Seven Risks of Regulatory Reporting

How inefficency and manual work are holding your team back.

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Executive Summary

Disclosure Management Cycles (DMC) consist of big, hulking processes but the slightest straw can hinder a company's ability to report compliantly. With so many hands involved and so many eyes needed to approve every public filing, it's no wonder details get lost in the mix. Human errors happen: an extra zero here, a missed approval there. So the best way to mitigate risks is to take the human out of the equation. Automating the manual processes that weigh financial reporting managers down increases efficiency, decreases filing time and enhances accuracy. What risks can disclosure management solutions eliminate? What pains can they ease? This white paper explores seven common reporting ails and their ideal solutions.

Introduction

For the public company who strives to reach the compliance stars, there is always the risk of stumbling at a simple straw. We've all been there: a positive value appears negative, an extra zero appears or the correct version of a disclosure fails to make the final cut. As reporting managers create their filings, the disclosures they encounter involve intricacies that are easy to overlook. Small but detrimental errors are the result of ineffective and time-consuming manual processes. It's high time we do away with them. What if there was an ideal solution for all of these errors? The good news is: there is.

A Disclosure Management Cycle's success is based on the accuracy and efficiency of the little things, which can become very big things if they go unnoticed. Disclosure management solutions ensure that this doesn't happen. This white paper makes a case for automation by exploring seven filing aches faced by financial reporting managers and presents ideal solutions for making those pains disappear.

Risk 1: Versioning

The Scenario: You're a reporting manager and have just sent a set of financials to a colleague for approval. At the same time, the XBRL specialist asks you for the filing and adds changes to it. As soon as you send the filing to the XBRL specialist, the CFO approaches you and requests an adjustment to the narrative. You then receive the version back from the CFO and the other version from your colleague. You attempt to consolidate the changes. If your head isn't already spinning, you have to re-send the filing to the XBRL specialist. All the while, your boss is tapping her foot at your office door.

The Result: You end up with several documents with different revisions, different approvals and incomplete information. You must then consolidate the changes and determine the most current, correct and approved revision. The room for error is large.

The Ideal Situation: With 90% of finance executives reporting that moderate to significant staff time is required to collect, consolidate and prepare the narrative portions of financial reports, creating and approving the actual report should be easy.[1] Financial executives' energy should remain focused on interpreting information — not chasing down approvals.

What do they require in order to make this a reality? Disclosure management tools that promote a single version of the truth; this means a lone document that multiple stakeholders can access and edit concurrently. PricewaterhouseCoopers says,

> "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."[2]

This type of collaborative workspace is hailed as the holy grail of accounting because of its social and streamlined nature. There is no need to piece together changes or double check approvals in chunks or in different iterations. All the work and any changes are saved in one master document.

Risk 2: Approvals, changes, and rejections

The Scenario: A colleague has returned a filing's final iteration to you. Before uploading to the SEC, you give it one last look. Although your colleague mentioned they had made a few changes, they did not make them visible.

The Result: You are accountable for the document and any errors within it so you must track down your colleague to find out where they made the change. Then you must compare the filing to a previous iteration and then double-check the information to ensure it's up-to-date. If this happens, you lose valuable time that could potentially compromise your ability to file on time.

The Ideal Situation: Since you're accountable for the filing, you want to have the ultimate power over what is submitted to the regulators — and what isn't. What does this type of control look like?

Well, complete transparency for one; the ability to see exactly what has been changed, where it has been changed and by who at every step of the DMC. "Automation of the participation, accountability, workflow, review and approvals in the preparation and submission of these documents is an opportunity to decrease development time and reduce risk from manual errors, improper review or rushing to meet looming deadlines."[3]

Automated approvals will only notify the authorizing executive with the information they need to comment on. In addition, a breadcrumb trail of changes, comments and the ability to compare versions makes it easy to revisit previous iterations and only submit approved and up-to-date work.

Risk 3: No audit trail

The Scenario: There's a knock on your door and it's an expensive knock. It's the auditors returning your filing with questions upon questions about the data, its sources and exactly how it was calculated. After hunting down all the answers, you return the document to the auditors with their changes.

The Result: The auditors return the filing to you again with more questions and more changes. The deadline is looming and you still have to seek approvals and adjust XBRL tags. All the while, with each email, revision and delayed approval, the auditing bill increases and your time to submit the filing to regulators rapidly slips away.

The Ideal Situation: There is no hunting down the history behind each disclosure. Every piece of data in your report is automatically linked back to its original data source, whether that's in an ERP solution or MS Office Excel. On top of this, any changes are monitored. "Audit trial features track the change in status of each of the internal controls related to the XBRL tagging process so companies can easily understand change history and ensure that internal controls are respected."[4]

In addition to XBRL, this is also true for narrative reporting and financials. Audit trails help "to increase management's confidence in the financial statements."[5] More than confidence, the audit trail's return on investment is most prominently highlighted in delivering complete data to the auditors, significantly reducing back-and-forth and thus, cost.

Risk 4: Security

The Scenario: You're midway through your report. It contains sensitive, unfinished and unapproved material. You send a section to Joe in legal to approve, but inadvertently send it to Joe from sales at Watercoolers R Us.

