CFOs can benefit from the IBM acquisitions of OpenPages and Clarity Systems

Integrating the financial close and compliance mandates increases accuracy and efficiency

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IBM is committed to financial management solutions that use innovative technology to integrate business strategy with financial operations, enable more widespread use of performance information, and measure and mitigate risk to drive value. Compliance challenges, the drive for business efficiency, and increased CFO accountability for determining risk all increase scrutiny on the numbers, putting a microscope on financial processes and statutory reporting.

Organizations need a foundation of reliable information, starting with the data that is generated from key financial processes such as the financial close and internal control reviews. Finance organizations have reported that compliance requirements such as Sarbanes-Oxley and IFRS (International Financial Reporting Standards) have increased the time it takes to close the books and delayed the delivery of management information. Pending XBRL (eXtensible Business Reporting Language) requirements are being addressed as yet another task, but the process of formatting documents in XBRL should be looked at more strategically as a means to streamline reporting and filing processes generated from an integrated foundation of information.

Finance transformation is driven by leveraging transactional information, performance indicators, and the results of audits and internal control reviews, and assimilating this information to enable a single source of statutory reporting, management and performance reporting to deliver information to end users in the context of decision making and managing risk. Ensuring that this information comes from a consistent source increases the value of decision making and provides a strong foundation for managing risk from both a compliance and an operational perspective.

Yet in many organizations reporting, performance monitoring and compliance management information are not integrated. Finance teams still perform a significant number of processes manually to meet fiduciary, compliance, and performance reporting requirements. There is a strategic opportunity for CFOs to tighten up and integrate financial information and processes through automation, and increase their business analytic capabilities. Finance should leverage IT to make this transformation and drive information integration to enable enterprise-wide performance and risk management while increasing the efficiency of the finance organization.

> **Across the Finance agenda, two activities – information integration and risk management – have become remarkably more prominent.**
>
> ***IBM 2010 CFO Study***

IBM has made investments in solutions to enable agility in the office of the CFO. IBM Cognos financial performance management provides companies with the analytic applications to automate financial consolidation, planning and budgeting processes, and support strategy management and the visibility of key performance indicators (KPIs). Automating this core is important, but the value is exponentially increased by an even broader integration across finance that extends beyond performance management to create a financial governance platform. The acquisitions of OpenPages and Clarity Systems in October, 2010 are a move by IBM to address financial governance and risk management challenges. CFOs can facilitate a transformation to broader finance governance by integrating financial, compliance, performance and risk management processes and information. The acquisitions by IBM are aimed at helping finance organizations achieve that goal.

Broadening Financial Management

Financial Performance Management (FPM) has evolved as a set of software solutions that support processes that integrate with transactional systems but provide a more strategic and dynamic view of the business. The processes of monitoring corporate strategy, effective planning, budgeting and forecasting, and delivering integrated statutory and management reporting typically take place outside of ERP/general ledger solutions. FPM solutions standardize and integrate information across disparate transactional systems, and support financial processes that are typically manually intensive.

Figure 1 depicts the software market's standard definition of an FPM platform, which combines performance management analytic applications with a business intelligence platform to integrate and standardize information, and support management reporting to a broader audience.

