STUDY

New Value for the CFO: The evolution from consolidation to group accounting

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New Value for the CFO: The evolution from consolidation to group accounting

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STUDY

Preface

Background and aim of the study

Efficient and powerful group accounting and the associated software support are becoming an increasingly important success factor in the responsibility of many CFOs. On the one hand, this results from the requirement for the finance function to act quickly and efficiently. However, new requirements are being placed on consolidation that go far beyond the information provided by traditional financial consolidation. Given this background, the aim of this study is to describe the transition from consolidation solutions to group accounting suites – including the current level of progress along this road, as well as the priorities and demands of real-world users.

From consolidation solutions to integrated group accounting

The demand for efficiency, speed and automation is based on both the increasing number of subsidiaries recorded in consolidated financial statements of many companies and increasingly complex regulations governing specific areas of consolidated financial statements, such as income taxes, IFRS 16 and IFRS 17.

In addition to growing requirements in financial consolidation, publicly listed groups are required to provide consolidated information in new areas such as risk management, sustainability and corporate governance at group level, and to meet new technical requirements such as the European Single Electronic Format (ESEF).

The development can be summarized by the fact that more and more companies have to disclose an increasing amount of

information at group level. The Corporate Sustainability Reporting Directive (CSRD) is a current example of this. In addition, it is becoming more important for the management to be able to evaluate consolidated information across various dimensions.

This development calls for integrated or unified, powerful software support in group accounting and a departure from isolated solutions spreadsheets. Likewise, organizational changes to improve collaboration between the central (group) finance department and other corporate functions have to be implemented.

Prof. Dr. Heimo Losbichler

Chairman of the Board International Association of Controllers, Chairman of the IGC, Professor and Academic Program Director at the University of Applied Sciences Upper Austria, Faculty for Management.

Study results – group accounting is a broad area of investment

The results of the study are based on over 200 international responses from a wide range of industries and company sizes. The results can be summarized as follows:

- Increasing requirements in terms of group accounting and reporting are reflected in a high demand for new software solutions. Although the three most commonly used core modules (planning, management reporting and consolidation) are still in focus and even named as top priorities for improvement but investments are planned in all areas of group accounting.
- The “classic” pairing of planning and management reporting is cited by some distance as the combination in most need of improved integration. This shows that despite better software solutions, the integration of group planning, accounting and reporting remains a substantial challenge.
- Microsoft Excel and specialized consolidation tools are still frequently used. An integrated or even unified group controlling solution with an integration level comparable to modern ERP suites is a long way off in most companies.

- Surprisingly, and despite the fragmented use of software, there is a high and balanced level of satisfaction across the various areas of group accounting. Approximately 90 percent rate their consolidation solutions at least as satisfactory.
- Planning with budgeting and forecasting together with management reporting are seen as the two core areas to enhance automation. We see a very high level of planned investment in the automation of planning (66 percent) and management reporting (71 percent).
- Top of the priority list of starting points for improvement is efficient organization with 56 percent, followed by group-wide standardized software (45 percent), which indicates that organizational topics are seen as good opportunities to make progress.

Conclusion and outlook

Even though Microsoft Excel and standalone solutions prevail today, a market for integrated group accounting solutions is expected to emerge. This assessment is based particularly on the requirement to integrate financial and non-financial reporting (e.g., by CSRD). Future-proof reporting calls for enhanced orchestration, traceability and assurance, which is difficult to provide if data originates from different sources in different formats with different calculations.

In view of the increasing demands on consolidation and the study results presented, we believe that the market for consolidation software will change and develop further into integrated or unified group accounting suites.

A view on the leading product providers seems to confirm this: Vendors such as SAP (profitability and performance management), Oracle (tax reporting), OneStream (IFRS 16, ESG, tax) and CCH® Tagetik (IFRS 16,17, compliance) have extended their core consolidation solutions with the goal to build comprehensive group accounting solutions, going far beyond the initial functionality.

We believe that this trend coming from the vendors to target large enterprises will continue to emerge in the mid-market as well, adding group accounting modules to solutions targeting mainly mid-size companies.

Recommendations

If you are investing in group planning, accounting and reporting modules, looking at integrated or unified solutions is recom-

mended.

Even if a certain application such as consolidation or planning is your top priority, preparing for integrating further modules will pay off further down the line.

As with all data and analytics initiatives, well organized data management is at the core and base of all successful implementations. Avoiding silos will reduce the error-proneness and running costs in the medium term.

Avoid manual workarounds with Excel or reduce them to a minimum.

Main group consolidation and controlling tools are heterogenous

Appropriate tools help organizations to automate manual work and permit ML-enabled analytics and interactive reporting on any device. Integrated solutions enable organizations to map the different components of group reporting such as account reconciliation, consolidation and finally forecasting and planning by using one single source of truth. However, prerequisites and requirements vary significantly between organizations.

The results show that only 36 percent of the organizations surveyed use specialized consolidation software, 27 percent use SAP, 21 percent use Excel, 7 percent use in-house developed software and the remaining 9 percent use other solutions as their main group consolidation and controlling software (see figure 1). It is surprising that one in five organizations still uses Excel to accomplish such daunting and critical tasks.

Group accounting is a growing field. Besides its traditional components, GRC and sustainability – one of the most important drivers in our times – are set to play an essential role in its future.

There is no one-size-fits-all solution. Right now, specialized consolidation software, SAP and Excel are the group consolidation and controlling tools of choice.

Specialized consolidation software

36%

SAP

27%

Excel

21%

Other

9%

Our own solution

6%

Figure 1: What is your company using as its main consolidation or controlling tool? (n=211)

Results indicate that only 8 percent of the organizations surveyed with more than 5,000 employees use Excel as their main group consolidation and controlling tool. These organizations prefer specialized consolidation software or SAP. It is also becoming apparent that Excel is less likely to be used as the number of subsidiaries increases. The data shows that with rising numbers of entities, the processes can no longer be managed without professional software support.

The larger the company, the less Excel is used, and the more specialized consolidation software and SAP are seen as the main group consolidation and controlling tools.

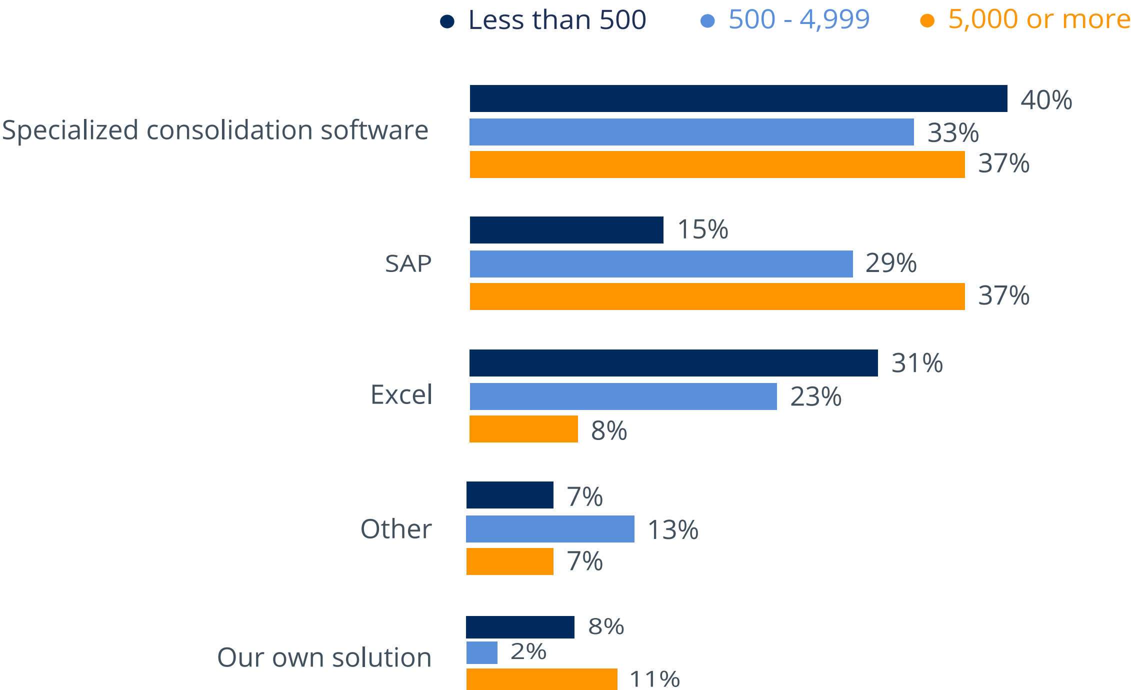

Figure 2: What is your company using as its main consolidation or controlling tool? by number of emplyees (n=211)

More than half of the surveyed companies in the banking and finance industry (54 percent), public sector (53 percent) and services sector (52 percent) are using specialized consolidation tools as their main consolidation and controlling tool. We also see that SAP is quite common except in the public sector and banking and finance industry. In addition, Excel is widely used, but less so in services companies and manufacturing. It is noteworthy too that over 30 percent of companies in the banking and finance and retail, wholesale, trade sectors, both of which tend to struggle with low margins, use the most inefficient and resource-wasting tool (Excel) as their main consolidation and More than half of the surveyed companies in the banking and finance industry (54 percent), public sector (53 percent) and services sector (52 percent) are using specialized consolidation tools as their main consolidation and controlling tool. We also see that SAP is quite common except in the public sector and banking and

Excel is still used in all industries. However, certain industries prefer the use of certain group consolidation and controlling tools more than others.

finance industry. In addition, Excel is widely used, but less so in services companies and manufacturing. It is noteworthy too that over 30 percent of companies in the banking and finance and retail, wholesale, trade sectors, both of which tend to struggle with low margins, use the most inefficient and resource-wasting tool (Excel) as their main consolidation and controlling tool. At least organizations in the services sector have recognized the potential of specialized tools and SAP. Only 15 percent of organizations in this sector use Excel.

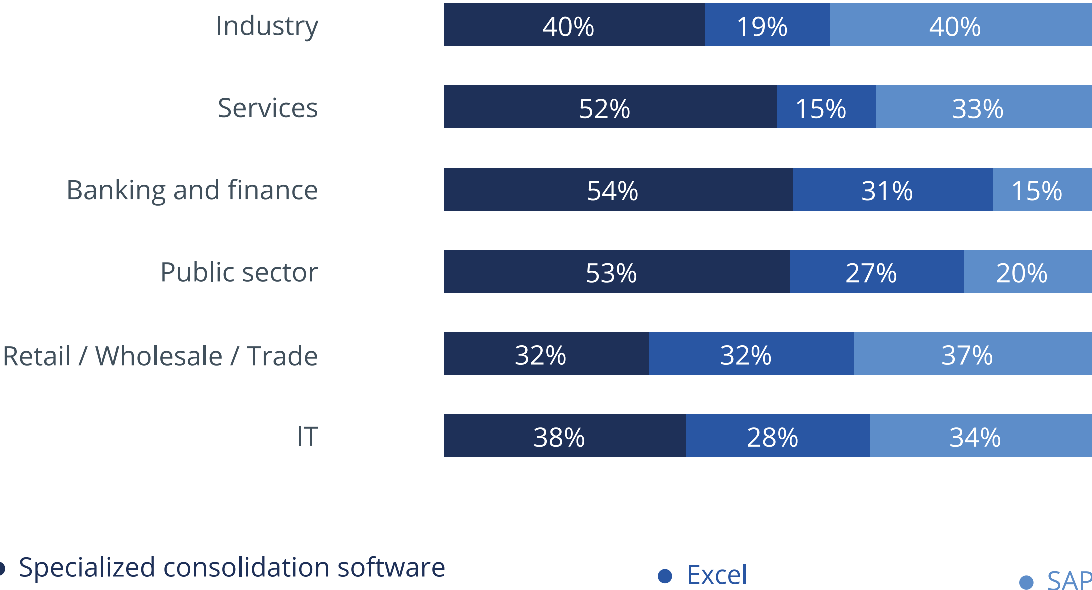

Figure 3: What is your company using as its main consolidation or controlling tool? by industry (n=178)

The survey results show that organizations located in North America prefer specialized consolidation tools and are less likely to choose Excel or SAP than organizations located in Europe and the rest of the world (see figure 4). This indicates that North American companies are more aware of the risks of using Excel and demonstrate a higher degree of digitalization, which enables competitive advantages. Additionally, the penetration of the market with cloud solutions in North America is significantly higher, as different BARC studies show.

