

Disclosure management: Streamlining the Last Mile

March 2012

Automating and streamlining pervasive manual 'last mile' process and control steps for more effective and efficient reporting

At a glance

Current manual report assembly and review processes can be enhanced through effective implementation of Disclosure Management applications.

Disclosure Management applications enable streamlining of current "Last Mile" manual report assembly and review processes.

Companies can increase net benefits by gaining a clear understanding of common reporting process enhancements.



Introduction

Information technology and software play an essential role in enhancing the capabilities of accountants and analysts, resulting in increased efficiency of their processes and work streams, and driving savings in cost and time. Companies can invest significant resources in time and money to automate and streamline information processes through the use of data warehouses and consolidation applications. Pencil and paper were the common tools of the 20th Century, but computers, electronic worksheets, and online applications prevail today. Yet, too often report assembly and review processes remain largely manual.

The old school: manual processes

Companies routinely close their books in a matter of days; yet they take weeks to publish reports, thus deferring management and stakeholder analyses and decisions. A significant driver of the delay: the information contained in corporate warehouses and consolidation applications is commonly cut and pasted, rekeyed, or manually transferred into word processing and spreadsheet applications used for report assembly and review process steps.

Manual data assembly steps, particularly common for management discussion and analysis and notes to the financial statement numeric disclosures, further dictate manual review and validation processes for a broad range of external and internal reports. Manual recalculations, manual executive board reporting packages, and other longstanding manual reporting processes are commonly referred to as the “Manual Last Mile.” These processes

are time consuming and inefficient in a manner akin to the methods of automobile manufacturing prevalent during the early 20th Century, when highly skilled craftsmen assembled cars by hand prior to Henry Ford’s innovations that include the assembly line and standardization of parts

Manual report assembly and review steps, in addition to wasting money and time, impair process agility while increasing the risk of reporting error. The effort spent executing manual steps often prevents reporting professionals from effectively analyzing and communicating corporate performance and risk assessments. Instead, these professionals spend inordinate amounts of time and effort manually moving data, and reviewing it for accuracy.

Shifting reporting line

Contemporary reporting is moving to the Internet, with new regulations in countries around the world increasingly requiring company reports to be published in the eXtensible Business Reporting Language, an international business-information standard commonly known as XBRL. Typically, companies initially outsource the tagging of their XBRL reports, thereby adding incremental manual processes and controls, as well as cost and time expenditures, to their efforts. These incremental manual processes adversely affect the quality of XBRL-formatted disclosures as recognized by the US Securities and Exchange Commission (SEC), which routinely provides feedback on common and material errors in company reports.

Henry Ford brought standardization to automobile production by automating and streamlining processes, which catapulted the auto industry into a new era. Similarly, Disclosure Management applications provide a degree of standardization, automation, and streamlining of report assembly and review, including reporting in the XBRL format. Implementations of Disclosure Management applications have increased from approximately 100 at the beginning of 2011 to more than 2,000 in the first quarter of 2012. Leading practices for Disclosure Management application implementations have resulted in approximately 30% reductions in cost and time while enhancing reporting control environments, improving information quality and timeliness.

Streamlining and automating pervasive manual reporting processes and controls allows professionals to spend more time on the analysis and interpretation of company performance drivers and results. Addressing these common Manual Last Mile processes and controls provides a useful road map for understanding the benefits of the Disclosure Management application process.

Disclosure Management - Streamlining the 'Manual Last Mile'

Disclosure Management applications provide report-writer functionality through word processing and spreadsheet applications commonly used in manual reporting steps. However, fundamental functional differences between contemporary Disclosure Management applications and previous report writer applications can enable streamlining of common manual Last Mile processes:

- Disclosure Management applications physically, or in some cases semantically, connect information within reports to the company report's sources of information — consolidation applications, ERP systems, data warehouses, and a range of other information source applications. This feature empowers reporting professionals to create their own reports by mapping to information sources from a broad range of enterprise and external information sources.

- Disclosure Management applications provide discrete and reusable mapping from each information disclosure contained within a report to relevant XBRL structures that enable automated production of reports in the XBRL format.