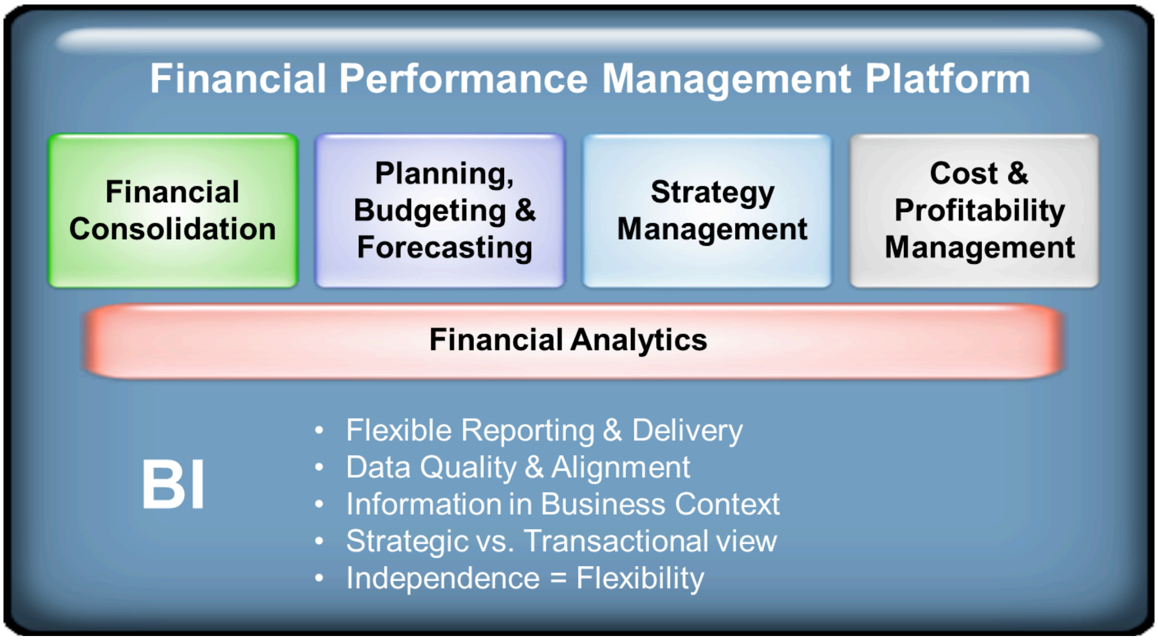

Figure 1

FPM investments complement enterprise transactional applications to address the broader strategic processes executed by finance teams. However, the current scope of FPM represents only part of the equation. A good finance department needs to have a strong handle on its internal financial controls as well, not only to meet compliance mandates, but to minimize the risk of error, fraud, and financial restatements. Monitoring the control environment has evolved into broader compliance and risk management initiatives, and the connection of risk, strategy and performance measurement provides a foundation for embedding risk considerations into operating performance management.

Additionally, the reporting demands on finance are expanding – the requirements for both management and statutory reporting are based upon the same, integrated information, but have different goals. Management reporting must serve a broader audience, and internal management needs more flexibility, frequent updates and access to detailed information on performance than is required by statutory reporting. The ability to understand financial information and the impact of decisions on a day-to-day basis helps to explain statutory results. Therefore, a single platform that connects these processes is ideal.

Figure 2 represents a vision of how technology is evolving to support a broader definition of FPM that includes performance management, compliance and controls, risk management, and reporting.