North American organizations leverage the advantage of dedicated software more often than companies in other parts of the world.

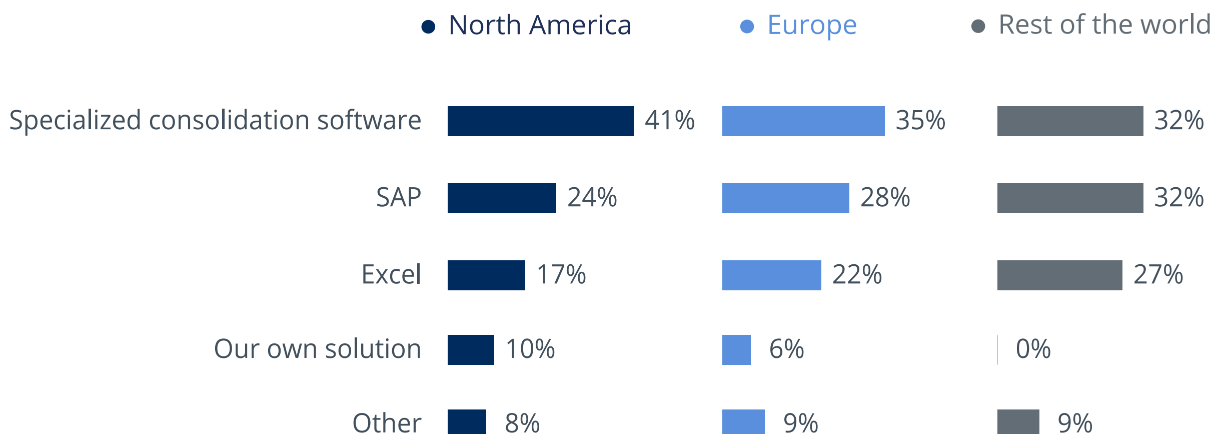

Figure 4: What is your company using as its main consolidation or controlling tool? by region (n=211)

Group accounting covers a broad range of functionalities

Not surprisingly, not all of the aforementioned components (see section "group accounting and reporting – overview of the components at the end of this document) of group accounting are equally relevant for all organizations. Entities that do not report under IFRS do not need IFRS 17 (insurance contract accounting) or IFRS 16 (lease accounting) solutions. Therefore, 33 percent (see figure 5) of the companies surveyed do not consider IFRS 17 as relevant to their organization. A very similar situation is emerging for IFRS 16.

Provided they do not fall within the scope of obligatory sustainability reporting, it is understandable that some respondents do not see the direct relevance of sustainability accounting and reporting for their organization. However, the need to provide data to stakeholders in the value chain and providers of capital (such as banks or public) should not be underestimated and some regular, though not legally required, reporting might be beneficial.

One thing is becoming more and more apparent: **sustainability and digitalization are two major challenges that organizations have to deal with.** It is nevertheless striking that **16 percent of the organizations surveyed do not see sustainability as relevant.** Dealing with sustainability beyond basic "greenwashing" will be indispensable to remain competitive. It should also be clear that sustainability includes not only environmental (E) sustainability, but also the social (S) responsibility and governance (G) that an organization demonstrates.

Therefore, sustainability includes ESG. Even if the G – governance, risk reporting and compliance **(GRC)** – should be of importance in all organizations, it is evident that this component is **not** seen

Organizations are well aware of the relevance of core group accounting components (e.g., management reporting, financial planning and forecasting, tax reporting, financial consolidation and reconciliation).

Sustainability reporting as well as GRC, disclosure management and XBRL reporting are often seen as not relevant.

The question that arises is: Do organizations underestimate the challenges, risks and opportunities of IFRS as an integrated reporting standard?

as relevant in 10 percent of the organizations surveyed.

In addition, ESG reporting will require more (narrative) disclosure. This brings us to the most worrisome fact. **23 percent of respondents do not attach any importance to disclosure management and included XBRL reporting.** Even if organizations do not have to publish their financial statements in the XBRL format, disclosure management solutions ensure efficient and accurate production of financial statements in publishable formats. Obviously the industry has not yet communicated the benefits of process driven disclosure management solutions properly.

Account reconciliation and consolidation are rated as not relevant for their company by a relatively small 5 percent of respondents. It may be assumed that due to a lack of information these usually rule-based manual activities are not seen as independent components or rather as part of the financial consolidation process.

Although only a small proportion of organizations do not see account reconciliation, financial consolidation, planning and forecasting, and reporting as a relevant part of group accounting solutions, this nevertheless indicates that awareness of those requirements still needs to be raised.

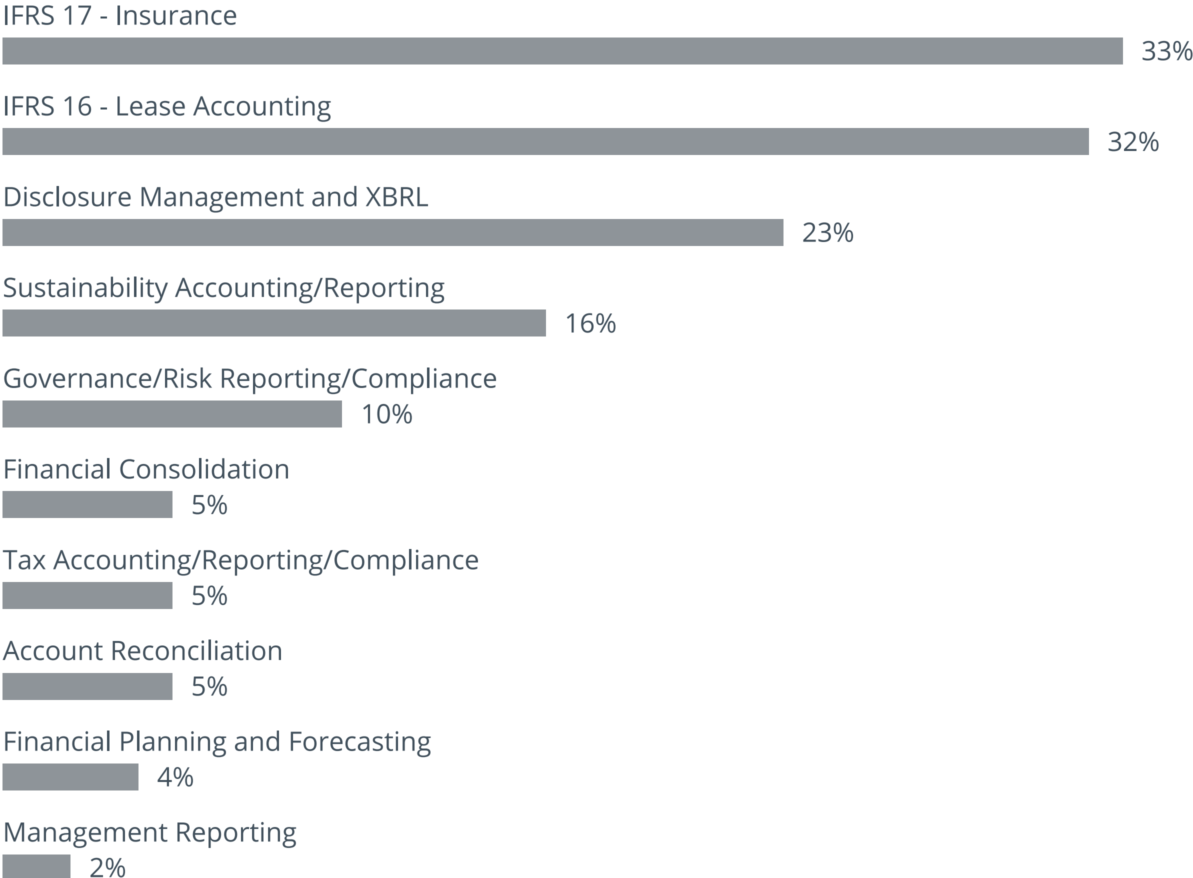

Figure 5: Components that are considered not relevant for the organization (n=218)

Implementation of group accounting solutions at component level

So how have companies implemented the components they consider relevant into their group accounting solutions? We first sought to determine the extent to which Excel and manual workarounds, IT solutions and outsourcing are used to implement the components mentioned above (see also figure 1).

Many companies use IT solutions for the components of their group accounting. In particular, routine-based components such as account reconciliation and financial consolidation are most likely to be implemented using IT solutions

The results show that the majority of companies use IT solutions for the implementation of their group accounting. As shown above, IT solutions are able to support the components of group accounting by automation and digitalization, thereby reducing time pressure and errors, enabling a faster close and increasing the frequency of reporting, transparency and insights into the data.

Outsourcing, on the other hand, is rarely used except for components with legal requirements. In addition, the recognized potential of in-house digitalization through IT solutions could reduce outsourcing.

However, Excel and manual workarounds are still widely used to handle certain tasks. Depending on the components, between 15 percent and 33 percent of companies still use Excel or manual workarounds (see figure 6). Considering the possibilities that IT tools offer, Excel still seems to be a close friend of the accountant. The results also indicate that the companies using Excel or manual workarounds as the solution for a component are mostly classified as small groups (up to 20 subsidiaries). The proportion of companies using Excel or manual workarounds decreases as the number of subsidiaries increases. Excel and manual workarounds are therefore rare in corporations with more than 200 subsidiaries.

In many cases, this potential is not yet being exploited. Excel and manual workarounds are still widespread and are the second most used, especially in small organizations.

Outsourcing of tasks is a way to drive transformational change by solving capacity issues and concentrating on core functions. However, the survey results indicate that outsourcing is rarely used. Depending on the component, only 2 percent to 10 percent of the organizations surveyed outsource their tasks. It can be observed that outsourcing of tasks is more likely to be used for components that deal with legal matters and/or constant adaptation of existing standards and/or 'newer' components such as sustainability reporting. Outsourcing is therefore most commonly used for disclosure management and XBRL reporting, tax management, sustainability reporting and the recognition and assessment of insurance contracts in accordance with IFRS 17. In cases where the high potential of inhouse digitalization and automation is evident, outsourcing does not seem to be an option. It could be that the degree of automation achievable with IT solutions persuades organizations to refrain from outsourcing.

