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Professional & Technical Publications

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SAS® Financial Management

INTRODUCTION

SAS is the largest privately owned software house in the world with annual revenues in excess of \$1.53 billion and an unbroken record of profitability and revenue growth since its formation in 1976. It has more than 40,000 customers world-wide including, 97 of the top 100 companies on the 2004 Fortune 500 List. Whilst it is an acknowledged leader in the IT industry and widely admired by IT professionals in industry, commerce, the public sector and academic institutions world-wide its formidable capabilities are generally less well known within the finance community.

Yet the outstanding software engineering skills that have propelled SAS to a leadership position in 'hidden' areas such as data warehousing, data mining and analytical applications in support of the IT function are even more valuable to today's fast moving finance function. Indeed, the breadth and depth of its integrated technology foundation coupled with its latest financial applications positions SAS uniquely well qualified to deal with the pressures of performance management, financial reporting, compliance and regulation.

Whilst many of its competitors have grown their product portfolio through acquisition, SAS has a history of self sufficiency having consistently re-invested around 25% of its annual revenues in in-house research and development. Whereas competitors grapple with thorny issues of product integration between financial applications sourced from different acquisitions, SAS has been free to concentrate on exceptional data management which is the cornerstone of a management information system.

SAS® Financial Management, the subject of this review, is designed to meet the core needs of the finance function for financial consolidation, budgeting, planning, forecasting and predictive analytics. However, it sits in the context of a wider technology platform (SAS®9 Business Intelligence) and applications architecture (SAS® Financial Intelligence) that allows businesses to pursue a financial systems strategy, safe in the

knowledge that it can contribute to a broader performance management, compliance or risk management environment at a later date, if required.

FINANCIAL REPORTING AND CONSOLIDATION

Early implementations of consolidation systems in the 80's and 90's focussed almost exclusively on gaining process efficiencies and control. Whilst the need to accelerate reporting timescales and to ensure the integrity of the information captured through a group reporting system remain a primary concern for most finance functions it is clear that most companies now face even more pressing and complex demands.

Perhaps the most stretching requirement for multinational companies is the requirement to comply with IFRS International Financial Reporting Standards. European companies are challenged with operating and reporting in local GAAP whilst also reporting in IFRS. Furthermore, if European companies or groups happen to have U.S. listings then they might also have to prepare group accounts in U.S.GAAP as well. Similarly, U.S. groups with world-wide interests face the challenge of accommodating IFRS and whatever local GAAPs are applicable.

Reporting in a multi-GAAP environment becomes extremely demanding as companies seek to understand differences between their local management accounts and published IFRS statements. In addition many statutory provisions in IFRS require reconciliations between results presented in different GAAPs, or detailed analyses, as in the case of segmental reporting.

In addition, the rapidly broadening reporting landscape, for example the Operating and Financial Review (OFR), the European Accounts Modernisation Directive as well

as Sarbanes Oxley and other industry specific regulatory provisions is stretching information needs beyond the traditional finance boundaries. For example, environmental and corporate social reporting is rapidly becoming a part of mainstream reporting and extending the scope and reach of the information required to be collected and processed by a group consolidation systems. Furthermore, the OFR places more emphasis on what the UK standard describes as a “forward looking” perspective.

As the information needs grow more complex and diverse so does the community of stakeholders that require access to a group reporting system. Management and financial accountants require different but related views of performance, local and group finance may need to review results in different GAAPs and group treasury, strategy, planning and control specialists will each require tailored access.

So in the light of complex and growing multi-GAAP processing, increasingly diverse and novel information disclosures and more specialised information consumers, what qualities should companies seek from their consolidation and reporting systems? How can you protect your investment in systems?

SAS satisfies these stretching demands through a number of fundamental building blocks that permeate their Financial Management solutions. These are:

- The ability to leverage multiple data sources using ETL (Extract, Transform and Load technology)
- The capability to manage and share data on a consistent basis across the application set
- The availability of competent applications that share the same technology platform
- The ability to leverage Microsoft Office and portal technology to meet the information needs of different stakeholders.

LEVERAGING MULTIPLE DATA SOURCES

In recent years the amount of information to be collected for statutory reporting purposes has increased relentlessly. At the same time, companies generally have extended the geographies in which they operate and rely on a much more diverse range of underlying transactional and ERP systems. Under these circumstances it would be inappropriate to rely on manual data capture which is slow and prone to error. This is particularly so in the face of likely moves to quarterly reporting in Europe and the imposition of steadily more challenging stock exchange reporting deadlines for publicly quoted companies.