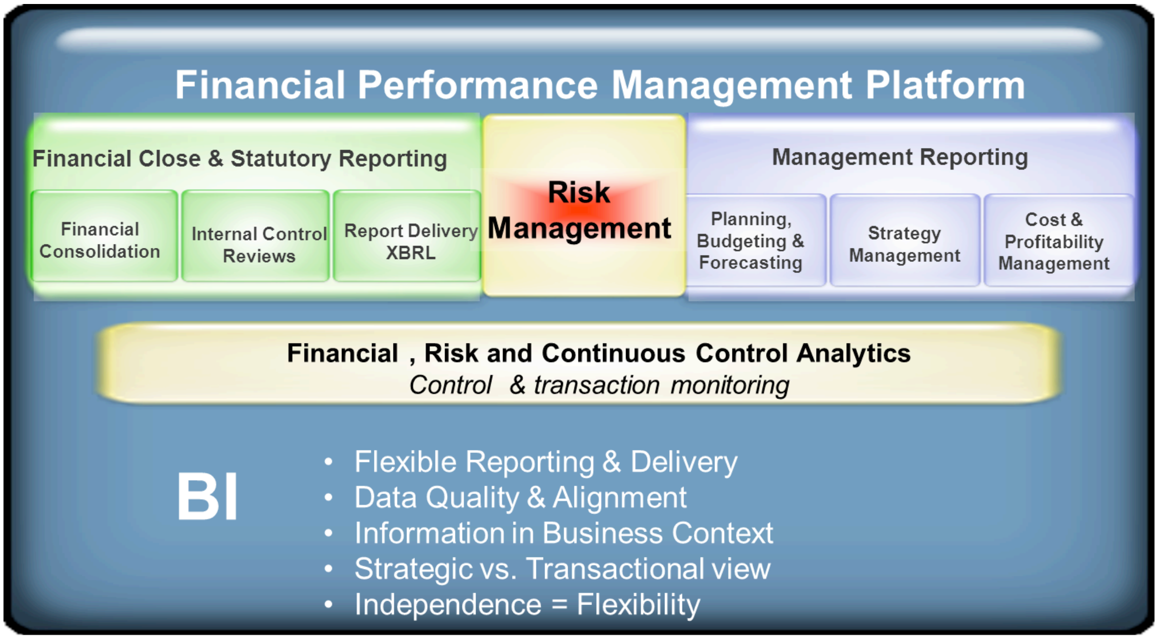

Figure 2

FPM solutions are based upon a Business Intelligence (BI) platform that facilitates robust analytics that correlate information across multiple sources and enable drill-down into the details. Analytic requirements also increase in support of broader financial governance. Convergence of risk and performance information to enable risk-based decisions is facilitated by broader access to financial, business and risk information. From a governance point of view, transaction monitoring and continuous controls monitoring are analytics that provide quantitative support for tracking compliance and risk exposure.

Financial transaction monitoring provides the ability to understand and quantify control gaps and weaknesses by analyzing the actual financial transactions for evidence of control failures. Both finance and business owners gain insight from this information, understanding the magnitude of their exposure to control breakdowns and business risk. This helps the organization take a top-down approach to act on potential threats such as fraud or financial leakage before they can have a significant impact on business performance.

The IBM acquisitions of OpenPages and Clarity Systems respectively, support the extended capabilities shown in Figure 2 for risk management, internal control reviews and report delivery in the XBRL format. However, the capability of these systems to further support integration and automation within a broader view of financial governance is where IBM can create real value in finance transformation.

Finance Transformation in Context – The Financial Close

Integrating the capabilities shown in Figure 2 above is more far reaching than simply adding new solutions across the board. And the value becomes clearer in the context of automating a key business process. As an example, the financial close process has been a source of finance inefficiency and SEC-reported control deficiencies, whereby breakdowns in the financial close and reporting process put the fair statement of publicly disclosed financial information at risk. The integration of financial consolidation, internal control reviews and financial statement preparation into a cohesive, unified, and automated process enables increased agility. The benefits to Finance include efficiency, consistency, enhanced reporting speed and increased visibility of results to support a broader vision of financial governance.

Figure 3 depicts an integrated financial close process that incorporates not only financial consolidation, but ERP processes that are strategic to the close, internal control reviews, financial reporting and XBRL filing.