Digging deeper, we see that IT solutions are most commonly deployed for components that are characterized by rule-oriented or repetitive tasks such as account reconciliation (83 percent) and financial consolidation (84 percent) (see figure 6). The majority

of respondents that do not use IT solutions to perform account reconciliation are from small groups with fewer than five subsidiaries, although even some large organizations still use Excel or manual workarounds for financial consolidation. A similar picture emerges for account reconciliation: Excel and manual workarounds are rarely used in organizations with more than 200 subsidiaries, indicating that as companies grow, Excel and manual workarounds are no longer seen as efficient enough.

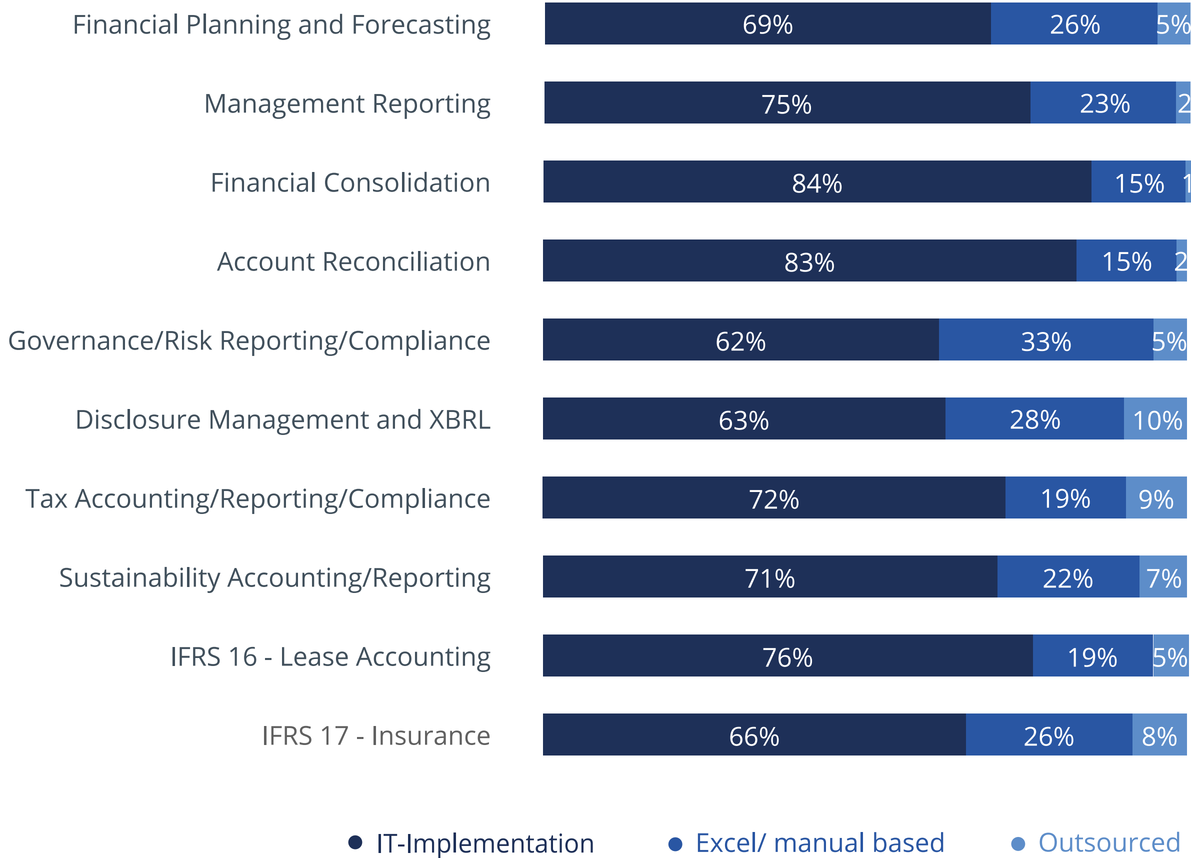

Figure 6: How are the following components of a group accounting solution currently implemented in your organization? (n=215)

Looking at the other components, Excel and manual workarounds are still a common solution, but not for financial consolidation and financial planning. About 20 percent use Excel and manual workarounds in general, while the most popular component to be addressed with Excel is GRC reporting (33 percent). Despite the scarcity of resources and disadvantages of manual processes, these companies do not seem to have explored the possibility of optimizing their processes through outsourcing. This option can include resorting to experts for process management and experience in dealing with suitable IT solutions, with the additional benefit of using resources flexibly.

In figure 7, we see that Excel and manual workarounds are hardly used in any of the North American companies surveyed, whereas they are still a very common solution for companies located in Europe. Organizations across the rest of the world rely on Excel and manual workarounds even more than European companies. It seems that North American companies have already recognized the benefits of implementing IT tools and outsourcing for group accounting. By contrast, companies outside North America still have some catching up to do.

Organizations in North America hardly use Excel anymore and have thus recognized the advantages of digitalization. The rest of the world still has some catching up to do.

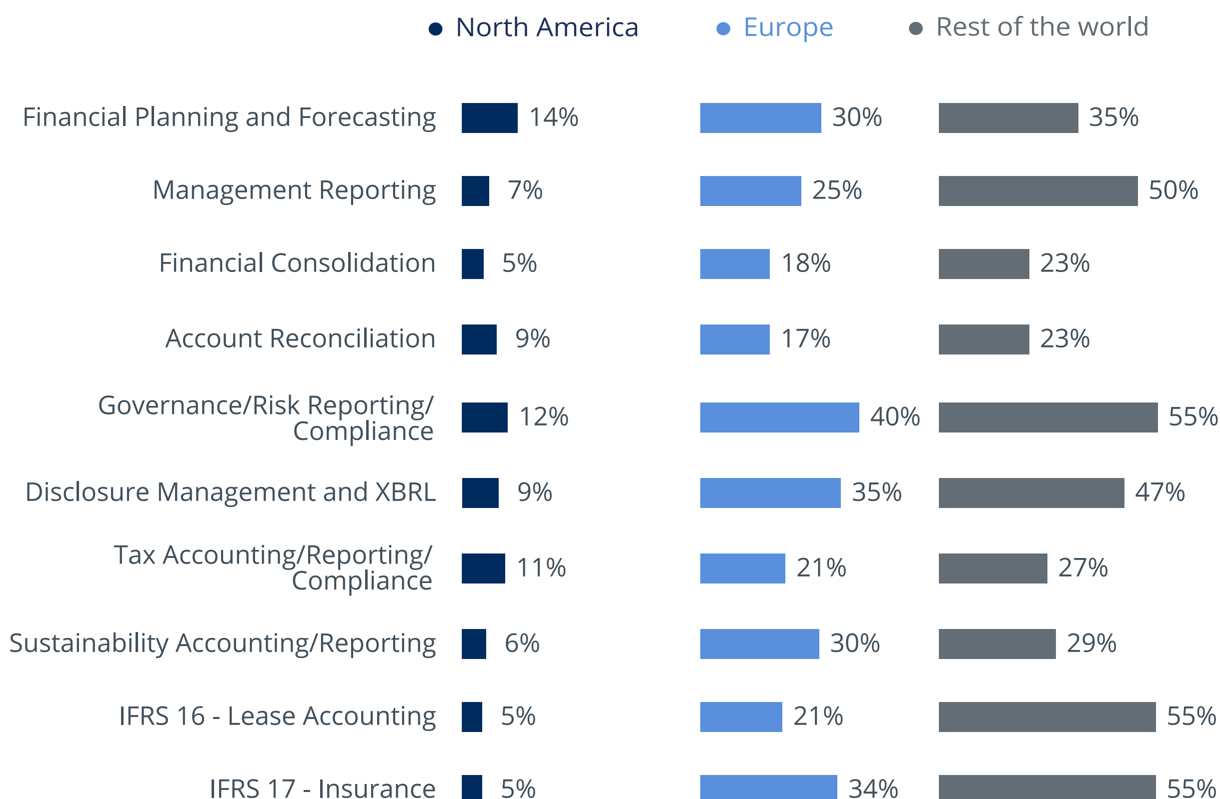

Figure 7: Percentage of companies using Excel or manual workarounds for group accounting solution, by region (n=215)

Methods of IT implementation

For each group accounting component, we asked those respondents using IT solutions which of the following four options they have used: IT solutions for each individual component as a part of the ERP system, as part of the consolidation solution, as a part of an integrated group accounting solution or as a specialized solution.

The results varied depending on the organization and the component in question.

For most of the components of group accounting, an implemen-

tation as part of the ERP system represents the most common solution, except in the case of the GRC (see figure 8). Implementations as part of the consolidation system are most common for financial consolidation, account reconciliation and disclosure management. It is also clear that implementations as part of the integrated group accounting solution are also very common.

GRC is the most common component to be implemented as a specialized IT tool. A possible reason for this might be that the CFO is less likely to be the process owner of GRC than of traditional group accounting tools such as financial planning and forecasting. Maybe other process owners do not see or know about the possibility of implementing GRC as part of the consolidation solution or integrated group accounting solution – or different departments prefer their independent solution approaches.

Although, the proportion of companies using a specialized IT tool for financial planning and forecasting is on average higher than for other components, the proportion is pretty much the same as implementations as part of the ERP system or as part of the integrated group accounting system. A clear favourite has not yet emerged for this particular component.

There are different ways of implementation, no one fits all. Even if, an implementation as part of the ERP system is most common for most of components of the group accounting. However, for GRC organizations prefer a specialized solution. However, a general trend is not discernible.

