

## *Let's chat*

# Business reporting – are you receiving the information you really need?



Family and privately owned businesses can encompass everything from large conglomerates operating internationally across many business sectors to small micro-businesses and start-ups. However, they all have one thing in common – the need to have timely and reliable management information to aid decision making.

“Getting timely and reliable information on how your business is tracking against its objectives is fundamental to survival and success” says Stephen Beach, Entrepreneurial and Private Business (EPB) Leader for PwC in PNG.

“We see many businesses who are receiving little or no reliable reports on a regular basis throughout the year and are reliant upon their external accountant to prepare their year-end accounts to see how they have really performed” says Beach.

“And at the other end, even some companies with sophisticated accounting packages and an internal accountant are only receiving basic monthly management accounts, with little commentary or analysis, which are either too detailed or structured to assist the

management and owners to focus on what is really important. Knowing what has happened in the past is useful, but it’s more important to have forward-looking information that can be used to make decisions”.

Accountants and executives need to talk to each other and fully understand what information management really needs on a daily, weekly or monthly basis and how that information can most readily be obtained and best presented. The majority of owners and senior executives do not want to receive detailed revenue and cost reports for all cost centres or departments each month, but they do want to know if there have been any unusual deviations from expectations and, if necessary, be able to drill down to understand the underlying causes.

They want to be advised about trends, both over time and against budget or forecasts, in revenues, margins and operating cost and changes in the key performance ratios for profitability, liquidity, return on equity and working capital management.

There may also be a number of key non-financial operational performance indicators that management need, such as sales volume, volume and conversion rate of quotation inquiries to confirmed orders, number of new customers,

customer satisfaction data, employee OHS targets etc. Therefore it is useful to view management reporting as distinct from the financial reporting process. Businesses still need to prepare monthly financial reports for control and external purposes, but management reporting needs to be more tailored and flexible to meet the requirements of internal stakeholders. You also need to recognise that different users have different requirements – the management reports prepared for the owners or board would be very different to the management reports you might prepare for the sales and marketing team.

In the current environment, with easy to use and sophisticated reporting and analytical tools and cloud applications readily available to all sizes of business, there is really no excuse to operating in an information vacuum. Even the most basic accounting packages now come with built in reporting modules that enable the production of standard and tailored financial reports and dashboards. There are also a large number of add-on reporting and analytical software programs that can be integrated with your existing accounting systems or which enable your data to be separately downloaded and analysed for reporting purposes.

Accountants love spreadsheets, and you can build quite sophisticated models in Excel; however, they can have a number of drawbacks for management reporting purposes, including lack of security features to prevent unauthorised or inappropriate changes to data or formula, version controls, lack of controls over direct journal adjustments within the reporting spreadsheet and difficulties in reformatting for changes. Therefore, it is generally preferable to use automated reporting direct from the accounting or ERP systems, or through one of the many integrated reporting and business analysis packages which are readily available on the market for both server-based and cloud-based reporting systems. Management reports should be automated as much as possible so that they can be produced at short notice and at any time without requiring much manual intervention.

To make management reporting easier to understand and more useful, many businesses have incorporated dashboard reporting to replace or supplement more traditional forms of management reports. Dashboards present the critical information on key financial and operating business drivers in a visual format using graphs and charts. Good dashboards are clear and concise, and are typically limited to just one or two pages.



There are a large number of reporting tools available on the market that can be acquired to help businesses improve the quality of their management reporting and analysis. At PwC we can use our Excel-based Financial X-Ray tool to upload your trial balance and provide dashboards and graphs that can visually present the key information management need to focus on.

“We use our Financial X-Ray tool to help our clients to commence their journey to become financially fit”, says Michael Collins, EPB Director for PwC in PNG. “For many of our family business clients we have a quarterly meeting with the chief financial officer, senior management and/or the business owners. The purpose of these meetings is to discuss the issues faced by family businesses in relation to revenue, profitability, capital, risk and regulation, talent, ownership and digital. This approach has helped many of our clients to manage sustainable growth even through the challenging times faced by many businesses operating in PNG”.

However, for those businesses that are considering migrating to cloud accounting, PwC have developed a purpose-built cloud platform that brings together many of the leading cloud applications in the market all into one place. PwC’s **Next** combines multiple cloud accounting tools and integrated cloud applications on an open platform. It includes customisable dashboards that provide a holistic view of your entire business in real time, in one place. Tailored to your needs, **Next** gives you a live integrated view of your business in one place.

We can also help you design your own management reports and work with business owners to understand what information they should be receiving and focusing on. “Business owners should understand their business better than anyone, however they don’t always receive the management reporting that is necessary for them to be able to react and make decisions in a timely manner”, says Beach.

**Here are our top tips for management reporting:**

1. **Have a clear distinction** between your monthly financial reports, which can contain all the detailed revenue and cost data, and your monthly management reporting for internal stakeholders.
2. **Focus on performance** against the key objectives and strategies.
3. **“Less is more”** – provide focus to the primary information and KPI’s different users require.
4. **Have flexibility to tailor different reports for different users** – understand what are the most important KPI’s and metrics for the different stakeholders.
5. **Use dashboards, graphs and charts** to tell the story and highlight trends in KPI’s.
6. **Don’t overload on narrative** – good presentation of the data should alleviate the need for repetitive narrative of what should be obvious from the data presented. Use narrative to explain what caused the unexpected changes or variances or what decisions management propose to take to get the business back on target.
7. **Ensure all period end adjustments are made in the general ledger, never in the management reports** – have controls in place to ensure your managements reports agree to the system generated reports.
8. **Compare against what is most relevant** – prior year is generally less relevant than budget or forecast, whilst a three to four-month rolling trend analysis can highlight unusual fluctuations or variances from expectations over time.
9. **Don’t repeat the same explanations** from previous months. Only highlight what is relevant for current decision making.
10. **Timeliness is more important than accuracy.** If you can issue management reports that are 90% accurate within two to three days of period end with some reasonable estimation for any missing information, it is probably more useful than waiting an extra week to obtain that additional information.
11. **Go digital** – the online reporting and analysis tools now available offer real time reporting and can be interactive to allow management to dig down themselves into the detail.
12. **Research what is currently available** – the range of easy to use reporting tools available for your business, whether server-based or cloud-based, is expanding rapidly and the costs are coming down.

*If you are a PNG business owner and would like to find out more about business reporting, please contact our Entrepreneurial and Private Business team.*

**Jonathan Seeto**

Managing Partner

jonathan.seeto@pg.pwc.com

321 1500 | 305 3100

**Stephen Beach**

Partner

stephen.beach@pg.pwc.com

7100 9535

**David Caradus**

Senior Tax Counsel

david.caradus@pg.pwc.com

305 3205

**Michael Collins**

Director

michael.j.collins@pg.pwc.com

7549 2716