These functional application features are at the core of what enables Disclosure Management applications to automate and streamline a broad range of currently pervasive manual processes and controls, thus allowing reporting professionals more time to focus on analyzing and communicating corporate performance.

Common Manual Process Targets

SAP AG's Sonja Simon, head of group accounting and reporting, which is part of the corporate financial reporting organization, leads the company's use of Disclosure Management, which has resulted in specific benefits and highlighted opportunities and challenges relevant to other reporting professionals. According to Simon, "Our Disclosure Management implementation improved report quality and the effectiveness of how our team collaborated."

Interview with Sonja Simon, SAP head of group accounting and reporting in the corporate financial reporting group

Q: Why do you prepare XBRL files?

A: SAP is listed on both the German as well as the U.S. stock exchange. As an FPI (Foreign Private Issuer), we expect that we will be mandated to file our financial statements in XBRL format with the SEC in the future. We viewed XBRL as being a helpful trigger for streamlining financial reporting processes, for example to match notes for disclosures with key figures, and to align both the hard copy of our financial statements with our XBRL disclosures. We decided to get an early start and have been producing and publishing XBRL financial statements since 2009.

Q: Why did you implement Disclosure Management?

A: Disclosure management enabled us to take an integrated approach in the production of our financial statements. We were looking for a product that allows us to automate the process of producing financial statements while also giving us the flexibility of various output formats – a hard copy, a PDF document or an XBRL file. Disclosure Management definitely fulfilled our expectations.

Q: When did you begin to use Disclosure Management for your financial reports?

A: We received Disclosure Management in May 2011. We began using the software for executive board packages one month later as part of our Q2 close. By Q3 2011 we used Disclosure Management exclusively for our entire Q3 internal and external reporting. By year end 2011, we had the entire annual report as well as our 20-f filing for the SEC on Disclosure Management. Due to our reporting requirements, this encompasses five separate documents (Consolidated Financial Statements in German and English, Management Report in German and English, Form 20-f) with a total of approximately 600 pages.

Q: Who implemented Disclosure Management at SAP?

A: With our philosophy of “SAP runs SAP,” outsourcing was not an option. The implementation was done completely in-house. Most of the work was done by team members from corporate financial reporting. We received some assistance from Disclosure Management consultants but actually only had to rely on them infrequently. The project was definitely driven by the corporate financial reporting department and we believe it was a big benefit that we did not have to rely on IT to implement it for us because it gave us a lot of hands-on experience in actually using Disclosure Management.

Q: What benefits did you realize?

A: The integrated approach of Disclosure Management allowed us to take a fresh look at SAP’s financial statements and notes, to more closely align the published financial

statements and XBRL taxonomy, and enable a more effective check of the completeness and consistency of data. This resulted in one source of the truth to ensure that data is used consistently across all reports, and improved completeness and clarity in the presentation of SAP’s financial statements. We also expect to see further efficiency gains, including further automation of data transfer, document control functionalities, and automated workflows.

Q: What are your top three recommendations for peers?

1. Start early with the process of aligning financial statements with the appropriate taxonomy, since the alignment will require decisions regarding terminology, the use of extensions, and decisions of how to handle immaterial disclosures.
2. Ensure that all affected groups are involved, including Corporate Financial Reporting, Communications, Investor Relations and other departments commonly involved in the production financial statements. This will allow for better change management through cross-group alignment.
3. Leverage the automation tools available, including business rules and the ability to begin validations throughout the project instead of only at the completion stage, to increase efficiency and reduce errors.

Addressing these pervasive steps allows for better understanding of key process enhancement targets for considering Disclosure Management application process benefits.

