation's security policy and regulatory requirements.

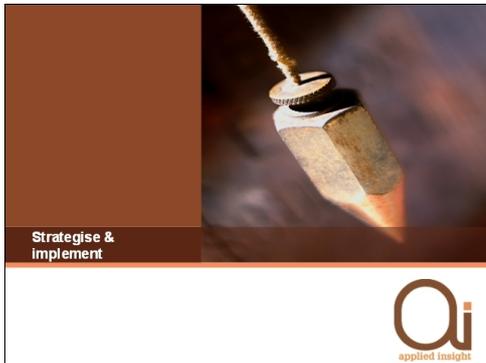
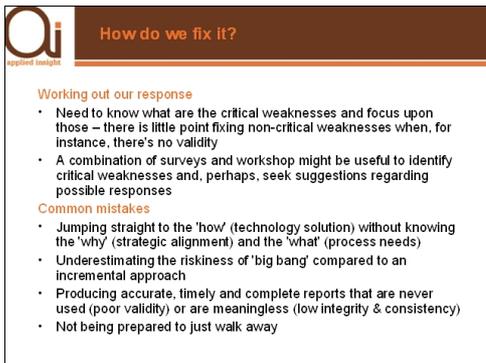
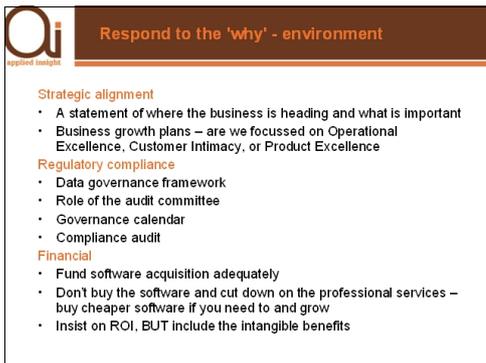
DS11.3 Media Library Management System: Define and implement procedures to maintain an inventory of stored and archived media to ensure their usability and integrity.

DS11.5 Backup and Restoration: Define and implement procedures for backup and restoration of systems, applications, data and documentation in line with business requirements and the continuity plan.

DS11.6 Security Requirements for Data Management: Define and implement policies and procedures to identify and apply security requirements applicable to



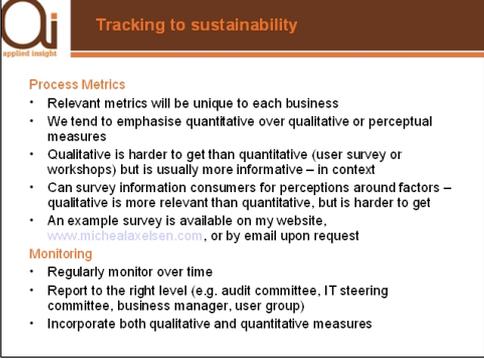
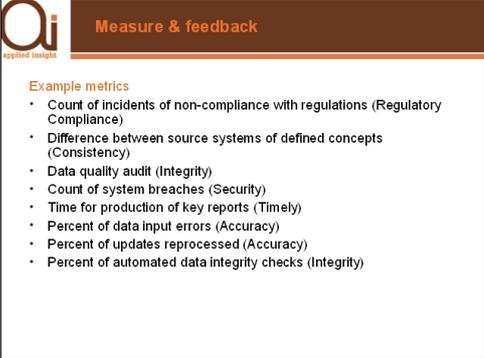
Strategise and implement

	<p>Slide 16: Strategise and implement</p> <p>So now let's take a look at how we get our patient well.</p>
	<p>Slide 18: Improve or buy</p> <p>A real problem that I am suggesting you avoid with all this is coming up with the right answer to the wrong question.</p> <p>I hate it when I see a client that has spent a lot of money building a solution we don't need that fixes problems we don't have, but leaves us with the ones we do have.</p> <p>A lot of time and effort can go into the wrong things.</p>
	<p>Slide 19: Respond to the 'why' – environment</p> <p>If we are going to do something, we need to know the 'why'. Why are we doing this? What are our business requirements?</p> <p>If you want to spend a day of your life understanding your business, get a group together and draw this simple diagram. Then discuss it!</p> <p>What do we need to do to meet our regulatory requirements? This is a language we understand – Sarbanes Oxley, CLERP, ASX, but also environmental or market reporting requirements.</p> <p>When looking at the financial factors, please consider risk! So often, we look at the dollars only, and neglect to look at the risks we are taking on.</p>