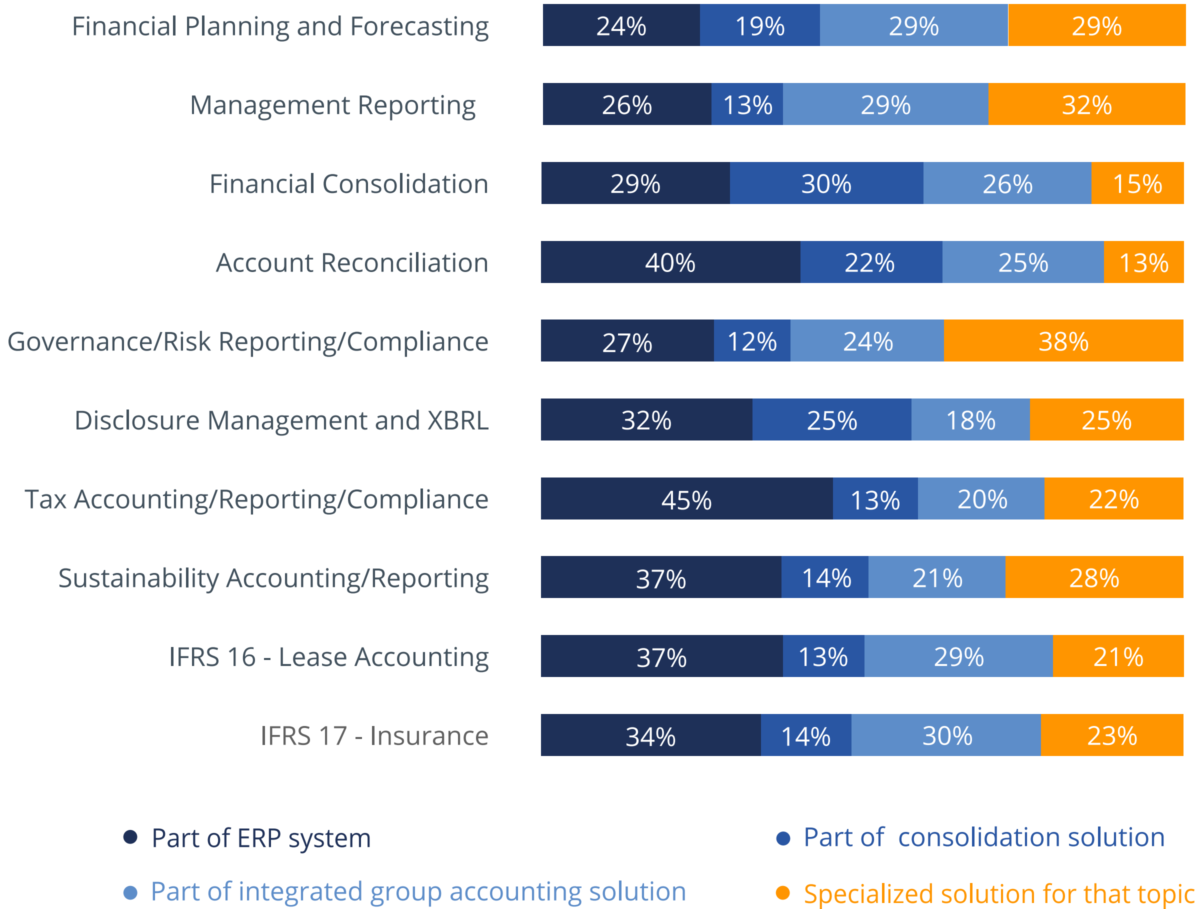

Figure 8: How are the following components of a group accounting solution currently implemented in your organization? (n=218)

The size of a company seems to have no significant impact on the type of IT implementation that it prefers. In general, organizations located in Europe and the rest of the world prefer the implementation of group accounting components as part of their ERP system. However, there are two notable exceptions: European companies prefer to implement management reporting and financial planning and forecasting as part of their integrated group accounting solutions or as specialized solutions. Also, companies in Europe tend to prefer to have financial consolidation as part of their consolidation solution.

Although the size of a company does not impact the choice of IT solution for individual components of the group accounting solution, the region does. In general, it seems that organizations located in North America tend to implement components as part of their integrated group accounting solution, whereas companies in the rest of the world are more likely to implement the components as part of their ERP system.

These results differ from the results observed in North American companies, who prefer to implement financial consolidation, account reconciliation, governance/risk reporting/compliance, disclosure management and IFRS 17 (insurance accounting) as part of their integrated group accounting solution. For IFRS 16 (lease accounting), they tend to use a specific solution or an implementation as part of the group accounting solution. Unlike companies in Europe and the rest of the world, North American companies also use the ERP system for management reporting and tax accounting/reporting/compliance more frequently.

Excellence is rare to find, and poor solutions still exist

As figure 9 indicates, no more than a quarter of companies rate any of the solutions for their group accounting components as excellent. While 21 percent to 24 percent of organizations rate their financial planning, management reporting and financial consolidation solutions as excellent, their ratings of other components are significantly lower. Verdicts of “poor” or “very poor” make up between 9 percent and 18 percent of responses for each specific solution. These results indicate that there is still room for improvement.

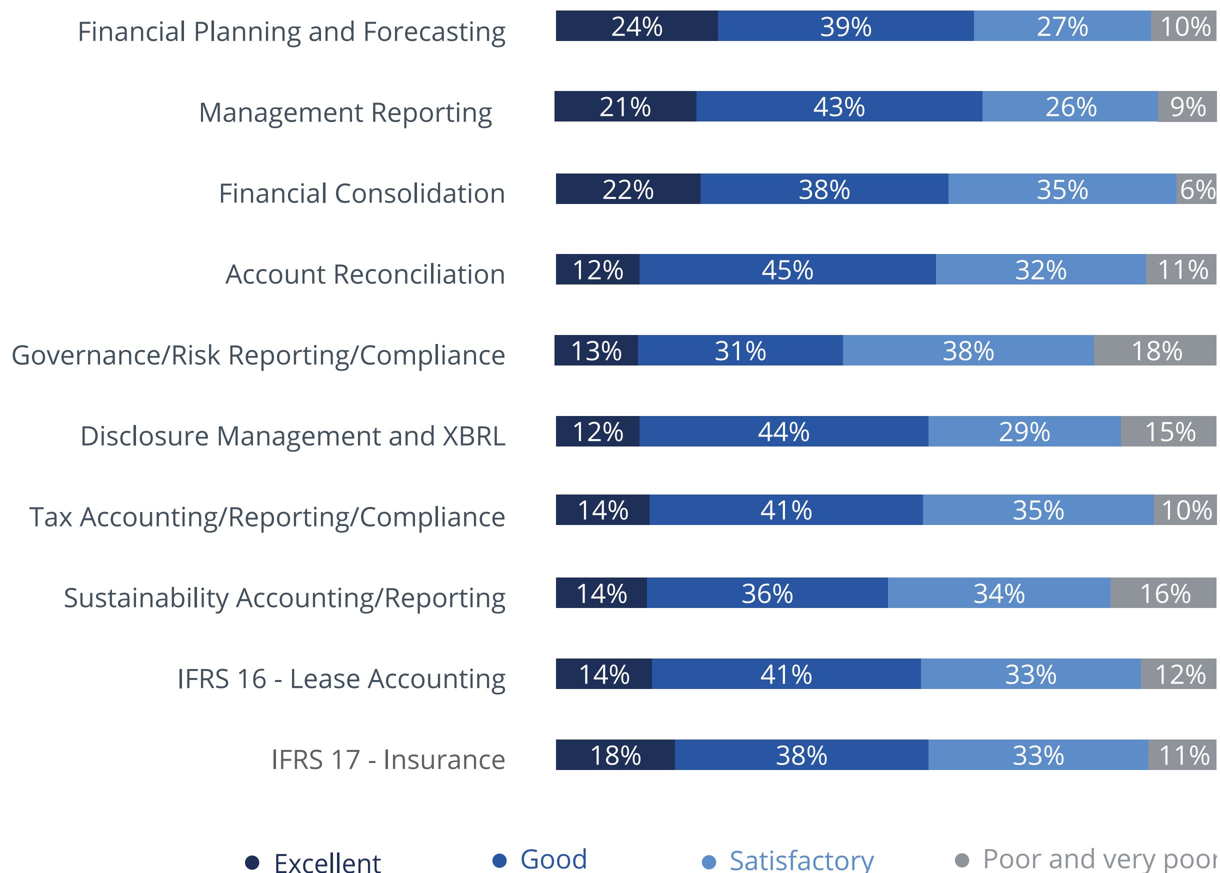

Figure 9: In your opinion, how would you rate the following solutions in your company? (n=215)

Results indicate that the method of implementation of the component into the group accounting solution plays an essential role on the success of the solution. Without exception, across all components, companies that use Excel or manual workarounds to perform tasks are significantly less satisfied with their implementation and companies who outsource those tasks are the most satisfied. For example, 49 percent of the organizations that use Excel or manual workarounds for sustainability accounting/reporting rate their solutions as "poor" or "very poor"; 33 percent rate them as "satisfactory" and only 18 percent rate them as "good" or "very good". On the other hand, 57 percent of organizations that have implemented sustainability reporting with IT tools rate their solution as "good" or "very good", 36 percent as "satisfactory" and only 7 percent rate them as "poor" or "very poor". Although the proportion of companies with outsourced components is quite low, results show that their level of satisfaction is even higher than that of companies using IT solutions. 80 percent of those that have outsourced sustainability accounting/reporting agree that the solution is "good" or "very good"; 10

No solution promises only satisfaction. However, regardless of the component of the group accounting solution, organizations that use outsourcing as a solution are comparatively more satisfied than organizations that use IT solutions. Companies that use Excel and manual workarounds are clearly the least satisfied of all.

percent rate it as “satisfactory” and a further 10 percent rate it as “poor” or “very poor”. These results are comparable for the other components. Regardless of the component, companies that use outsourcing as a solution are comparatively more satisfied than those that use IT solutions. Companies that use Excel and manual workarounds are clearly the least satisfied of all.

Opportunities for improved automation are more likely to be identified in traditional components

Another interesting point is that organizations still see a necessity to improve the automation of their highest-rated solutions. For example, organizations see a higher need to improve the automation of financial planning and forecasting solutions, which are rated as “excellent” or “good” by 63 percent (see figure 9) of organizations. The story is similar for management reporting, financial consolidation and account reconciliation.

In addition, results show, that although the proportion of usage of Excel and manual workarounds is high for some group accounting components, such as GRC, sustainability accounting/reporting, disclosure management and XBRL reporting, IFRS 16 and IFRS 17 (see figure 10), a much lower need for improvement is seen than for other components. For example, 28 percent use Excel and manual workarounds for disclosure management but only 9 percent of the organizations surveyed would like to improve their existing solution.

Organizations focus on improving the automation of ‘traditional’ components rather than those which are more likely to be executed with Excel or manual workarounds.

Even where the automation level of ‘traditional’ group accounting components is higher, the need for improved automation is considered more relevant than for components that are more usually executed with Excel or manual workarounds.