Manual Last Mile process and control steps increase expenditures in cost and time, and more importantly, increase the risk of reporting error. Addressing these pervasive steps allows for better understanding of key process enhancement targets for considering Disclosure Management application process benefits. Some examples of process enhancements targeted by Disclosure Management applications include:

- **Automated Spreadsheet Assembly**—Rather than manually populating spreadsheets or generating spreadsheets from a single consolidation or ERP application, professionals can automatically retrieve information from a broad range of disparate source systems directly into spreadsheets. Institutionalizing this approach for corporate reporting packages, reporting templates and presentation charts and other information drawn from various company geographic and organizational groups provides time and control enhancements while enabling a physical audit trail for automated validation.
- **Automated Report Assembly**—Rather than manually rekey or cut and paste information into reports, professionals initially map reports into disparate source systems and/or supporting spreadsheets and feed that information into a broad range of company reports, including financial statements, press releases,

board reports, and supplemental data disclosures. Subsequently, any revisions in the source information are automatically updated within reports, thus enhancing process time and control while providing a physical audit trail for automated validation.

- **Automated Report Validation**—Rather than manually validating reported information, accuracy, and mathematical consistency, validation checks can be automated to notify professionals when and where errors occur. Report validation rules established during implementation of Disclosure Management applications may be controlled, tested, and subsequently reliably used by reporting professionals. To the extent that these validation rules are complete and adequately controlled, internal and external auditors may test and come to rely upon them in a manner similar to current testing of consolidation application processes and controls.
- **Automated Narrative Text Generation**—Rather than manually typing narrative commentary for reported fluctuation analysis that is commonly reported in company management discussion and analysis, Disclosure Management applications can automatically generate the standardized narrative text commonly reflecting changes in company results from period

to period. As a result, if and when these amounts change in the source applications, the narrative fluctuation analysis text is automatically updated.

- **Contextual Review Process**—Rather than taking a “Where’s Waldo” approach which requires exhaustive, manual searching to ensure all detailed elements are identified through a linear page-by-page review for targeted disclosures (e.g., income taxes), Disclosure Management applications can provide professional reviewers with a contextual view, in addition to the traditional linear view, of all relevant topical disclosures within the report. In other words, all of the reported topical disclosures (e.g., income taxes) will appear in a single view rather than scattered across dozens of pages within the report. As a result of this contextual view, individuals most familiar with a specific disclosure topic can assess relevant information comparing the reported information to disclosure checklists in a more efficient and effective manner.
- **Automated XBRL Reports**—Rather than manually tagging reports every period, Disclosure Management applications allow for reusable mapping of reported disclosures to multiple relevant XBRL taxonomies, thus enabling the automated generation of XBRL

reports. Thus companies can retain control over changes in reported disclosures and eliminate the “pencils down” timing required by third-party vendors. Disclosure Management applications often provide automated XBRL Taxonomy mapping wizards and features to assist companies with managing and benchmarking company specific extensions and systematize XBRL mapping structures to increase the quality of reported disclosures and decrease common errors. Further, these systemized structured disclosures apply across a broad range of regulatory compliance requirements in countries around the world. This decreases the cost and time associated with the manual pre-Henry Ford assembly and review processes for statutory reporting requirements.

- **Automated Benchmarking**— Rather than manually downloading peer company reports and re-keying relevant company disclosures into a peer analysis spreadsheet, Disclosure Management applications provide professionals with semantic access and mapping to XBRL-formatted public company disclosures contained within the SEC’s Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) and other publically available sources of XBRL structured disclosures. Professionals can automatically pull information from various public company reports directly into comparative peer company spreadsheets, enabling benchmarking as part of report drafting and/or risk assessment processes. The Disclosure Management feature allowing for access to XBRL-structured information may also enable more cost-effective and agile access to, reuse and analysis of internal

Disclosure management (ROI)

Disclosure Management ROI (as a math formula) would include the following:

- + License cost of software, dependent on factors including vendor, nature of implementation and number of seats.
- + Implementation costs, using software license cost as an estimate
- + Training time/costs, dependent on implementation approach
- Outsourcing costs for XBRL tagging and related time for “pencils-down” allotments

— Final format document costs including EDGARization fees/ typesetting fees/other printer costs (hard dollar costs for current expenses that could be removed)

— Process enhancement costs (see listing of process enhancements areas)

— Time/cost reduction multiplied by the number of reports assembled manually

— Estimate a time line for increase in the number of reports processed through the built-in approach (not just relevant to quarterly/ annual reports)

= **Net Benefit/Cost (ROI)**

company information relevant to business intelligence, enterprise performance management, and/or governance risk and compliance activities.

