FINANCIAL REPORTING BEST PRACTICES

WHY CFOs ARE TRADING IN THEIR SPREADSHEETS FOR AUTOMATED, CLOUD-BASED SOLUTIONS

Despite the emergence of sophisticated financial reporting solutions, many chief financial officers (CFOs) still rely heavily on spreadsheets for financial reporting. Excel and other spreadsheet programs are omnipresent, and it’s likely that every finance team member, analyst, accountant and CFO use them in their everyday work. Many CFOs use Excel for their financial reporting because they are comfortable and familiar with the program. But spreadsheet programs weren’t designed for use as financial reporting software, and CFOs who use them for that purpose are creating significant risks for themselves and their companies.

Excel-based financial reporting opens a company to a wide range of risks from data integrity issues, security vulnerabilities and version-control problems. These all can lead to inaccurate financial statements, which can be a fireable offense for a CFO. Excel is also difficult to scale up for financial reporting. It can create multiple versions of the financial reporting “truth,” and it can create collaboration, consolidation and distribution difficulties. Additionally, independent auditors can decline to sign off on Excel-based financial reporting because the spreadsheet program typically fails to deliver adequate controls as prescribed by the Sarbanes-Oxley Act and accounting standards boards. With increased scrutiny for compliance, it is critical that financial reporting not be compromised by potential errors introduced by a company’s reporting solution.

As technologies advance and companies have a greater need to leverage data across their organizations, more finance chiefs are shifting to cloud-based solutions. With cloud-based financial reporting, it is important for organizations to use only solutions that meet SOC 2 criteria for data security as defined by the American Institute of CPAs.

Innovative financial reporting solutions have helped boost the efficiency of CFOs and their finance teams, enabling them to easily aggregate financial data from business units around the globe. These automated reporting solutions help CFOs and their finance teams focus on value-added initiatives and strategic work to make their companies more profitable, rather than focusing on the manual processes and administrative duties associated with Excel-based financial reporting.

This e-book will cover some of the current challenges of financial reporting, as well as the benefits of leaving spreadsheets behind and migrating to modern tools.

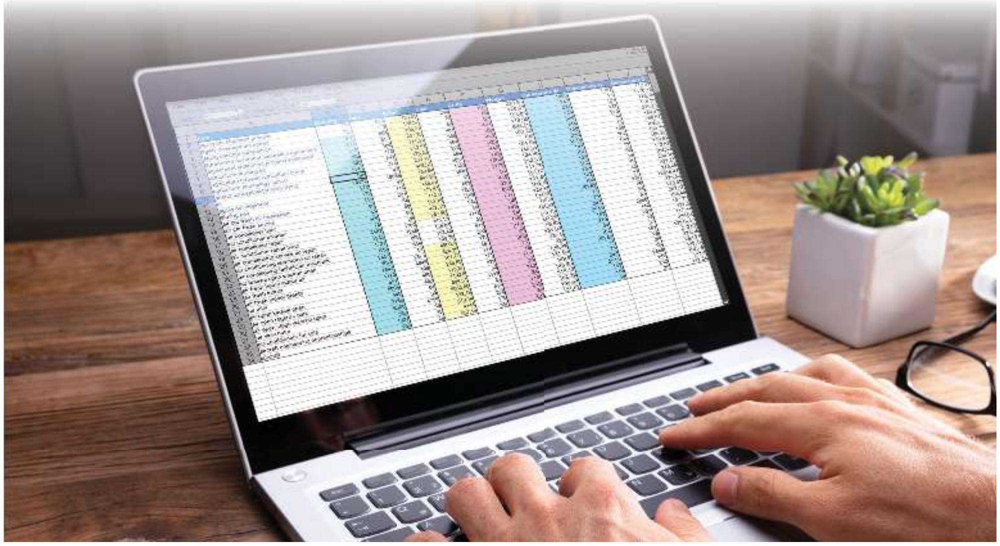
DRAWBACKS OF USING EXCEL FOR FINANCIAL REPORTING

Using Excel for financial reporting creates significant financial and reputational risks for a company, says Grace Bolen, VP of Finance, FYIsoft, a financial reporting solutions provider. But the most important risk is that it makes it harder to access the best, most accurate and actionable data that the company needs to make smarter, faster business decisions. That lack of good information puts the company at a competitive disadvantage and ultimately jeopardizes its future.