 <p>Respond to the 'what' – process</p> <p>Process</p> <ul style="list-style-type: none"> • Information management • Quality control framework • Policies and procedures • Service delivery methods • Project management methods • Know what is to be done, and do it 	<p>Slide 20: Respond to the 'what' – process</p> <p>Now that we know why we do things, and therefore what we need, we can now take a look at what we need to do.</p> <p>Process will govern how well our data that we gather will support our business requirements.</p> <p>Too often we try to use data to justify decisions they just don't support.</p> <p>So – know what we need to do, and find ways to make this improve our reporting. There may be a technology involved, but we need to look at process first.</p> <p>So often, we follow the salesmen!</p>
 <p>Now do the 'how' – people and technology</p> <p>People</p> <ul style="list-style-type: none"> • Training • Reports Interpretation • Only write reports that are used and relevant • Attraction and retention strategies • Role sharing • Outsourcing infrastructure management • Reduce technical complexity <p>Technology</p> <ul style="list-style-type: none"> • Common Technology Framework – fewer technologies is better • IT is often downside risk • Single view of the truth • Consistency and compatibility of technologies is most important • Role of in-house development 	<p>Slide 21: Now do the 'how' – people and technology</p> <p>Have we got the 'people' part of the equation right?</p> <p>This is about the people who prepare the data, then the people who prepare the reports, and then it is about the people who interpret the reports.</p> <p>These are all things to do.</p> <p>As for technology – and note we are only just now considering this! - remember that this is a business decision.</p> <p>As a guide, though – if you want to keep costs down, and risk at least lower, keep these things in mind.</p> <p>So to recap. We've diagnosed our patient. We know what we need to do, and we know why we need to do it. We've also considered how we will do it.</p> <p>Our response to this is fairly clear – but there is lots of stuff to do, of course!</p> <p>So – given we have a lot to do – how will we implement this?</p>

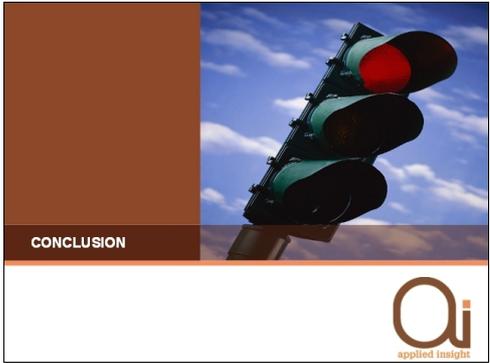
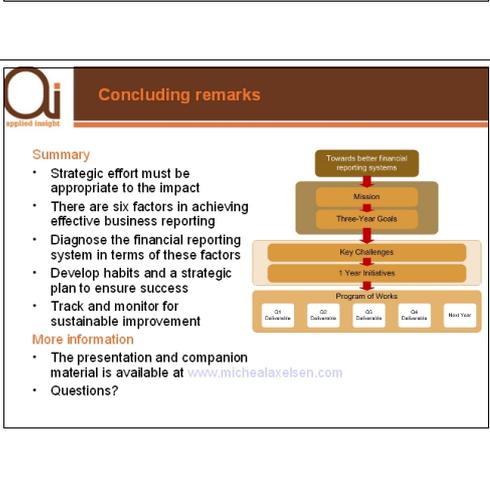
 <p>What is our response?</p> <p>Towards better financial reporting systems</p> <ul style="list-style-type: none"> • Identify business strategy • Set out the mission and objectives • What are the three year goals? • Identify one-year initiatives, broken into quarterly deliverables • Aim for success in the long-haul <p>The most powerful force in the Universe – the force of habit</p> <ul style="list-style-type: none"> • Set out quarterly deliverables, monitored by weekly, monthly, and quarterly meetings • Measure, feedback, and adjust 	<p>Slide 22: What is our response?</p> <p>This is a long haul if you want to get to a sustainable environment. Too much to do too early will likely be a problem and you'll fall over in a heap. I think we've all been there.</p> <p>If you don't have a dedicated project team (ha!) this is how I tell clients to ensure they get business outcomes.</p>
 <p>How do we build up and deliver strategy?</p>  <pre> graph TD A[Towards better financial reporting systems] --> B[Mission] B --> C[Three-Year Goals] C --> D[Key Challenges] D --> E[1 Year Initiatives] E --> F[Program of Works] F --> G1[Q1 Deliverable] F --> G2[Q2 Deliverable] F --> G3[Q3 Deliverable] F --> G4[Q4 Deliverable] F --> G5[Next Year] </pre>	<p>Slide 23: How do we build up and deliver strategy?</p> <p>This shows the strategic approach that may work for you.</p>