- **Explicit References**— Rather than forcing reliance solely on the content relationships of individual reporting professionals, Disclosure Management applications allow for the use of explicit relationships between company information and related Financial Accounting Standards Board (FASB) standards, the International Financial Reporting Standards (IFRS), SEC regulations, and company policies as they are articulated in XBRL taxonomies. Many of these references between common company disclosures and related reporting standards and SEC regulations are available within the US generally accepted accounting principles (GAAP) XBRL taxonomy as well as the IFRS XBRL taxonomy. Additional relationships between

company disclosures and relevant resources can be developed by and shared among company reporting professionals. This Disclosure Management capability enhances audit trail capabilities and enables collaboration among professionals on technical reporting and/or company policy matters.

- **Collaborative Review Processes**— Rather than emailing draft reports to internal and external reviewers who provide feedback to the individual managing the single “gold” or “master” report copy, professionals can leverage Disclosure Management applications to enable a collaborative or social approach to draft report review processes. Reporting professionals, as well as the audit committee, board members, and external auditors, can simultaneously and collaboratively review and comment on draft report content.

The ability to fully realize reporting benefits depends on how comprehensively professionals consider the tool's implications for their process and control enhancements.

This Disclosure Management feature simply improves teamwork among reporting professionals through concurrent transparency of draft and final report disclosures, enabling versioning cycle times to be reduced from periods measured in days to hours. Professionals equipped with more effective tools can improve the timeliness and quality of their disclosures expressed in a broad range of reporting formats and templates.

- **Virtual Service Center**— Rather than forcing reliance on the common pre-Henry Ford styled manual report assembly and review processes across a broad range of country statutory compliance requirements, Disclosure Management applications enable an international virtual service center. The virtual center approach with Disclosure Management applications can provide for multiple language templates, and automated processes and controls, including those described above contributing to improved agility when addressing new business requirements such as IFRS or Solvency II. Standard Business Reporting (SBR) projects such as those in The Netherlands, Australia, China, and other countries distil disparate and often redundant agency compliance requirements into a single IFRS principles-based

XBRL formatted report used across all agencies, providing companies with economic incentives to migrate current manual assembly processes in countries around the world into a Disclosure Management application to further reduce compliance costs. Further, these SBR programs foretell a broader migration from the current highly document-centric model to a more data-centric compliance environment.

Companies are increasingly implementing Disclosure Management applications to realize the report assembly and review process and control benefits outlined above. Not only are Disclosure Management application features relevant to public companies, but also the number of US Registrants using Disclosure Management applications to prepare and submit their XBRL formatted reports to EDGAR has dramatically increased over the past year to more than 2,000 companies. Using a Disclosure Management application for reporting does not necessarily mean that companies have optimized their report assembly and review processes and controls. Instead, the ability to fully realize reporting benefits depends on how comprehensively professionals consider the tool's implications for their process and control enhancements.

Conceptualizing a positive return on investment (ROI) from a Disclosure

Implementation Considerations and Leading Practices

Management application is the initial step for any Disclosure Management implementation. Maximizing the ROI requires collaboration among reporting and IT professionals to rethink a number of traditionally manual steps to realize cost and time enhancements of approximately 30% in report assembly and review process and controls.

Following are examples of implementation considerations and leading practices relevant for both IT and reporting professionals:

- **Project Scope**— Disclosure Management implementations are often a reaction to the incremental manual tagging of company reports to comply with specific regulatory requirements for XBRL-structured company reports. As a result, it is common for Disclosure Management implementations to focus on a single regulatory requirement in a specific country rather than considering the broader range of reporting requirements (statutory and management requirements across all jurisdictional locations) that are currently fulfilled via pervasive manual assembly and review processes and controls.