Extracting information from multiple information sources is handled by SAS' ETL application which resides in the

SAS® Business Intelligence Platform. This wizard-driven product allows the data fields of the source and target systems to be defined and for business rules to be developed which determine how information is to be ‘mapped’ between them. Using the ETL tools, an automatic process can be established for bringing information say, current ‘year to date’ actuals, from an underlying ERP system into the consolidation system on a regular monthly basis. Once the process is set, there is full control to ensure that the data is brought across completely and accurately. However, if the metadata, i.e the structural data is changed inadvertently, (perhaps a new chart of account line is added to the ERP system) then the ETL layer will trap the change and provide audit reports warning that data might be rejected and why.

Once established, the ETL process provides a highly effective process that can be scheduled to run automatically every period. This ensures that time delays in basic handling of data sent by reporting entities to the centre are avoided, control risks are minimised and reporting timescales for this phase of a consolidation are accelerated to the maximum extent possible.

MANAGING AND SHARING DATA

Unlike many software houses in the financial management space, SAS' applications, in the main, have been developed in-house rather than acquired. In practice this means that each of the applications have a similar user interface, have the same ‘look and feel’ and most importantly can share the same structural information i.e. metadata, for example, chart of accounts, organisational hierarchies, trading periods and currencies.

Apart from the ability to look across applications, say, to combine budgets and actuals easily on one report, it also means that a change to an organisational hierarchy or chart of accounts is immediately available to the budgeting and planning applications as well as the consolidation application.

In addition, both principal application areas of SAS Financial Management sit on the same Business Intelligence platform and technology as ETL, data management and data quality components, and therefore share access to exactly the same information sources, subject of course to the usual authorisation levels and user permissions. Similarly, both applications share the same technical environment for reporting.

The familiar, though much hackneyed phrase “one version of the truth” has real meaning in the context of SAS Financial Management since the design of the system and underlying technology platform ensures that all stakeholders have access

to exactly the same information sources with inherently the same business meaning.

Since data maintenance and metadata management in SAS is largely wizard-driven, the responsibility for maintaining data can be ceded to financial managers without deep information technology skills. This is particularly useful in a rapidly changing regulatory and business environment where flexibility is absolutely vital to compliance with regulation and reporting standards. For example, new chart of account lines can be added by group finance and are immediately available over the web to all of the user community, if desired.

CONSOLIDATION SYSTEM

The consolidation system is a fully multidimensional product rather like a Rubik's Cube. It allows information to be turned, analysed, sliced and diced on demand so that different users can obtain different views of their data appropriate to their role or particular query at the time. The package has certain reserved dimensions which are fundamental to any consolidation model, such as, account, organisational structure and currency as well as an unlimited number of user definable dimensions which can be used for segmental analysis under IAS 14, product group analysis or projects, to name but a few examples.

The members of a dimension are laid out hierarchically in a tree like structure resembling Microsoft Explorer and elements can be configured and moved under 'drag and drop' control with the mouse. Maintaining the structure is intuitively easy and wizard dialogues support the task of setting new dimensions and adding members. The ETL tool mentioned earlier can be used to import metadata in bulk when first establishing the system.

Within each dimension it is possible to establish multiple hierarchies which can be used for posting and reporting. For example, in the accounts dimension, separate hierarchies can be defined for local and group reporting or perhaps different GAAP roll-ups of accounts.

The 'source' dimension is used to track data through the entire consolidation process at every stage. Using this approach it is possible to provide a complete audit trail of data from its original state at data capture, through, for example, adjustments, translations and eliminations to a final balance.

In common with most consolidation systems, the system incorporates a certain amount of financial intelligence, so that the application knows how to treat balance sheet accounts differently from profit and loss accounts. Currency translation rules are a matter of selecting the correct parameters since

the package stores an unlimited number of exchange rates and rate types, such as, average P & L, historic, balance sheet rate, budget rate and so on. Also, as one would expect, the system handles manual adjustments (journals) and automatic user definable elimination journals.

A useful and different feature of the consolidation system is the way in which it handles user definable allocations. Again, a wizard-driven process guides the set up of the allocations, the accounts that are affected and the basis upon which the allocation is apportioned across time periods and accounts. Using this functionality, there is the potential to allocate costs on the basis of percentages derived from the Activity-Based Costing system used elsewhere in the SAS Financial Intelligence suite.