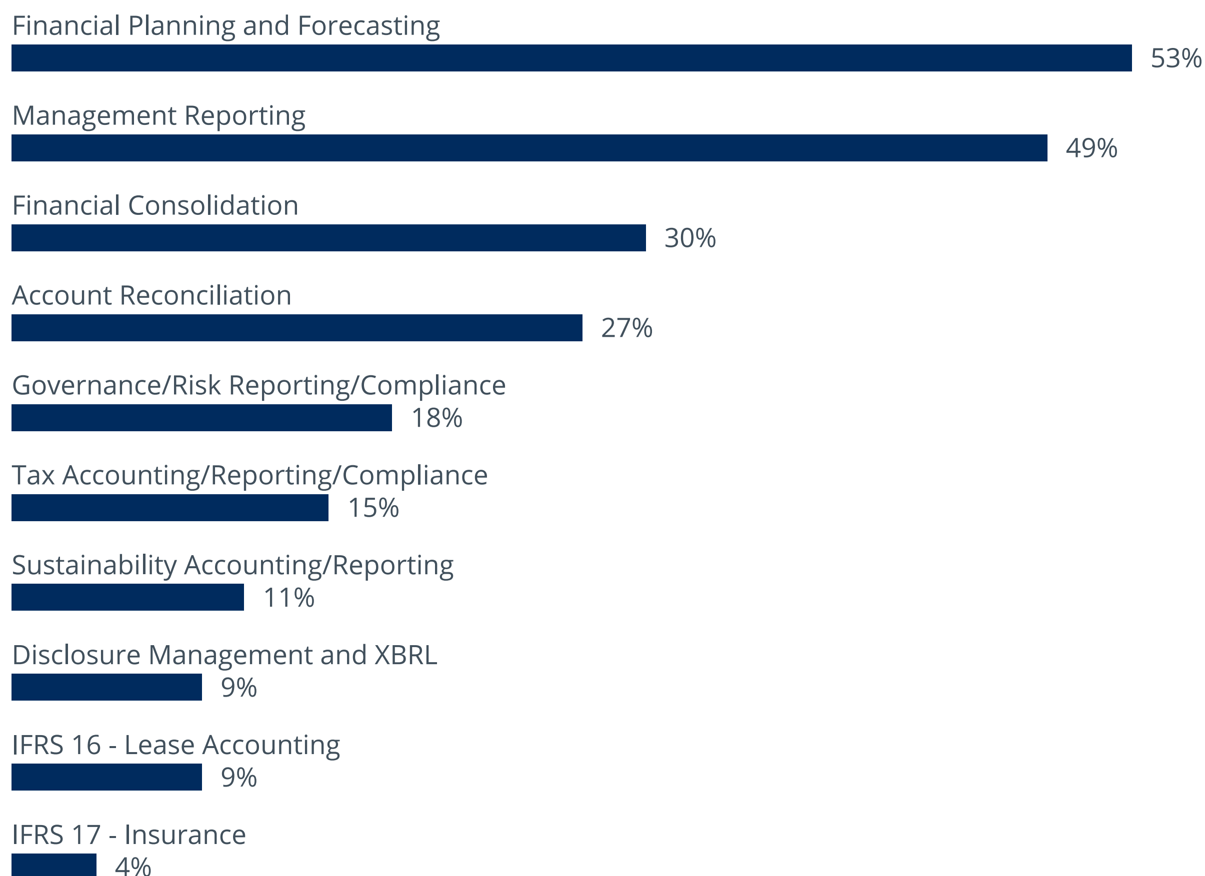

Figure 10: If you could improve the automation of these solutions, which would be the most important? (n= 211)

Organizational efficiency and standardization are still the key factors that could improve group accounting solutions

Organizational efficiency and standardization of IT tools within the group are seen as the two main factors that might improve group accounting solutions (see figure 11), while predictive artificial intelligence is the third ranked measure. Other factors identified are migration to the cloud and security enhancements. It is also interesting to see that 29 percent of respondents still see room for improvement in terms of organizational standardization. To execute resource-intensive processes, but also to drive process improvements towards greater efficiency, organizations need employees. Therefore, additional headcount to improve group accounting solutions is cited by 23 percent of the organizations surveyed. The outsourcing of certain tasks is rarely seen as an option to improve group accounting solutions, although outsourcing seems to provide high satisfaction rates based on the (small) number of answers in this study.

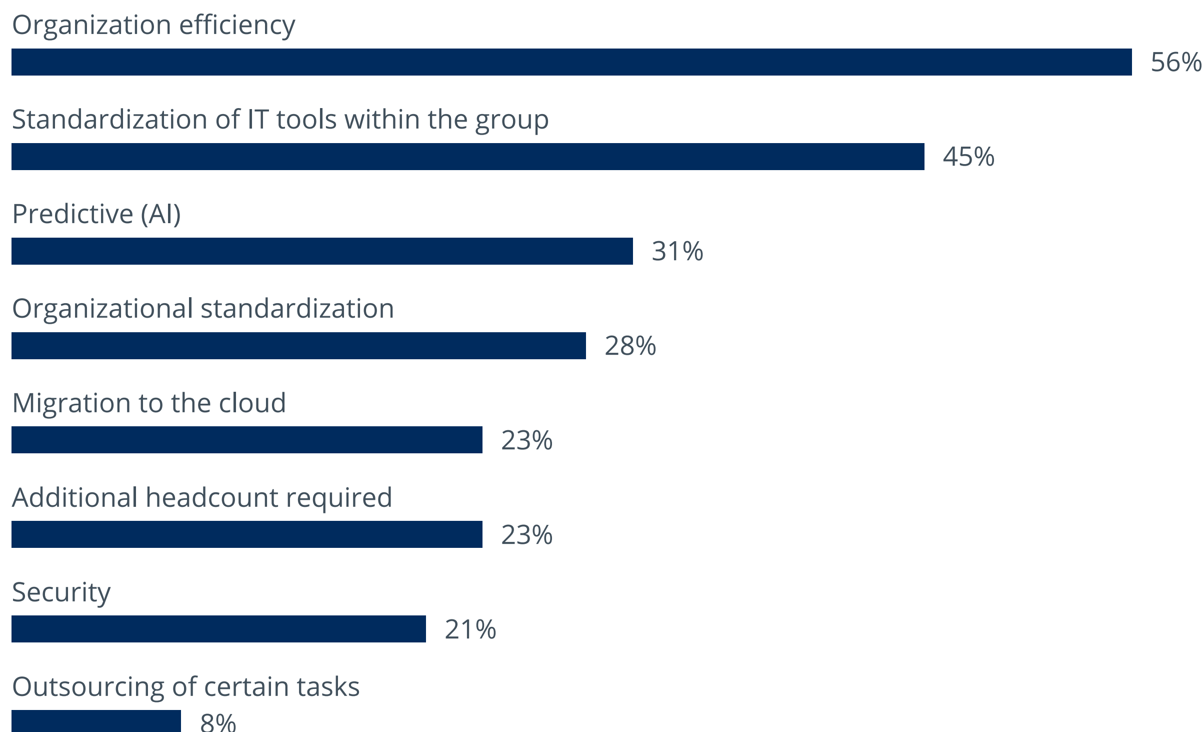

Figure 11: What do you think are the most important factors that could improve your current group accounting solution? (n=214)

Considering the above-mentioned factors, large and small organizations alike generally identify the same measures to improve group consolidation. However, groups with more than 200 subsidiaries tend to see security and standardization of IT tools within the group as a major factor to improve group consolidation. Additionally, they do not see outsourcing as an option to improve group accounting.

It is also clear that companies located in North America see migration to the cloud, enhanced security and predictive AI as opportunities to improve their group accounting solutions. On the other hand, companies located in Europe and the rest of the world struggle with organizational standardization and standardization of IT tools within the group. This goes hand in hand with the fact that North American companies tend to use Excel and manual workarounds less frequently and therefore display a higher degree of maturity in their group accounting than companies elsewhere.

Whereas the rest of world struggles with standardization, organizations located in North America work on security and predictive AI to improve their group accounting solutions.

Dissatisfaction does not necessarily reinforce investment decisions

At first glance, results indicate that more than half of the companies surveyed are planning to invest in new solutions to address individual components of their group accounting solutions, which is in line with the proportion of companies that rate their

It is more likely that organizations will invest in traditional components than in other components. Moreover, the perceived relevance of a component increases the estimated need for investment.

solutions as "satisfactory", "poor" or "very poor" (see figure 9). Although, for example, 57 percent of respondents rate their solutions for GRC as "satisfactory", "poor" or "very poor" (see figure 9), 46 percent say they have no plans to invest in improvements to the solution (see figure 12). A strong correlation between identifying the need for improvement and investment decisions within an organization can be observed. The need to improve 'traditional' components leads to investments in the short or long term. For other 'newer' components, organizations tend to wait before investing. These components are also not seen as point of interest and therefore not relevant for the company (see figure 5). However, Sustainability Reporting, Disclosure Management and XBRL Reporting as well as GRC Reporting are components that are or will be quite relevant for all companies, therefore, to think about an investment might make sense.

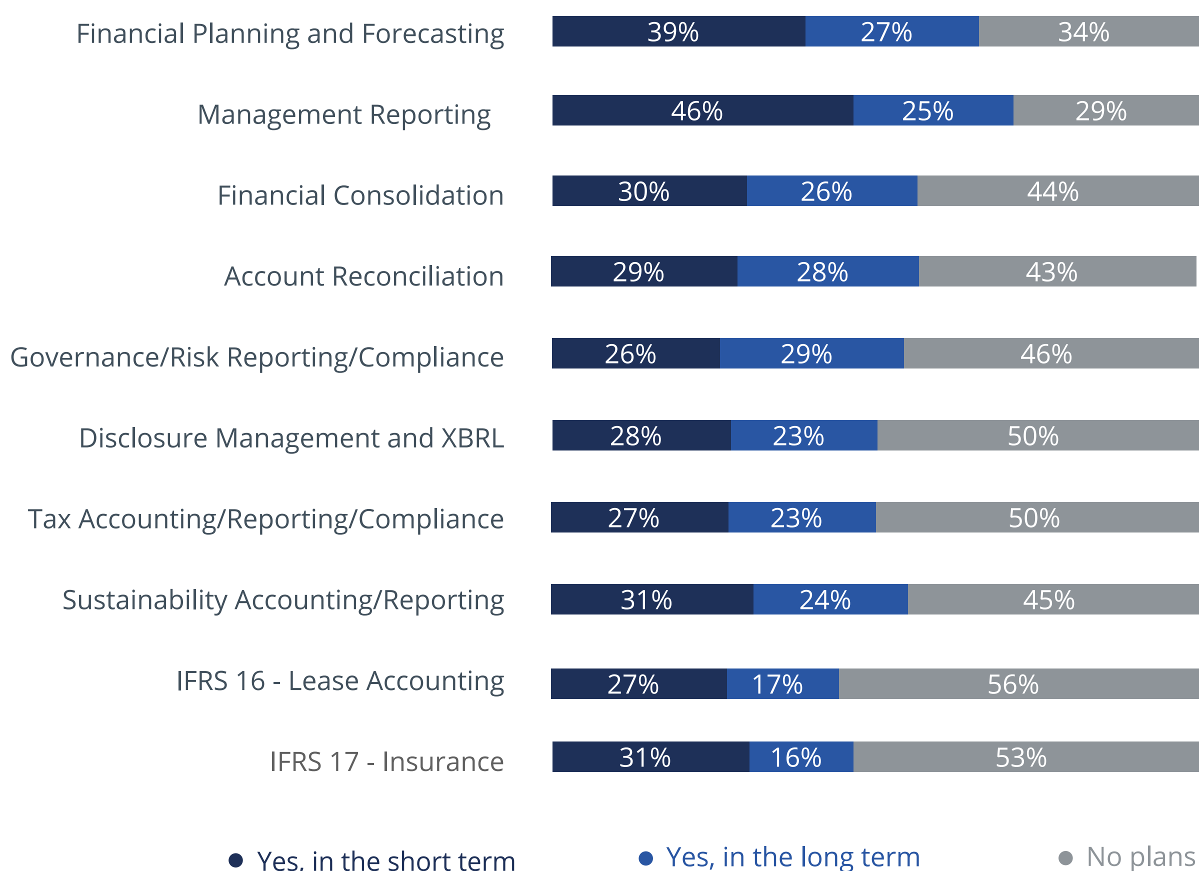

Figure 12: Is your company planning to invest in the following areas? (n=215)

As shown above, those organizations that use Excel or manual workarounds are more likely to be dissatisfied with their solution. Therefore, replacing Excel and manual workarounds might be a driver to invest in these components. Indeed, 80 percent of the organizations that are using Excel and manual workarounds have plans to invest. The results also indicate that the likelihood of investing in 'traditional' components such as management reporting, financial planning and forecasting to improve decision-making is higher than for other components (see figure 13). However, 55 percent of the companies that use Excel for sustainability accounting/reporting are planning to invest. Therefore, Excel and manual workarounds are not seen appropriate for this 'newer' component of the group accounting solution.