The Result: Joe from sales at Watercoolers R Us has a brother who invests in your company. When he reads the report you send him, he immediately sends it to his brother. Case and point: information leaks are as easy as pressing "send" in your email client.

The Ideal Situation: In a top-notch disclosure management solution, the reporting manager has the ultimate say over who sees what. Disclosure management solutions are "designed to tackle the issue of document preparation by providing a secure environment in which multiple participants with different roles and responsibilities across many different departments can collaborate in the controlled assembly of complex outputs and filings, while continuing to work independently."[6]

Administrators should be able to control who has access to private knowledge. When you have established controls and information delivery within your disclosure management system, the email goes to the intended recipient — unlike unpredictable and error-prone email auto-fills.

Risk 5: Missed deadlines

The Scenario: The company you work for has yet to transition their XBRL tagging in-house and are still using a third party provider. The technicians have returned the tagged document, but more changes come from your executive management. You must send the document back to the XBRL provider for an update.

The Problem: With the last minute changes to the document, you're changing the document too far into pencils down time. Because you're working with third party technicians, the changes you need aren't returned immediately, despite your urgency. You're cutting it extremely close to your filing submission deadline. In fact, you might not make it.

The Ideal Solution: Tick, tock, financial reporting managers are on the clock. The hardest part is that no financial reporting manager is completely self- reliant and must depend on multiple stakeholders to approve, submit or change the content they curate. XBRL provides its own unique challenge. More filers are choosing to complete it in-house to avoid delays.

> "A manual Last Mile process also exposes the enterprise to the risk of inaccurate or delayed 10-K or 10-Q filings, which can have a dramatic impact on valuation. Filing delays caused by accounting errors have been found to result in an average stock decline of almost 9% and that earnings were down 5% each of the following two years for these late filers."[7]

Knowing this, automation and in-house solutions are the most dependable means of ensuring timeliness. Solutions that provide this capability give reporting managers immediate access to in-house changes and eliminate pencils down time entirely.

Risk 6: Overlooking reporting standards

The Scenario: You've been focused on fixing an issue with your internal control process. With this on your mind, you've completely forgotten about addressing a new disclosure requirement until the eleventh hour.

The Problem: You immediately look for a benchmark so you can somehow adjust your disclosure accordingly, but you're finding precedents difficult to locate because the peers you usually benchmark have yet to submit their reports.

The Ideal Situation: Regulatory standards are changing and emerging faster than reporting managers can keep up. A change or new standard can mean ramifications as small as a formatting change or as significant as a new and complex disclosure document, like the conflict minerals rule.

> "After the financial collapse of 2008-2009, shareholders and regulators started pushing companies for increased transparency. The idea was that if companies would tell their shareholders more about how they conduct business, the capital markets would be safer. The intent was noble but the outcome was imperfect. CFOs now say they're stuck dealing with regulatory overkill, and this is sending the costs of financial reporting soaring."[8]

To keep up with the changes, a disclosure management solution should not only contain the rules, but also provide examples of their execution. With the right research tool, this can extend further than the peers you frequently monitor and provide you with access to the entire disclosure repository. Sample filings are valuable benchmarks that expedite the filing process and provide a clear path for executives in a time crunch.

Risk 7: Miskeyed numbers

The Scenario: You're manually plugging new numbers into a report when you inadvertently type in an extra zero. Your gross revenue now reads $100,000,000 instead of $10,000,000.

The Problem: If this number makes it through the reporting process undetected, it could radically misrepresent your company to stakeholders and regulators.

The Ideal Situation: According to an IBM survey, about 60% of respondents said that the number of handoffs involved in preparing financial reports significantly increases the risk of error.[9] And yet, in most cases, multiple hands are unavoidable. To circumvent errors, the best solutions will allow reporting managers to compose reports with data exacted directly from the data source. No re-typing. No copy and paste. Data goes right from its source and plugs into the report template automatically. For many this would mean that your disclosure management solution syncs with your ERP solution or consolidated spreadsheets. Reports are made of the original data input and functions used to deduce the final result. Sophisticated data mapping enables financial executives to, "designate the sources of the data points to be included in a report rather than manually placing values in a report."[10] Thus, when the data source changes, the report does as well. In addition to facilitating greater accuracy, "data source-to-report" functionality provides a wave of relief for financial reporting managers; they can sleep more soundly knowing the numbers are accurate.

Summary

A DMC facilitated by disclosure management solutions is the remedy to reporting pains. It takes the small kinks that can harm a DMC out of the equation entirely. Report creation is quicker, the last mile of finance is smoother, XBRL is tagged faster and audits require less back and forth. Optimize the talent you've worked hard to hire. Instead of using your precious human resources to perform tedious processes that can be automated, keep your talent doing what they do best and safeguard the nitty-gritty risks with reliable technology. This way, you eliminate the human error and the human labor and ensure talented reporting managers sleep better at night.

Key Takeaways

1. A single version of filings distributed during the editing process, comprised of information from your data sources, ensures disclosures are accurate and complete.
2. By automating approvals, only the executives who need to see changes are notified and they only see the information relevant to them.
3. Error-prone, manual processes that involve copying or re-entering of information are abolished as disclosure management solutions link directly to the original data source.
4. Having standards, rules and regulations on hand, as well as sample filings, is essential for compliance and submission timeliness.

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