Data integrity issues are common with Excel, which can put the entire financial reporting process at risk. Mistakes can trigger restatements and breed distrust among users. The process of manually running and distributing reports to department leaders—required with Excel-based financial reporting—results in delays, errors, and missing data, as well as taking up the time of the finance team, which could be put to better use. Sharing the wrong report with the wrong people, especially when confidential data is mistakenly released to the wrong people, can have disastrous results. Also, reports created with Excel require an inordinate amount of preparation before they are suitable to file with the SEC or to share with auditors or the company's board of directors.

MANUAL CONTROLS CAN BE USED TO TRY TO MITIGATE THE RISKS CREATED BY SPREADSHEETS. BUT WITH IMPORTANT INFORMATION AND COMPLEX SPREADSHEETS, THAT MAY BE DIFFICULT.

—PWC



Under Section 404 of Sarbanes-Oxley, all public companies are required to include in their annual financial reports an assessment by management of their internal controls and an assertion by management that the controls are operational and effective. This assessment must report any shortcomings, and external auditors must sign off on the accuracy of management's statements. In a white paper about Sarbanes-Oxley compliance, PricewaterhouseCoopers reports that manual controls can be used to try to mitigate the risks created by spreadsheets. But with important information and complex spreadsheets, that may be very difficult, PwC says, and it points to several costly real-world examples.

In one case, a spreadsheet error at a major financial institution led to a $1 billion financial statement error in the classification of securities. The error was caused by an unapproved change to a formula within a spreadsheet, combined with control deficiencies. In another example, PwC reports, a cut-and-paste error in a spreadsheet forced a utilities company to take a $24 million charge to earnings.

Brian Kalish, principal at Kalish Consulting and a financial planning and analysis expert, says Excel is like an ever-present Swiss Army knife for finance.

"In the finance world, it has a 100 percent use rate; every single person has Excel," he says. "It can get you out of a lot of relatively simple situations, but it's not the right tool for financial reporting."

Why should CFOs stop using Excel for financial reporting? The list of reasons is long, and each reason presents risks for the CFO. According to Kalish:

- Excel, as a financial reporting tool, is **vulnerable to fraud and susceptible to human error,** because it's too easy to change figures and formulas in an Excel model. "When you identify a variance, was it a function of a mistake or was it fraud?" Kalish asks. "Literally you have to become a forensic auditor, and go in and tear this thing apart; try to understand the logic. Did someone key '1,000' instead of '10,000'? Did they put a comma where they shouldn't have?"
- It's **difficult to troubleshoot or test.** Once an Excel model has been built for financial reporting, it's extremely challenging to figure out where a problem might be, because Excel is cell-based. "When some crisis happens, and you've misstated something, in Excel there's no single version of the truth. If it's screwed up, what's going to be the right answer?" Kalish asks.
- Excel **makes quick decision making difficult** because of its cell-based structure. Changes to one variable in an Excel model creates changes to other variables, and those variables change still more variables, so double-checking your work and figuring out where all of the links are can be time-consuming.
- Because Excel relies on individual operators to maintain individual versions, if those individuals don't regularly back up the spreadsheet in a disaster recovery scenario or other business continuity plan, then the **information can be lost.** This lack of basic data management and backup capabilities typically represents a compliance failure.
- Excel **scales poorly,** which makes it especially inadequate as companies grow.
- As regulatory compliance requirements increase or change, it's **very difficult to keep up with adaptations** to an Excel model for financial reporting. Also, compliance typically needs financial reporting to provide ready answers to explain what happened, when it happened, and where it happened, and Excel makes that difficult.
- For compliance or audit purposes, it's difficult to show how an Excel model **has arrived at a given figure** for financial reporting, and **why it was designed the way it was.** That's because often the model has been repeatedly altered and added to, creating a Frankenstein-like spreadsheet. "If an auditor can't understand how you came to a certain number, then the audit flag is raised," Kalish says.
- Excel is **designed for individuals;** not collaborative work. This makes closings and consolidations in financial reporting, and the work required to pull in information from disparate systems, very hard to accomplish. Because Excel has no automatic delivery function, versions of Excel models have to be emailed between collaborators. Access control is lost, which creates version control problems. "Those are all violations from a Compliance 101 standpoint," Kalish says. "That's where you're falling into failures from a governance perspective and from a compliance perspective. Seeing an Excel spreadsheet in any kind of complexity and size should make compliance say, 'Why is it there?'"