Organizations have already recognized the need for more sophisticated solutions. Plans to invest indicate that Excel and manual workarounds for traditional components and sustainability accounting/reporting will soon be consigned to history for most companies. However, some still see no other solution than Excel and manual workarounds.

Figure 13: Companies that plan to invest in the following areas. By implementation of excel or manual based (n=215)

However, results also show that even if organizations have already implemented IT solutions, their desire to invest in more efficient solutions is not hindered. This trend is also seen for outsourcing, although our sample of companies using outsourcing is much smaller and therefore less statistically reliable.

Organizations have already recognized the need for, and are investing in, more sophisticated solutions.

What distinguishes best-in-class from laggards?

52 percent of the organizations that see themselves as **best-in-class use specialized software as their main consolidation/ controlling tool** (figure 14). If best-in-class means fulfilling the need for fast and accurate group accounting, it seems that specialized IT tools are seen as the solution to enable this requirement.

The majority of best-in-class organizations use specialized consolidation software, but 12 percent still use Excel as their main group consolidation tool.

It is not surprising **that Excel and manual workarounds tend to be used by laggards. However, it is surprising that 12 percent of those organizations that consider themselves as best-in-class still use Excel** and manual workarounds as their main consolidation/controlling tool. However, accountants are very familiar with Excel so it can enable a quick stopgap solution without having to rely on IT resources that are already in short supply. Despite the disadvantages, Excel and manual workarounds are often never replaced because there is no vision for other solutions despite the obvious potential advantages in efficiency and better compliance.

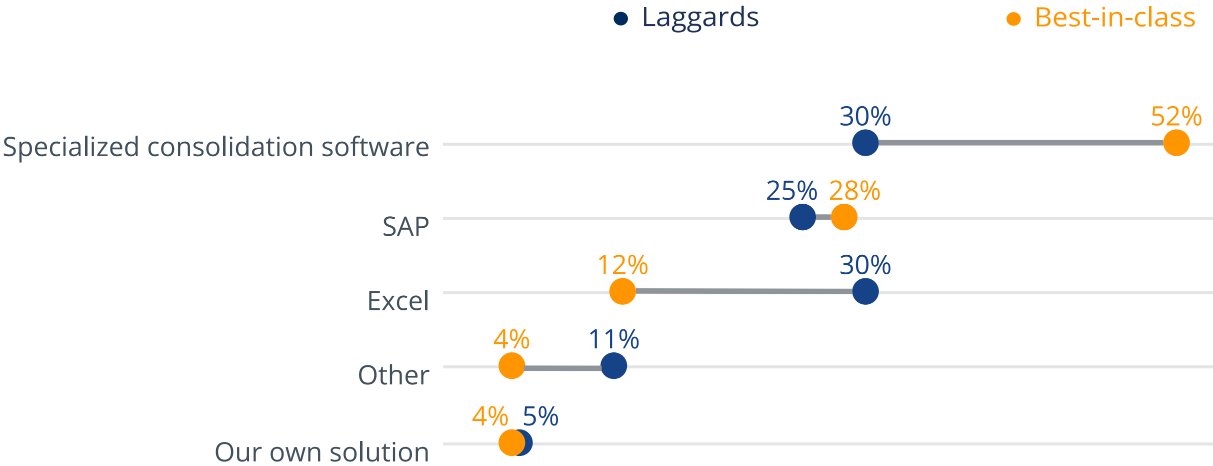

Figure 14: What is your company using as its main consolidation/ controlling tool? by best-in-class and laggards (n=69)

Noteworthy, companies that consider themselves as best-in-class tend to use IT implementations and outsourcing as solutions for specific components. This might be an indicator that IT solutions and outsourcing are seen as high-end solutions. With IT solutions, depending on the component of the group accounting solution, **best-in-class status is associated with specialized IT solutions and integrated group accounting.**

IT solutions and outsourcing of tasks are seen as high-end solutions used by best-in-class companies, whereas Excel and manual workarounds are stopgap solutions used by laggards.

The survey results also indicate that companies using **specialized IT** tools for financial planning and forecasting, management

reporting, GRC, disclosure management and XBRL reporting, tax accounting/reporting and compliance, sustainability accounting/reporting, IFRS 16 or IFRS 17 are **more likely to see themselves as best-in class.** This statement also applies to companies that have implemented financial consolidation and account reconciliation, management reporting or GRC as part **of their integrated group accounting solution.**

Depending on the component of the group accounting solution, best-in-class is associated with specialized IT solutions and integrated group accounting.

However, it is also clear that companies that have implemented **account reconciliation, financial consolidation, disclosure reporting and XBRL reporting, management reporting, financial planning and forecasting, tax accounting/reporting/compliance, IFRS 16 (lease accounting) or IFRS 17 (insurance accounting) as part of their ERP system are more likely to see themselves as laggards.** This is also true for companies that have implemented financial planning and forecasting, disclosure reporting and XBRL reporting as well as, interestingly, financial consolidation as part of their consolidation system.

In addition, **best-in-class companies and laggards have very different ideas about how to improve their group accounting solutions** (see figure 15). Despite the fact of organizational efficiency laggards see organizational standardization, standardization of IT tools within the group and outsourcing of tasks as the major areas for improvement. By contrast, best-in-class companies identify predictive AI, security and migration to the cloud as major factors that could improve their group accounting. However, in general, it can also be concluded that best-in-class have already standardized the processes and IT tools within the group and see potential improvements in more sophisticated solutions such as predictive AI and migration to the cloud). Even though the main factors for improvement vary between best-in-class companies and laggards, they all require trained staff. Therefore, additional headcount is seen as an equally important factor by both best-in-class companies and laggards.

Best-in-class companies show a higher level of maturity than laggards. In turn, they identify different potential areas for improvement.

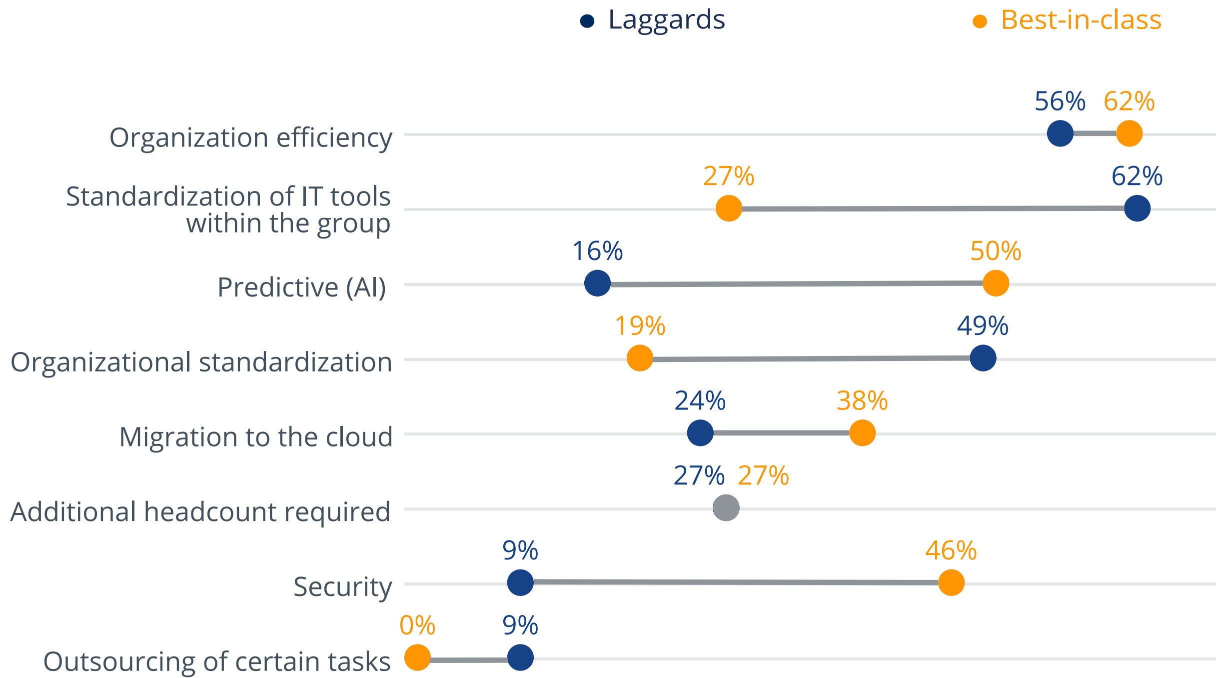

Figure 15: What do you think are the most important factors that could improve your current group accounting solution? by best-in class and laggards (n=71)

Figure 16 shows the components best-in-class companies and laggards plan to invest in. Best-in-class organizations tend to want to invest in all components to almost the same extent, which may be due to the fact that, despite the higher degree of digitalization of their solutions, they still recognize the need for constant fine-tuning and are striving for a more holistic solution. Companies that see themselves as laggards plan to invest primarily in financial planning and forecasting as well as management reporting and financial consolidation. This is probably the area with the greatest pent-up demand for laggards, who seem to think in terms of incremental improvement rather than a total upheaval of all components. This may be because they fear being **overwhelmed by a total overhaul.**

Best-in-class investments are more likely to cover all components. Laggards prefer incremental improvements, starting with management reporting and financial planning.

