Understanding the Financial Audit Trail

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BI Success Versus Failure

Business Intelligence (BI) has promised for many years to resolve once and for all the information problems that plague organisations of all sizes. Given the investment that many companies have made in ERP systems and associated BI tools, it is surprising that this is an on-going problem.

However, many companies still derive key reports through the manipulation of spreadsheets that then require reconciliation back to the ERP system to ensure their veracity.

If BI does not meet the financial reporting needs of the business, then it will fail; this should be a prime consideration for any business contemplating a BI initiative.

Manual Processes

Almost two decades since the introduction of packaged business intelligence (BI) solutions, the vast majority of mid-sized organisations are still struggling to understand essential financial and performance information - and making poor decisions as a result. Despite the early promise of BI, the reality for many businesses remains a disappointment:

- Why are finance departments still spending upwards of 70% of time producing management accounts and only 30% analysing the information?
- Why is it nearly impossible to achieve detailed profitability analysis by product or line item?
- To drill down from the General Ledger to the line item, rather than open a separate report and attempt to manage the resultant reconciliations issues?
- Or accurately forecast cash flow?
- And why does it require expensive and time-consuming development work every time the business wants to produce a one-off company report?

Question the Correct Answer

The principal reason that Finance departments put so much manual effort into producing their reports is that they are required by law and accounting convention to operate in a particular way.

However, when a Finance group publishes their monthly reports, irrespective of the method that was used to derive them, then for the company these reports represent the 'Correct Answer'.

For example: at the highest level, the consolidated Profit or Loss figure for the company will represent the aggregation of every single transaction from the ERP system in that accounting period that has either a revenue or an expense implication. Thereafter, any piece of analysis which derives from those same transactions, whether it purports to be a sales report, an item analysis or an expense report analysed across cost centres should be capable of reconciliation back to that 'Correct Answer'.

The Audit Trail

Management expect to see this level of reconciliation as it represents assurance that the reports are correct: a failure to reconcile will always undermine the faith that a user is prepared to place in a report and any BI initiative that fails to acknowledge this runs a high risk of failure.

A transaction may go through many transformations from the point at which it first enters the ERP system to when it ends up as a component part of a number on an accountant's report. This journey through the sub-ledgers is known as the audit trail. At each point in this journey the transaction can acquire attributes that need to be known to guarantee the ability to produce a reconciliation.

The problem with the audit trail however is that it is not explicitly recorded in the ERP system and the Data Analysis required to discover it is far from straight-forward.

Data Analysis

Whilst the audit trail is not obvious, data tables are. Most ERP systems are rich in data tables and actually have thousands of them, but trying to understand exactly what is in each table and how it relates to other tables is the real problem and requires deep specialist knowledge.

For example, an analyst wants to produce a report that shows a company's sales performance broken out by item for a particular accounting period. In theory, the information can be found in the ERP tables and loaded into a BI tool to generate the report. In reality, in all but the simplest of organisations, the chances this report will agree back to the previously published 'Correct Answer' are very slim.

Any number of accounting treatments in the ERP system relating to direct GL entry, currency translation, returns, Mark-ups, discounts, to name a few can significantly affect the extent to which differences will arise. Any failure to reconcile exactly and reflect these treatments in the BI system will potentially undermine user trust in reports.

A Different Data Model for BI

The correct way to approach this analysis is for the BI system to contain a full understanding of the audit trail. Taking this approach, the analyst would simply ask the BI system to analyse any number and irrespective of the ERP tables where the component transactions originated, it will know exactly which transactions to return, because it understands the audit trail.

To support this type of analysis, the design criteria for the data model will be quite different to that which BI suppliers have traditionally delivered. It will no longer be sufficient to simply copy out chunks of data or subsets representing an individual sub-ledger. The ERP system exists as a logical whole and the starting point for the 'Audit Trail Aware' data model is that it should be unrestricted and therefore it should contain all transactions from the ERP system.

Audit Trail Aware

The software techniques to create this type of Data Model exist, but need to be built into the BI software. Each new transaction added to the ERP system will be brought through to the BI software with a full understanding of its particular journey through the ERP, so that every potential link in any possible direction is understood.

It is also then important to check on an on-going basis that the BI software is always in balance and agrees back to the ERP system. These checking mechanisms can and should be built in to the BI software to ensure that the system is always in balance, reconciled, validated back to the ERP and in a state that can be trusted for the delivery of reports across the company. This level of diligence is required if a company is to put its trust in the BI system.

Proof of Delivery

How can I tell if my BI supplier is providing a system with an embedded audit trail that I can trust? The acid test is to attempt to analyse a number from the GL and to ask to see all the potential analysis possibilities that exist.

- If the audit trail has been captured then it should be possible, on the click of a mouse, to see the root transaction, irrespective of the ledger that it arose in and to inspect any relevant dimensional analyses that interest you.
- If you hit any brick walls or cannot get down to the lowest level of detail, or are asked to run a separate report, then the chances are that you are simply looking at discretely extracted tables of data without the required knowledge of the audit trail that links them together.

Accounting Intelligence

If the BI software is to serve the needs of the accountants then it must understand the accounting conventions that are engineered into the ERP system:

- Use of Dr/Cr for the recording of transactions
- Distinction between the Balance Sheet and P&L for the categorisation of accounts
- Central position of the Chart Of Accounts
- Use of hierarchies across multiple dimensions
- Correct interaction across time of all transactions with the Accounting Calendar

At a more sophisticated level, many companies require the ability to translate their results at a detailed level to a common currency and thereafter to manage consolidations, all in accordance with strict accounting rules.

If these facilities are provided, then the accountants will use the BI software to close their books and generate their reports. Once this happens, given that the BI contains a full audit trail, then it is relatively easy to create reporting environments for any user constituency within the company in the certain knowledge that the reports are correct and reconcile back to the 'Correct Answer" published by finance.

Business Change

It is time to accept that generic BI is never going to realise its promise – certainly for the FD or CFO – and embrace a solution that delivers true Accounting Intelligence. And, to achieve that, organisations need to ask two key questions:

- Is the data fully integrated and reconciled through an understanding of the audit trail to enable complete business analysis without the need to manage data islands of information?
- And is the specific accounting functionality available within the BI software to enable the Finance department to fulfil their function without resorting to spreadsheets?

It is only by moving away from generic BI and embracing ERP and finance-specific analytics and reporting solutions that organisations can finally realise the vision of improved financial reporting and make fast, confident decisions today, out of the box.

When the finance department uses the BI solution for reporting and analysis you know your BI initiative has succeeded. Indeed when Finance uses the BI in anger, then you can stop reconciling and start analysing.

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