Financial reporting based on Excel spreadsheets is not only prone to errors, but time-consuming for finance, says Gary Rihani, a CFO and controller who has headed finance for several manufacturers and food processing companies. If an error is potentially introduced by a recent spreadsheet formula change, it typically takes going through the spreadsheet and its tabs line by line to root out the mistake. If two people make changes to their versions of a spreadsheet at the same time, and then it's unclear which version is the most recent or accurate one, then finance is responsible for retracing their steps and figuring out what happened. The amount of time spent on tracking down even small errors adds up, and inevitably the time is spent during the rush to meet reporting deadlines, which can compound the errors, according to Rihani.

"With reporting software that automatically pulls information directly from general ledger sources, finance can spend its time a lot more productively," he says.

"The last thing you want to worry about is: Is this calculation correct?" Rihani says. "I don't want to have to spend my time trying to figure out what went wrong, or worrying about errors in moving information from one place to another for reporting."

Independent auditors are concerned about the compliance problems created by using Excel for financial reporting—especially problems with the requirements of the Sarbanes-Oxley Act for financial reporting, says Jason Mauney, director of product marketing for FYISoft Inc. That concern by auditors is spurring CFOs to search for financial reporting software to replace their Excel-based financial reporting.

"I have had prospects that told us their audit firm would not give them a clean opinion if they continued to consolidate (their financial reports) in Excel," Mauney says. One of FYIsoft's customers, Mutual Insurance of Arizona (MICA), provided this comment in their case study.

"Moving to an Excel-based platform seemed to be a move backwards for us," said Beck Roth, MICA's Financial Reporting and Systems Analyst. "Excel is flexible but corruptible, which makes it dangerous. The prospect of putting something as critical as our financial information into it made us very uncomfortable."

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— GARY RIHANI, CFO AND CONTROLLER

Sarbanes-Oxley and the Public Company Accounting Oversight Board requirements derived from the law—such as requirements for change control, version control, access control, data security, backups and archiving, and segregation of duties—are tough to comply with under Excel-based financial reporting, says Bolen.

"You may be able to password-protect your spreadsheet or have a protection from people changing the formulas, but you can't really have an audit trail of who logged into the system to make those changes" she says.

Auditors also want to see that financial reporting data has been reviewed by various parties to check for errors, or to raise red flags about figures that deserve further review. Without these controls in place, CFOs risk that the independent auditor will find errors in the company's reports or won't issue an unqualified opinion that the company's financial records are maintained in accordance with Generally Accepted Accounting Principles (GAAP), according to Bolen.

Another problem with using Excel instead of an automated financial reporting solution is the issue of timeliness. With an automated reporting solution, the financial data is available throughout the month, not just after the monthly close.

"The sooner real-time information is available to your managers throughout the organization, the better their decisions," Bolen says. "It's harder to react to things when you have a very short timeframe to review and analyze your data. You're always in a crunch."

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MIGRATING TO AUTOMATED, CLOUD-BASED FINANCIAL REPORTING

Cloud-based financial reporting solutions offer the benefits of remote access, reducing the time needed to manually adjust data to accommodate multiple entries from different locations from different users. By providing all stakeholders with the appropriate level of access to the information they need, those users can make intelligent business decisions based on the most up-to-date numbers while the finance team maintains control. (See "Questions CFOs Should Ask When Evaluating Financial Reporting Tools.")