While many Management Disclosure projects initially focus on mandated regulatory reports (SEC Forms 10-K and 10-Q, and the like), leading practice implementations can apply to a broader range of manually prepared reports. The wide array of manually prepared reports includes earnings releases, statistical summaries, tax returns, statutory financial reports, and board of directors and audit committee packages, as well as proxies, significant and emerging accounting issue memos, representation letters, and business registration documents among others.

In a typical manual assembly reporting process, one individual collects and manages changes proposed by a wide range of reviewers of draft versions of company reports. As a result, some Disclosure Management implementations follow this approach with the same individual as the single user of the Disclosure Management application features.

Leading practice implementations call for engaging a broad group of individuals responsible for accumulating, analyzing, validating, and reviewing information in company reports in a highly transparent and collaborative environment.

- **Project team**— The pervasive nature of manual Last Mile reporting processes have not commonly included IT professionals to the level they have been engaged with ERP and consolidation applications. Disclosure Management applications provide an opportunity for increasing the collaboration between reporting and IT professionals in order to fully realize the benefits of systemizing and automating the last mile process and control steps.

The core project team typically consists of individuals responsible for reporting, lead territory statutory reporting representatives, Disclosure Management application and XBRL subject matter specialists, and enabling IT consultants. The core team can be supplemented with external experts to assist with a range of implementation matters, including such specialized matters as application feature training; XBRL taxonomy mapping training; and process re-engineering and change management. The core project team is responsible for impacting the larger group of Disclosure Management application implementers and users from across the company.

Disclosure Management implementations are most successful when professionals in the company's business group own the processes and controls and are leading the process, with IT professionals playing a supporting role as enabling consultants.

- **Project Priorities**— To fully realize economic and process benefits, implementation project priorities include:
 - Automation of manual assembly and review processes or a broad range of reports currently manually assembled and reviewed
 - Improved access and reuse of information contained within internal ledgers, sub-ledgers, transaction systems and consolidation systems
 - Enhancement of collaborative workflows among a broad range of individuals working on report assembly and review
 - Benchmarking via automated access and analysis of peer company XBRL standardized disclosures
 - Automation of report validation and analytical rules
 - Automated report presentation or rendering of common disclosures

Leading practice implementations leverage the improved access and reuse of business information for reporting, business intelligence, and decision-making processes given that standardized information offers a universal method of accessing,

validating, reusing, analysing and presenting business information from internal systems and applications as well as external sources.

- **Workflows**— Project workflows allow for the organization of implementation efforts into logical groups to enhance effectiveness. Because each company has unique needs, project workflows differ between implementation scenarios. However, leading practice projects are defined by the following workflow characteristics:
 - **Project management**— core project team management of considerations, financial oversight, and time line for implementation milestones and quality assessments.
 - **Training**— targeting broad range of individuals involved in reporting efforts with focus on application features, particularly those related to mapping to information source systems and relevant XBRL taxonomy structures.
 - **Mapping and Review**— alignment of report priorities with mapping to and review of information source systems and related taxonomies represents critical functional reporting change conducted by divisional teams and topical groups.
 - **Leverage Existing 'Assets' in Transition**—analyze information within existing spreadsheets and documents and reuse them as part of the Disclosure Management process transition.

- **Process and Controls**— assessment of process and control modifications, enhancements and implications for management certifications, and Sarbanes Oxley styled internal control financial reporting requirements.
 - **Change Management**— process and control change management with focus on empowering reporting professionals to work in a more collaborative and transparent reporting environment.
 - **Quality Assessments**— development of validation and analytical processes, acquisition of relevant tools, skills and insights.
- Project workflows should be tailored to an organization's implementation priorities, with a focus on streamlining the process and controls identified above.
- **Policy Matters**—Disclosure Management implementations introduce several policy considerations that may not be fully addressed by traditional reporting policies including:
 - **Collaboration**— develop access, control and editorial policies to ensure the proper personnel have appropriate access, management, and editorial rights within the collaborative processing environment enabled by the Disclosure Management application.
 - **Governance**— develop guidance on cross-border information access and sharing by professionals collaborating across jurisdictional boundaries.