Figure 1: Many set-up tasks in SAS Financial Management are wizard-driven

Within the organisational structure dimension it is possible to establish ownership rules (share holdings) which govern the way that entities are consolidated. In addition, for new acquisitions, the package has a wizard-driven dialogue which assists the user to define automatically calculated postings for goodwill, pre-and post acquisition reserves.

REPORTING

In terms of reporting, the SAS approach recognises the pre-eminent status of Microsoft Excel in the finance function. Thus one option for, reporting in SAS Financial Management is conducted via a Microsoft Excel add-in which links directly and dynamically to the underlying database or "results model" which is effectively a personal cube of information comprising the dimensions, hierarchies and data elements selected by the user. A wizard dialogue guides the user through the selec-

tion of appropriate dimensions for report columns, rows and more detailed analysis (assuming they have the appropriate account permissions). The user decides what level of granularity to select in terms of the organisational hierarchy in which to present the results. Once completed, the wizard automatically generates the report which is 'surfaced' in Excel. The resulting report works as a window on the database and users can drill through the report as required and, through the dynamic link, will be presented with the very latest results. (SAS Financial Management always calculates the latest balances 'on the fly' rather than store pre-calculated balances which can become corrupted). In Excel, the full panoply of formatting tools is available to enhance the presentation of the report.

Alternatively, the reports generated in Excel can be published and shared with other users via the corporate intranet or highly customisable portal available to SAS Financial Management. The 'Publish and Subscribe' functionality ensures that all users that are subscribed to a specific list are automatically notified and updated with the latest report. The portal is the platform for bringing all manner of information together from across the Financial Intelligence suite. It can be customised according to role or function or even down to the level of an individual who can set their own preferences. It can, for example, incorporate information from the budgeting and planning application as well as dashboards and traffic lights relating to Key Performance Indicators. The portal can also act as a document repository, if required.

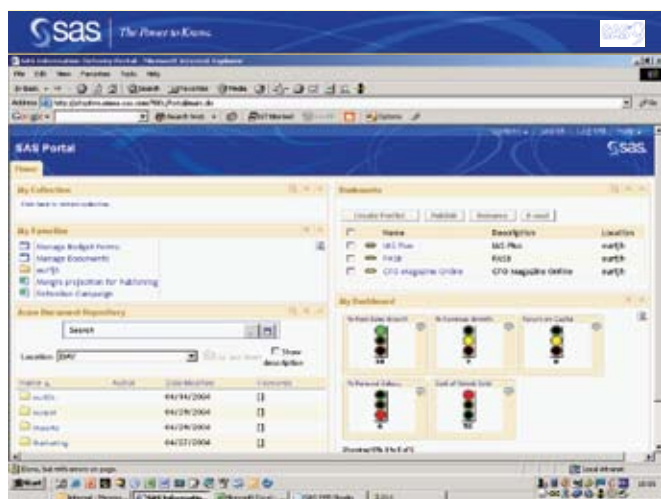


Figure 2: SAS Portal allows information needs to be tailored

BUDGETING AND PLANNING

As described earlier, the budgeting and planning application shares exactly the same technology platform and metadata as the consolidation system. This means that a budgeting

application can be created from scratch in short order by using a wizard to simply select the dimensions and characteristics (e.g. chart of accounts, time periods, currencies, organisational structure) required from the consolidation system. Using this technique it is possible to 'seed' the budgeting application with relevant actuals and other data as required. This ability to share data, metadata and business rules is distinctly superior to other vendor solutions which merely offer limited integration between applications and effectively rely on crude data import and export routines to exchange data between them. This leaves users and administrators with a massive effort to clean and synchronise data.

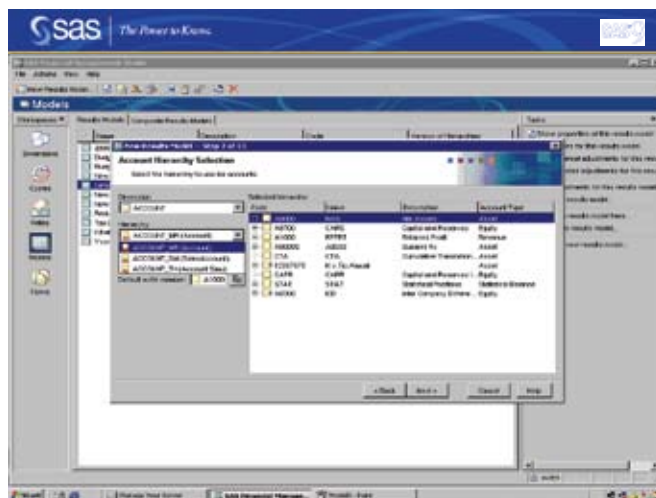


Figure 3: All applications in SAS Financial Management share the same metadata

The process of budgeting, planning and forecasting is much more collaborative than the process of consolidation. Whereas reporting units submit their monthly results directly to the centre in a consolidation model, the workflow in a budgeting application is much less prescriptive. It generally involves many more users and is much more iterative in nature.