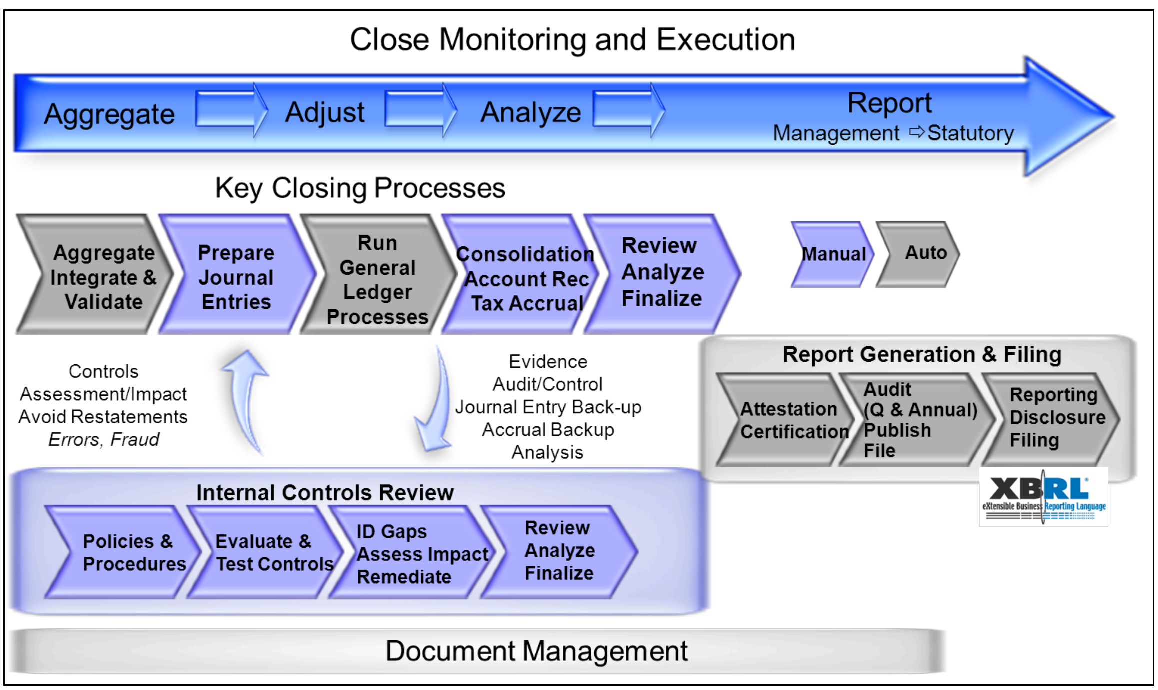

Figure 3

In broad terms, Figure 3 lays out the disparate functions that collectively make up the financial close, the alignment of which makes it a more cohesive process. These functions span five key areas:

1. Close monitoring and execution - Financial governance requires a top-down, independent monitoring of financial close activities that is integrated with, yet expands beyond, ERP systems. Establishing a workflow-driven, automated close process that incorporates all of the processes and steps of the financial close is key. These include, but are not limited to:

- Journal entry input and other ERP-based close processes such as allocations
- Financial consolidation
- Key processes such as account reconciliations and tax accruals
- The orchestration of the closing process to ensure complete results and gain visibility into the status of the close to ensure timeliness and highlight possible errors

2. Integrated internal control reviews - Just as providing management reporting to key operational groups on an ongoing basis can help surface issues that could have a material impact during the financial close, so does the consideration of high-risk internal control processes. By integrating the assessment of key controls that could have a material impact on results into the analysis that supports the financial close, finance gets one step closer to achieving transparency and mitigating the risk of errors or fraud that could lead to a restatement of external results.

3. Document management - The documentation of journal entries, adjustments, account reconciliations and report preparation are managed and stored manually in many organizations—a less than ideal manner for managing corporate records. This represents a control weakness and extends the time needed for the external audit and review as well. Document management capabilities can capture and formally manage supporting documents as corporate records from journal entry preparation through reporting. Managing documentation automatically should be part of the process integration that supports close monitoring and execution, spanning ERP, financial consolidation and related processes such as account reconciliations, tax accruals, financial reporting and audit. Corporate records include:

- Journal entry backup, approvals and exceptions
- Spreadsheet analysis (i.e., account reconciliations)
- Client-prepared work papers
- Accounting treatment support
- Report preparation back-up

4. Exception management – Most organizations come across anomalies during the financial close that warrant further investigation. However, there typically is no consistency in how these exceptions are surfaced, routed to the right people, and ultimately resolved with documented actions and decision making. While this process has been put in place to support internal control reviews, it should be extended to the financial close process.

5. Automation of report preparation and external financial reporting – This process is often manual and typically disconnected from other financial processes. For that reason, it is ripe for internal control breakdowns that, at a minimum, result in errors, or more seriously, may enable fraud. In addition, the SEC is phasing in mandatory interactive disclosure. This requires the submission of company financial statements in the XBRL interactive data format, which is virtually impossible in a manually driven reporting environment. Integrating XBRL reporting capabilities with audit support to drill back into actual results and the closing process is a key requirement that most likely will be increasingly demanded by the SEC over time.