- **Company-specific extensions**— develop judgment and documentation standards and benchmarking guidance for situations where company-specific XBRL taxonomy extensions may be considered appropriate.
- **Liability for report errors**— develop review and assessment guidance for defining, identifying, and documenting errors and anomalies within structured company reports in the XBRL format. This may also include licensing of incremental quality assessment tools to address feature deficiencies within some Disclosure Management applications.
- **Time line**—Implementation time lines will vary by organization; however, establishing policies on adoption priorities may help companies to fully realize economic, process, and control enhancement benefits. Broadly, time line policies should address the overall implementation approach, whether it is a “Big Bang” approach, very broad but quick, a staged one that is initially narrow to meet a specific regulatory requirement and then expanded via specific phases, or a hybrid of the two.

Project time lines also address priorities for specific report types, related supporting materials, risk assessments, and other reports containing the same and/or similar information. Other time line policies may provide guidance and address company policies as to when participation in voluntary territory-specific reporting projects (e.g., SBR projects) are economically beneficial to the company.

Leading practices tend to call for acceleration of Disclosure Management application adoption to the broadest group of reporting professionals.

There is no all-encompassing checklist of implementation considerations that will ensure that reporting errors are a thing of the past or that reporting process enhancements are fully realized. A common consideration among leading practice Disclosure Management implementations is whether to empower reporting professionals to more effectively assemble and review relevant information. This strategy enables them to spend more time analyzing and communicating corporate performance and risk assessments and less time on manual report assembly and review.

Beyond Disclosure Management

Many companies that implemented Disclosure Management applications several years ago have migrated their reporting processes and controls well beyond the initially targeted regulatory reporting requirements. They have expanded the automation and streamlining or assembly and review process steps to a broad range of reports for both internal and external users. Leading practice implementations are reporting approximately 30% enhancements in report assembly and review efforts.

Reporting professionals with Disclosure Management implementations have also begun planning for IFRS-oriented service centers to drive compliance reporting efficiencies across a broad range of SBR project territories. Leveraging IFRS principles for company compliance requirements across a broad range of territories and their collective agencies provides economic incentives to move in this direction.

More importantly, reporting professionals have begun to view reports as consumer-oriented renderings or insights into company information relevant for a particular consumer, rather than simply as individual document containers for company disclosures.

It is in the context of consumer-centric reporting that Disclosure Management applications have set the stage for the more effective management and communication of information regarding company performance, governance, risk and compliance, and business intelligence.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial data. This includes not only sales and purchases but also expenses, income, and any other financial activities.

The second part of the document provides a detailed overview of the accounting cycle. It outlines the ten steps involved in the process, from identifying the accounting entity to preparing financial statements. Each step is explained in detail, with examples provided to illustrate the concepts.

The third part of the document focuses on the classification of accounts. It discusses the different types of accounts, such as assets, liabilities, equity, and income, and explains how they are used to record and summarize financial transactions.

The fourth part of the document covers the process of journalizing and posting. It explains how transactions are recorded in the journal and then posted to the ledger. This process is essential for maintaining the double-entry system and ensuring that the books are balanced.

The fifth part of the document discusses the preparation of financial statements. It explains how the data from the ledger is used to create the balance sheet, income statement, and statement of cash flows. Each statement is described in detail, and its purpose is explained.

The sixth part of the document covers the process of closing the books. It explains how the temporary accounts are closed to the permanent accounts, and how the ending balances are determined. This process is necessary to prepare for the next accounting period.

The seventh part of the document discusses the importance of internal controls. It explains how these controls help to prevent errors and fraud, and how they are implemented in a business.

The eighth part of the document covers the process of auditing. It explains how an auditor reviews the financial statements and the underlying transactions to ensure their accuracy and compliance with accounting standards.

The ninth part of the document discusses the role of the accountant. It explains the various responsibilities of an accountant, including record-keeping, financial reporting, and tax preparation.

The tenth part of the document covers the future of accounting. It discusses the impact of technology on the profession and the need for accountants to stay current in their skills.

.....
:
***For more information on
Disclosure Management,
please contact:***

Mike Willis
PwC Partner
(813) 348 7807
mike.willis@us.pwc.com