For financial reporting solutions that offer a "drill-down" capability with a remote, web-based log-in feature, users can click on any number in their P&L statement to examine every dollar figure that created that number, back to the general ledger data. The user's questions about a particular number are immediately answered, saving time and enabling the user to make faster, smarter business decisions.

This ready access to data for the stakeholders also saves the finance team time in tracking down the data on behalf of the stakeholders, and in fielding requests for that data. Another benefit is modern tools that allow the creation of perfectly formatted, board-ready financial reports right out of the system, providing the CFO with more time to review the data and to provide strategic analysis.

Ultimately, streamlining the creation and distribution of financial reports, and not having to double-check and validate the numbers from an Excel-based reporting solution, frees up the finance team to focus on value-added initiatives to drive the business. Reducing the length of the close cycle also significantly increases the value provided by the CFO to executive management and the CEO, moving the CFO into more of a strategic role instead of an administrative one.

Financial reporting features like automated distribution also give CFOs tight control over report distribution, making sure the right reports get to the right people and at the right time. This effectively removes the manual process that poses the risk of mistakenly sharing sensitive data, and it saves time from preparing and sending PDFs or Excel reports via email.

Another catalyst that is driving CFOs to more innovative financial reporting solutions is the sunsetting of early-generation reporting software, as certain software providers phase out their technical support of their solutions to refocus on other businesses.

Questions CFOs Should Ask When Evaluating Financial Reporting Tools

- For cloud-based software, is it compliant with SOC 2, meeting the American Institute of CPAs' criteria for data security, availability, processing integrity, confidentiality, and privacy as determined by a third-party auditor?
- Does the solution offer daily data backup?
- Does the solution offer report writers capable of connecting to multiple general ledger databases and consolidating that data into one P&L statement and balance sheet?
- Does it offer report writers that add value for your company, consolidating data and building tools that help you manage your business, and not just satisfy audit requirements?
- Is the software available in both cloud and on-premises options?
- How accessible is the reporting solution?
- Is the software easy to learn? Does the implementation training take days or weeks, or hours? Is it intuitive, using the language of the finance staff, or does it require IT staff interpretation and coding skills?
- Is the reporting solution the right size for the company, and is it scalable?
- Does it meet the needs of the business side, and not just finance? How easy is it for the business managers to put the data in, and how easy is it for them to extract knowledge?
- What is the total cost of ownership, including maintenance, customization, upgrades, implementation, and training? Are there price breaks for certain numbers of users, and what will the projected cost be as the company grows?
- What do the completed reports look like, and how much manual intervention is needed to format them for board reports, auditors or SEC filings?

CONCLUSION

Excel-based financial reporting presents too many reputational, financial, and competitive risks for companies that use it, as well as career risks for the CFOs who continue to employ it. Automated financial reporting solutions, including cloud-based solutions, enable faster, smarter business decisions by their users, and they allow CFOs and their finance teams to focus on business innovation and more strategic roles.

ABOUT **THE SPONSOR**

Founded in 2012, FYIsoft has quickly grown into a leading provider of cloud financial reporting software. Over 8,500 finance professionals around the world rely on FYIsoft's software to make the financial reporting process fast, easy, and accurate, even in complex multi-entity environments.

FYIsoft's financial reporting software is intuitive and extremely easy to use. Built with an open architecture, the software can integrate with any general ledger to deliver all the modern reporting power needed, without the high cost of replacing existing systems.

FYIsoft is proven to cut weeks off every financial close by enabling finance teams to:

- **Easily consolidate multiple reporting units** and cut reporting time by as much as 50%. FYIsoft easily consolidates from different GLs, account codes, currencies, and more.
- **Automate the distribution** of financial reports, with complete confidence that the right reports get to the right people, at just the right time.
- **Empower users with drill-down** capabilities that enable even non-finance employees to securely view all transaction-level details (including attached invoices), 24/7 from any device.
- **Create perfectly formatted financial statements** right out of the system, ready for the board room, auditors, or SEC filings.

Eliminate the risks of Excel and take your financial reporting capabilities to a new level with FYIsoft. Learn more at **www.FYIsoft.com**.