The IBM acquisition of OpenPages and Clarity Systems enhances the existing IBM Cognos Controller solution for financial consolidation to provide an integrated financial governance platform as described above. Together these solutions can create a platform for financial governance that improves processes such as the financial close and reporting through automation, closing control gaps, reducing timelines, and increasing efficiency.

Summary

In summary, it is clear that organizations can improve the financial close process through automation with the right set of integrated solutions. This will result in tactical benefits for finance of closing control gaps, reducing timelines, and increasing efficiency. It will also provide a more dynamic and flexible platform for financial governance in the future.

The initiatives outlined in this paper are moving past the initial stages. IBM periodically conducts primary research to explore topical, strategic issues confronting CFOs and their Finance organizations. The *IBM 2010 Global CFO Study* explores how CFOs and finance organizations are supporting enterprise decision making and strategic initiatives, and what finance capabilities are hallmarks of success.

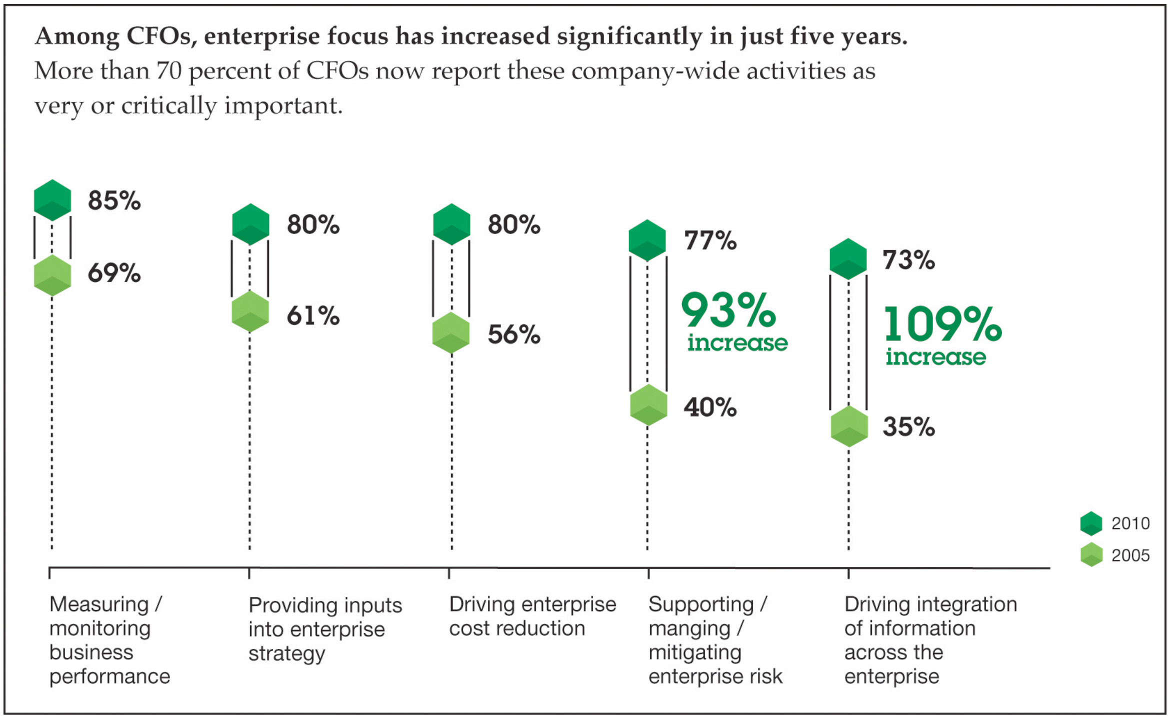

*Figure 4 (*Source: IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study*, March 2010)

The CFO Study revealed a number of insights that support the underlying drivers of automation to support financial governance as discussed above. As shown in Figure 4, information integration and risk management top the list of areas that are front and center for CFOs. This aligns with initiatives discussed in this brief, which outlines an actionable set of initiatives that can help CFOs meet these goals.

Unifying financial processes and integrating enterprise information are initiatives that, when spearheaded by forward looking CFOs enable the alignment of risk and performance objectives that are fundamental to financial governance and, ultimately, to enterprise success.