Tracking and monitoring efficiencies

	<p>Slide 24: Tracking and monitoring efficiencies</p> <p>Now for some numbers</p>
 <p>Process Metrics</p> <ul style="list-style-type: none"> • Relevant metrics will be unique to each business • We tend to emphasise quantitative over qualitative or perceptual measures • Qualitative is harder to get than quantitative (user survey or workshops) but is usually more informative – in context • Can survey information consumers for perceptions around factors – qualitative is more relevant than quantitative, but is harder to get • An example survey is available on my website, www.michaelaxelsen.com, or by email upon request <p>Monitoring</p> <ul style="list-style-type: none"> • Regularly monitor over time • Report to the right level (e.g. audit committee, IT steering committee, business manager, user group) • Incorporate both qualitative and quantitative measures 	<p>Slide 25: Tracking to sustainability</p> <p>Have we all heard of 'what gets measured gets managed?' Never truer than here.</p> <p>Make sure someone at a high level gets some of these metrics!</p> <p>The examples on the following slides are just examples. They come from COBIT as well as a good lashing of common sense.</p> <p>Quantitative measures seem objective, but qualitative are more informative. So consider this over the long haul.</p>
 <p>Example metrics</p> <ul style="list-style-type: none"> • Count of incidents of non-compliance with regulations (Regulatory Compliance) • Difference between source systems of defined concepts (Consistency) • Data quality audit (Integrity) • Count of system breaches (Security) • Time for production of key reports (Timely) • Percent of data input errors (Accuracy) • Percent of updates reprocessed (Accuracy) • Percent of automated data integrity checks (Integrity) 	<p>Slide 26: Measure & feedback</p> <p>Stands on its own</p>

 <p>Measure & feedback</p> <p>Example metrics</p> <ul style="list-style-type: none">• Percent of errors prevented at the point of entry (Integrity)• Number of independent automated data integrity checks (Complete)• Interval between error occurrence, detection and correction (Timely)• Reduced data output problems (Accuracy)• Reduced time for recovery of archived data (Accessible)• User satisfaction with data (Complete)• Count of level 1 support calls (User skills)• Count of level 3 support calls (Support skills)• Time to vendor resolution (Vendor support)	<p>Slide 27: Measure & feedback</p> <p>Stands on its own</p>
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Conclusion

	<p>Slide 28: Conclusion</p> <p>So now we come to the conclusion.</p>
	<p>Slide 29: Meeting the challenges of IT</p> <p>If I can encourage you to take the time to check out the publications that CPA Australia has developed regarding the management of IT (these are all developed or sponsored by the ITM Centre of Excellence), I would suggest you check out these publications.</p>
 <p>Summary</p> <ul style="list-style-type: none"> • Strategic effort must be appropriate to the impact • There are six factors in achieving effective business reporting • Diagnose the financial reporting system in terms of these factors • Develop habits and a strategic plan to ensure success • Track and monitor for sustainable improvement <p>More information</p> <ul style="list-style-type: none"> • The presentation and companion material is available at www.michealaxelsen.com • Questions? 	<p>Slide 30: Concluding remarks</p> <p>This is a summary of all we've discussed.</p> <p>Remember – the most powerful force in the universe is the force of habit</p> <p>Let's confirm that we met expectations (carry out expectations activity)</p> <p>Please feel free to give me a call or help out. I am, after all, a consultant!</p>



CONTACT DETAILS

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Slide 31: Call Applied Insight Pty Ltd

Remember that I'm a consultant who helps clients with 'getting IT right' (strategy, review IT services, selection, governance) and information management (information management, social networking, and improving business reporting).

Please feel free to email me at micheal@michealaxelsen.com.



About the speaker



Services

- Micheal Axelsen provides provides business systems consulting advice to clients to help them 'get their IT right' and to 'know what they know'
 - Strategy, IT services, & project review
 - Information management, business reporting, & social networking review

Position and qualifications

- Director, Applied Insight Pty Ltd
- Chair, CPA Australia Information Technology & Management Centre of Excellence
- Qualifications
 - Bachelor of Commerce (Hons)
 - Masters of Information Systems
 - FCPA (Specialist in Information Technology)

Slide 32: About the speaker

This slide certainly 'speaks' for itself.