SAS Financial Management supports this process by allowing a very flexible approach to the design of data entry forms and the workflow which governs their passage through the organisation. Data entry forms are developed in much the same way as reports developed in Excel (see above). Using the flexibility of the Excel add-in and the excellent formatting available, it is possible to design data entry forms that are highly tailored to a particular role or function. SAS Financial Management supports driver based budgeting for those users who are less comfortable with an accounting style data entry form based on account lines. For example, an accountant may be asked to budget airline travel expenses for a month against a number of nominal ledger codes, whereas a non-accounting user may

prefer to simply enter the number of international and domestic flights leaving it to the system to calculate the total budgeted travel expense.

With the introduction of the Operating and Financial Review, organisations are required to disclose how current trends and factors are likely to affect their operating performance in the future. In order to comply with this requirement, it is likely that many organisations will move to more frequent forecasting so that they can give a more balanced and comprehensive view of performance over the whole trading period. Some organisations will be tempted to move completely to 'rolling forecasts' which provide a sliding window of performance usually over a 12 month period. SAS Financial Management is suitably equipped to support forecasting as frequently as desired or on a rolling forecast basis, if required.

Once the frequency of budgeting, the style of data entry, and the contents are confirmed then the design of the Excel data entry form(s) can be finalised and published to the web. These forms can then appear in individuals' portals ready for completion. The route taken by completed forms depends on the workflow selected when the form is created. SAS Financial Management cleverly allows the forms to be routed according to any of the hierarchies established in the application which may in turn depend on the role or function of the user. For instance, the revenue side of the budget may be circulated via sales and marketing management whereas people costs may be captured from the HR and the heads of operating divisions. The workflow can support either 'top down' or 'bottom up' budgeting depending on the hierarchy chosen. In addition, careful design of hierarchies allows for 'matrix' management where managers share responsibility for deciding the appropriateness of a budget. Once a cost centre manager has completed their budget, they can forward it to the next individual in the hierarchy. User definable set-up governs what actions each person in the chain is permitted to take, for example, accept the budget, reject it, amend it with notification and so on. The work flow and integration allows commentary to be appended and controls what emails are launched at each stage to notify users of any action taken. Throughout the workflow, the system administrator has visibility of the status of the budget process across the enterprise.

At any time, the centralised budgeting model can be used for scenario planning with each scenario being saved for review, if desired. Advanced analytics available within the broader Financial Intelligence suite can also be applied to the model to explore the robustness of forecasts with sensitivity analysis.

SUMMARY

The advent of a tighter and more demanding compliance regime with accelerated reporting timescales, novel information disclosures and greater attention to management forecasts has highlighted the importance of flexible and tightly integrated financial management processes. In addition, the growing range of information stakeholders and the need to share information across the enterprise underlines the overarching requirement for a tightly knit set of applications and a robust technology platform that allows data to be managed efficiently.

SAS has an outstanding pedigree in building technologies that manage data. Its Business Intelligence Platform allows information to be harvested from a wide range of source systems and brought together in a repository that can be managed centrally. Ownership of this technology platform, allied to a broad set of financial management applications, allows data and the metadata which gives it context to be shared on a consistent basis across the enterprise. It also means that applications are relatively quick to build, easier for users to understand and amenable to change. This flexibility, coupled with workflow where appropriate and simple methods of reporting and publishing data to the web, provides a cohesive financial management platform that few suppliers can match.

In the face of relentless changes in compliance, regulation and performance management it is surely only a matter of time before forward-looking finance functions appreciate the compelling advantages that SAS' cohesive technology and application platform can provide.

ABOUT FSN

FSN Publishing Limited is an independent research, news and publishing organisation catering for the needs of the finance function. The report is written by Gary Simon, Group Publisher of FSN and Managing Editor of FSN Newswire. He is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 23 years experience of implementing management and financial reporting systems. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

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