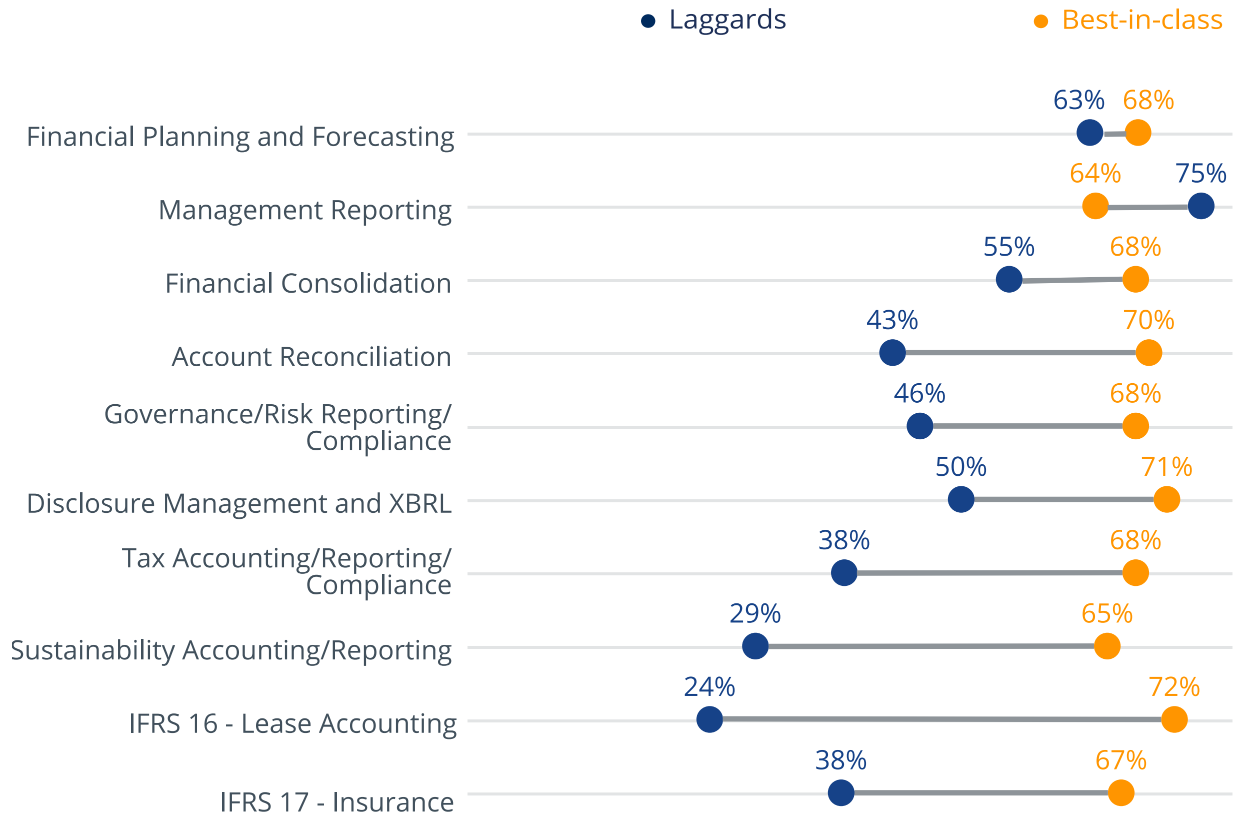

Figure 16: Is your company planning to invest in the following areas? by best-in-class and laggards (n=63)

New responsibilities and opportunities for the CFO

The need for new components within the organization such as sustainability reporting, GRC and the deployment of IT tools creates new challenges and opportunities and leads to growing demands on the CFO (see figure 17). Of course, CFOs are still responsible for traditional components such as management reporting, financial consolidation and financial planning and forecasting. Nowadays, however, forecasting including near-time data analytics, risk management and sustainability need to be provided for. This might be a reason for investing in forecasting and planning solutions which enable CFOs to have the right data at the right time in order to optimize the performance of the organization and detect opportunities for growth and optimizing cost efficiency, even where current solutions are rated as "satisfactory". More than ever, and enabled by digitalization, CFOs are playing a role in strategic decision-making by harnessing the power of data.

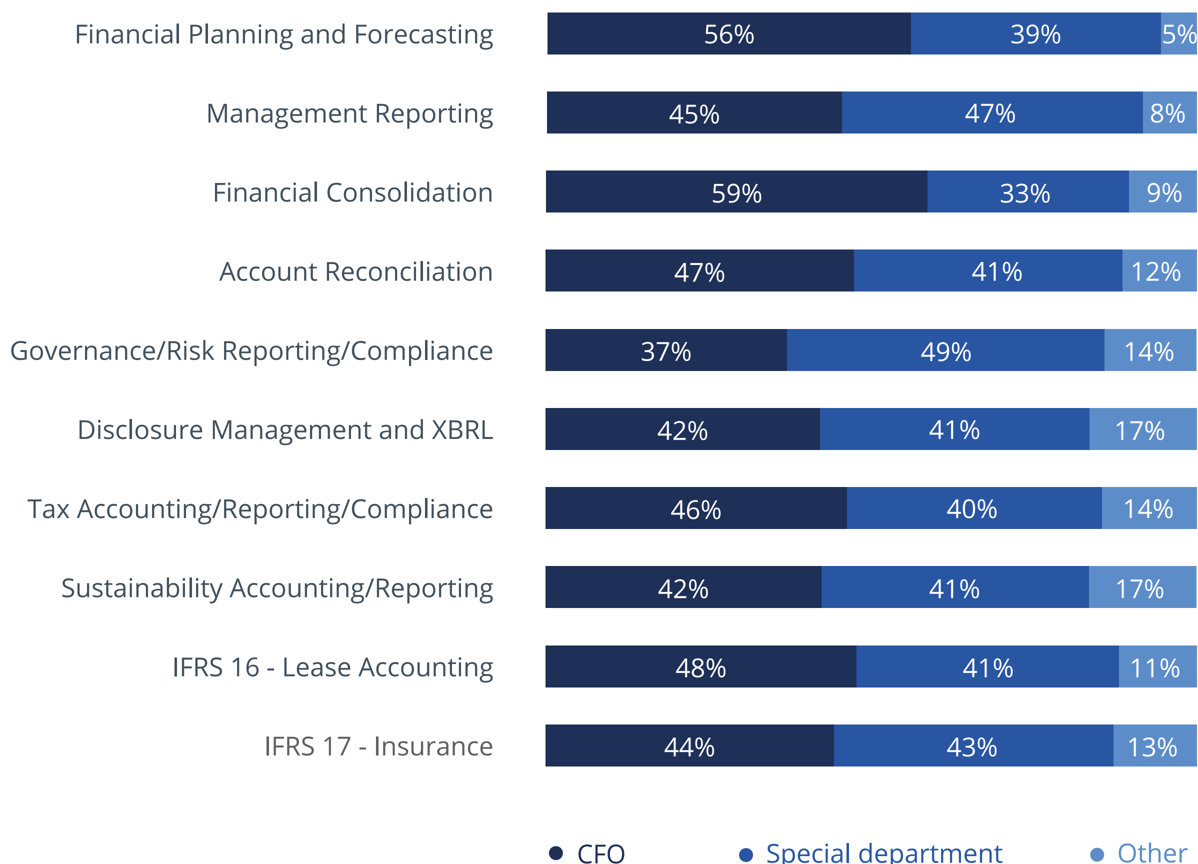

Figure 17: Who is the main process owner of the following component of group accounting? (n=210)

However, we also see that responsibility for the specific components of group accounting and related data is often integrated in a special department, sometimes outside of finance and accounting. It might be expected that GRC is part of the legal department or sustainability accounting/reporting might be part of a specific department dealing with lifecyle management and/or quality assurance. However, from an organizational point of view, it is nevertheless important to ensure that the data required for decision-making is available at the right time and that holistic data management is provided.

Group accounting and reporting – overview of the individual components

The objective of **modern group accounting is to provide accurate near-time reporting.** Therefore, integrated group accounting and reporting comprises all major components such as account reconciliation and consolidation, managing and accounting of lease and insurance contracts, disclosure management and XBRL reporting, sustainability accounting and reporting, tax accounting, reporting, compliance Band – last but not least – financial

planning and forecasting as well as management reporting (see figure 18). It is also important to provide good governance including risk reporting and ensuring compliance (GRC).

Figure 18: Components of group accounting

To ensure common understanding, a brief explanation of the main tasks of each individual component is given below. At the same time, insights are provided into how software solutions help to automate these tasks.

Account reconciliation and financial consolidation

Account reconciliation is required after the end of each reporting period to ensure completeness and accuracy. It requires the comparison of the general ledger, sub-ledger and intercompany account balances with information obtained from independent systems within the group and documents such as bank statements and information. In addition, thoroughly reconciling accounts helps to identify discrepancies and to avoid errors. In general, the tasks of account reconciliation are rule-based. Copying and pasting data between different solutions is time-consuming and creates bottlenecks in the group accounting and reporting process. However, specialized tools help to automate all steps in the account reconciliation process. Reconciliation tools import data from various sources such as ERP systems, other general ledger systems, bank files and statements, match all the data to identify discrepancies. Thanks to sound software support, comprehensive account reconciliation is possible at any

time, transparency and accuracy are increased and accountants can focus on analyzing discrepancies instead of copying and pasting data.

Financial consolidation combines the financial data of several legal entities of an organization in the group financial statements, eliminating intercompany transactions (IC) to present the group's correct financial performance. Fast close, global workflows, more complex and comprehensive accounting standards make appropriate support through software indispensable. Financial consolidation tools manage the data entry flow, guarantee automated data checks and closing and offer possibilities to monitor reconciliation to enable fast close. Additionally, software solutions provide sophisticated internal accounting manuals to facilitate the conversion of data and link them to the templates and reconciliation sheets depending on the accounting standards applied (IFRS, US-GAAP, national GAAP).

Specific reconciliation and financial consolidation software helps to increase efficiency but also to improve compliance and accuracy.

Specific accounting standards: IFRS 16 – lease accounting & IFRS 17 – insurance

In recent years, organizations using IFRS had to cope with a lot of new requirements. The latest major changes are IFRS 16 (lease accounting) and IFRS 17 (insurance contract accounting).

IFRS 16 (lease accounting) has changed the method of lease accounting within IFRS for the lessee significantly. Under IFRS 16, the distinction between operating leases (off-balance sheet recognition) and finance leases (on-balance sheet recognition) no longer applies for lessees. Since 2018, lessees must recognize lease liabilities with the present value for all leases and a right-of-use (RoU) asset, unless the lease term is 12 months or less or the underlying asset has a low value. This requires initial as well as subsequent measurement (depreciation, amortization, interest) of the RoU asset and the lease liability for all leases.

Latest changes, IFRS 16 (lease accounting) and IFRS 17 (insurance contract accounting) provide challenges for companies. Organizations need to handle the contracts and prepare complex calculations based on a variety of data. These new complex regulations show that efficient and accurate reporting is not possible without appropriate software solutions.

Also, for insurance contracts, no stone is left unturned in IFRS financial statements. Until the new **IFRS 17 (insurance contract accounting)** standards, insurance contracts were assessed on historical data or data which was available at the beginning of the contract. Under IFRS 17, insurance contract liabilities have to be assessed at the present value of future insurance cash flows with a provision for risk to ensure that the readers of the financial statements can assess the effect of insurance contracts on the company's financial performance.

To manage the complexity under IFRS 16 or IFRS 17 standards, companies can use specific end-to-end solutions. These integrated solutions comprise a database of all lease or insurance agreements, allow interface with other asset management systems, contract management, the general ledger system and the management reporting system, perform complex calcula-

tions, and create accounting records, financial statements and disclosures for lease or insurance contracts under IFRS 16 or IFRS 17. In addition, these solutions offer workflows to manage the business processes of lease or insurance contracts, visualize reports for monitoring at management level and increase transparency and traceability with the ability to drill down to the lowest level.

Due to additional and complex regulations such as IFRS 16 and IFRS 17 within more workflows, organizations have to ensure they handle their data with appropriate solutions to fulfill the requirements of regulators and investors.

Disclosure management and XBRL reporting

Disclosure management refers to the fulfillment of external and internal reporting requirements, in particular financial statements. Errors can easily creep into financial statements, especially if information is gathered from many systems and adaptations are also constantly made in these systems. Therefore, it must be ensured that all adaptations are reflected in the final reports. At the same time, many companies (e.g., listed companies, insurance companies, banks) must publish their financial statements in a machine-readable format (e.g., ESEF XBRL taxonomy) on their websites or submit to authorities. This means they must tag the required data to the taxonomy of the regulators and authorities.

