Best Practices in a Reporting Audit

By Kim Schaefer, CPA

The heart of a financial accounting system is data; however, the lifeblood of an organization is information. In most organizations, management makes decisions about real-time occurrences based on less than real-time information. Many times, accounting systems are viewed as an afterthought or non-revenue producing system; when in actuality, a well thought out system can help you make decisions that will improve profitability, react quickly to market indicators, and focus on your core business.

> *"Financial accounting, balance sheets, P&L, cost allocations, etc., are an x-ray of the enterprise's skeleton. But just as much as the diseases we commonly die from – heart disease, Parkinson's, AIDS – do not show up on an x-ray, so too a loss of market standing or a failure to innovate do not register in the accountant's figures until the damage is done."*
>
> *~ Peter Drucker*

When organizations stop looking at financial accounting as strictly a back office function and start looking at it as a strategic decision-making operation, they can start turning data into information. There are two primary issues involved in determining how to turn data into information.

First, you must identify the information needs of each individual responsible for decision-making within the organization. There are two primary objectives: determine the content of the reports and determine the delivery method that suits them best. Peter Drucker simplifies the search for information requirements as follows:

- What information do I need to do my job?
- When do I need it?
- In what form?
- And from whom should I be getting it?

He then takes it a step further:

- What new tasks can I tackle now that I have this data?
- Which old tasks should I abandon?
- Which tasks should I do differently?

Finally, the most important question:

- What information do I owe? To whom? In what form?

In order for management reports to be useful, they must report relevant information about current events that will maximize an organization's decision-making ability. According to David A. J. Axson of the Hackett Group, for a report to be a great management report, it must answer the following four questions:

1. What happened?
2. What was the impact?
3. Why did it happen?
4. What can we do about it?

Now, equipped with an analysis of organizational information requirements, you are able to determine the type of data to collect. All data is triggered by an external action or event, such as payment to a vendor or receipt of cash from a customer. Each action has an enormous amount of data associated with it. You must determine whether you want to collect all or a portion of the data. Management information constitutes both financial and non-financial data (hours, number of claims, number of customers processed, etc.). You may accumulate data by a variety of organizational entities (account, responsibility, division, etc.).

After you determine the information that is most useful to your organization, you must ensure that your financial accounting software contains the data storage and reporting mechanisms necessary for easy access to this information. When selecting software, make sure the system you choose has the following:

1. A flexible chart of accounts structure where you are able to define a virtually unlimited number of reporting segments, their length, and summarization relationships.
2. The ability to define and view multiple summarization relationships of the same data, using a variety of inquiry and reporting tools, providing consistent results among all tools.
3. The ability to report on real-time data in real time without requiring batch jobs to run to update data or relationships.
4. A variety of reporting and inquiry tools from which to choose, depending on the specific needs of individual information recipients.
5. The ability to store financial and statistical data, as well as budgets, to the same account string.
6. The ability to store data by periods other than months (i.e., weekly or daily buckets), depending on information requirements.

In conclusion, it is safe to say that boards and senior executives no longer use ROI as the measure of the true value of a technology investment. The true value comes in the form of improved profitability or increased revenue. In the past, it hasn't been easy to link financial accounting software directly to improvements in profitability or increases in revenue, so vendors used ROI instead.

If we look back to Drucker's quote, it is easy to see how the right information at the right time can help us grow top line revenue and improve our profitability. End of the month financial statements are not enough any more. We need up-to-the-minute information – information implies data with value. Then, and only then, are we able to make the right strategic decisions to grow our companies and protect our market share from our competitors.

About the Author and the Company

Kim Schaefer, CPA, is President and Chief Operating Officer at Mitchell Humphrey, a company that specializes in business process management, offering financial management and HR/payroll solutions backed by over 28 years of Best Practices methodology.

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