To avoid bottlenecks at the end of the reporting process, disclosure management solutions heavily improve the disclosure process and also enable tagging for readable formats.

In addition, disclosure management tools are fully integrated solutions that connect directly to the company's ERP system, consolidation system, other subsystems or BI tools. They help companies to centralize and manage their financial statements needed in the close cycle to significantly reduce the risk of an inaccurate submission and publication. Additionally, the tools offer XBRL mapping and document publication in various formats (e.g., HTML, XBRL, Microsoft Word or PDF).

Tax accounting, reporting and compliance

The increasing complexity of tax law standards requires continuous monitoring and adjustment. Companies need to ensure that tax calculation and related reporting comply with current regulations and are transparent to tax authorities.

Complexity of standards and increasing digitalization of submissions to tax authorities requires improvements of tax accounting, reporting and compliance.

In addition to the rising complexity of the standards, the increasing digitalization of the submission to tax authorities is also a central factor why companies need to improve their tool support. 'Horizontal monitoring' enables ongoing communication with tax authorities but requires transparent tax accounting with appropriate control systems. Through this, random audits by tax authorities could soon be replaced.

Tax solutions help companies comply with tax regulations, automate auditing of business transactions, tax calculation and

reporting. They also provide a central repository for all tax-related documents through drill-down functions.

Financial planning and forecasting

Complexity and dynamics must be reflected in planning and forecasting. ML-empowered tools help to provide fast and accurate planning and forecasting.

Financial planning and forecasting help to control financial management and align operational business with strategic objectives. Financial planning should describe what steps are needed to generate future income and make sure future expenses are covered. This means generating strategic plans and operationalizing them by deriving HR, expense, capacity, sales and operational, balance sheet, profitability, capital, cash flow planning and more and detailing them with KPIs to reaching a specific objective. Different to planning, financial forecasting is the process used to evaluate whether the company is headed in the right direction by estimating or predicting its future outcomes such as sales revenues or income. In today's complex and dynamic business environment, planning and forecasting is a challenging task. Financial planning and analysis (FP&A) solutions unify companies' plans, processes and data. They allow for granular insights and leverage machine learning (ML) to analyze the data.

Management reporting

Modern reporting tools enable personalized reports anytime, anywhere.

Management reporting includes all reports that contain key performance indicators (KPIs) and analytics to run the organization, make business decisions and monitor progress. Modern management reporting solutions combine predefined reports with self-service functionality that enable decision-makers to create their own reporting of KPIs at any time on various devices.

Management reporting is a topic which goes far beyond group accounting and is covered by several specialized BARC studies.

Governance, risk reporting & compliance (GRC)

Governance, risk reporting and compliance (GRC) are three flanking action fields attaining corporate objectives. Governance is "the system by which companies are directed and controlled" (Cadbury Committee, 1992) and stands for corporate management through objectives, regulations and guidelines which govern the company and its processes.

Risk reporting and compliance are the two factors that are intended to guarantee the achievement of defined objectives and adherence to regulations. Risk reporting is the ability of a company to identify risks at an early stage and to take measures to avoid, reduce, transfer or accept them. Compliance is an important element of adhering to industry-specific and legal regulations that a company must follow to ensure that it operates in an ethical and legal manner. This consciously controlled adherence helps to avoid legal sanctions or damage the company's reputation.

GRC IT solutions help companies to effectively manage risks and meet compliance requirements.

With data and processes scattered across multiple systems in various formats, companies struggle to make risk-informed business decisions in line with their objectives and regulations. An integrated group-wide GRC approach requires the collaboration of all departments including finance and risk, legal, compliance, internal audit, business units, strategy and, of course, IT. Digital, integrated and workflow-oriented GRC solutions help companies to identify, mitigate and monitor risks with automatically updated dashboards. Content and document management applications support creating, tracking, collecting and storing all relevant content to meet risk and compliance demands.

Sustainability accounting and reporting

Sustainability accounting and reporting includes environmental sustainability, social responsibility and good governance (ESG). Appropriate sustainability accounting and reporting is not possible without digitalization.

Sustainability considerations have surged in the public consciousness and are of increasing importance to all stakeholders (investors, regulators, rating agencies, customers, suppliers), accelerated by stricter regulation and mandatory disclosure and reporting, even for small non-listed companies. When it comes to sustainability, it is not only about a company's relationship to the environment, but also about adherence to social goals and good governance. Mandatory ESG reporting (environmental, social and governance) should provide insight in how sustainable companies operate and improve sustainability by measuring and monitoring it. The implementation of individual lighthouse projects is no longer sufficient to shine in the eyes of investors, legislators or customers. Instead, the integration of sustainability into business practices, processes, product development, operations and strategy has become a necessity. Companies reorganizing their business models spend money and resources to embed sustainability into their strategy. Sustainability reporting helps to communicate a company's initiatives and achievements in this specific field. As a result, improved transparency helps stakeholders to identify the risk of environmental damage, social missteps or corruption. Additionally, ESG reporting is becoming an integrated part of companies' financial reporting and should therefore be labeled and published in a machine-readable format. Furthermore, legal requirements will also stipulate the need for the auditor to (reasonably) assure the reported ESG information. The future importance of ESG reporting is beyond doubt and the process to record ESG information must ensure consistent and efficient information processing. ESG-specific solutions enable organizations to collect, assess and manage ESG-related information, as well as produce ESG reports in human- and machine-readable formats. Without the appropriate software, these requirements cannot be met efficiently and reliably.

Authors

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Dr. Susanne Leitner-Hanetseder is Professor of Accounting at the University of Applied Sciences Upper Austria in Steyr. Her research focuses on the digitalization and automation of financial processes. As part of her research, she supports companies in their digital transformation. She has gained experience in the financial industry and accounting consulting. She is a lecturer at the Johannes Kepler University (Linz/Austria) and Hanken School of Economics (Helsinki/Finland) in the field of International Accounting. Additionally, she is a speaker at Accounting & Finance conferences. She is an author of several papers in the field of national and international accounting and digitalization and automation of accounting & finance.

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Appendix A: Methodology and demographics

This study was based on the findings of a worldwide online survey conducted in March and April 2022. The survey was promoted within the BARC panel, as well as via websites and newsletter distribution lists. A total of 235 people took part, representing a variety of different roles, industries and company sizes.

Due to rounding, totals may not add up precisely. The selection of the answer option “Don’t know” is not taken into account in the sample size stated below each chart and is also hidden in the charts.

Figure 19: How many employees does your company have? (n=215)

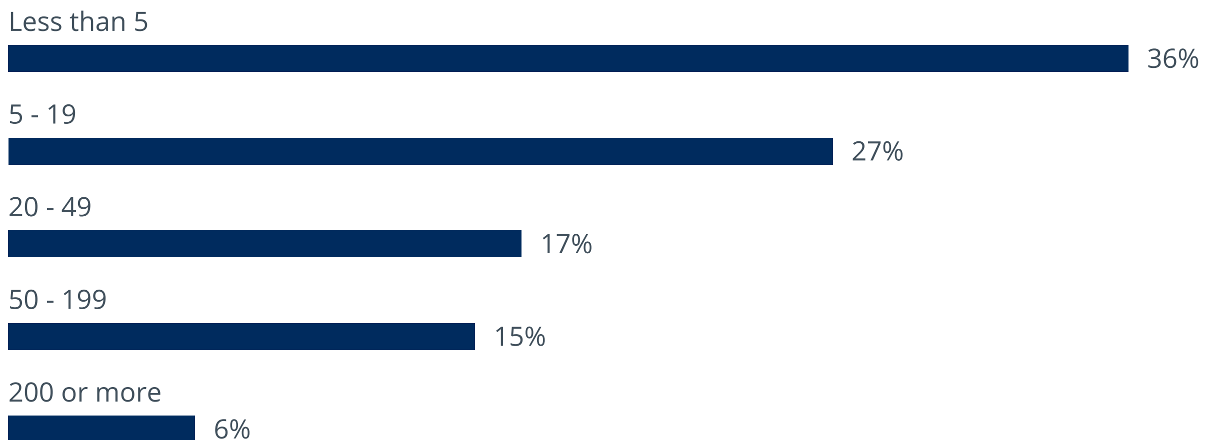

Figure 20: How many subsidiaries are part of your group reporting? (n=200)

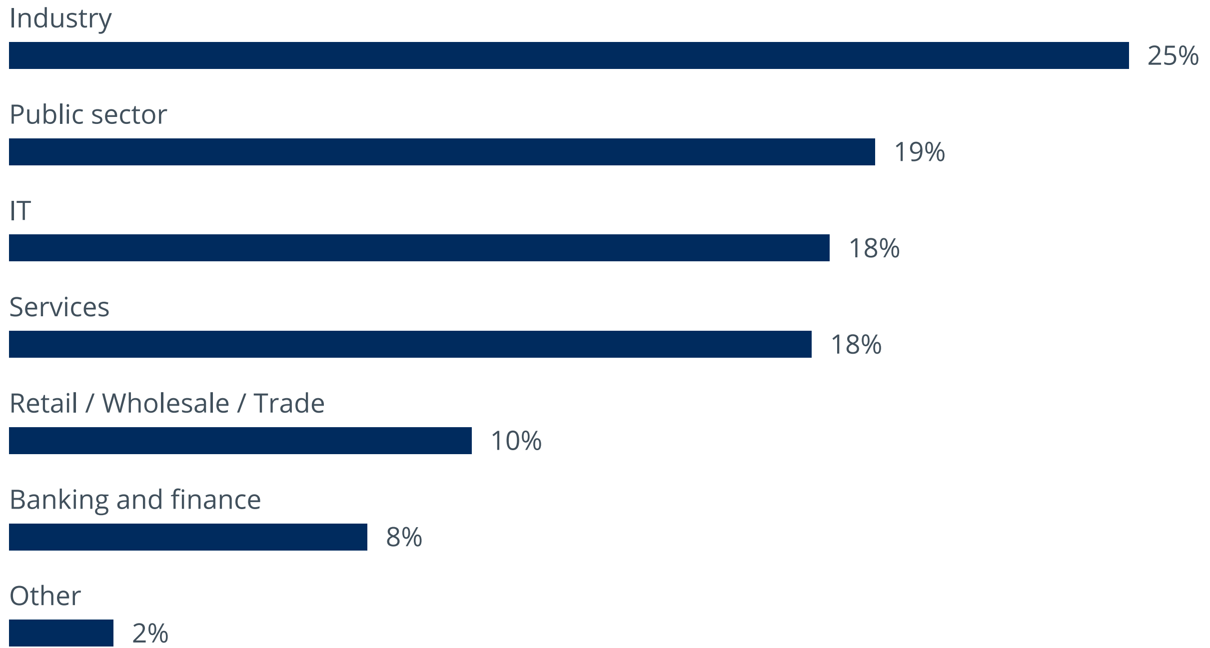

Figure 21: Which of the following best describes your organization's industry sector? (n=215)

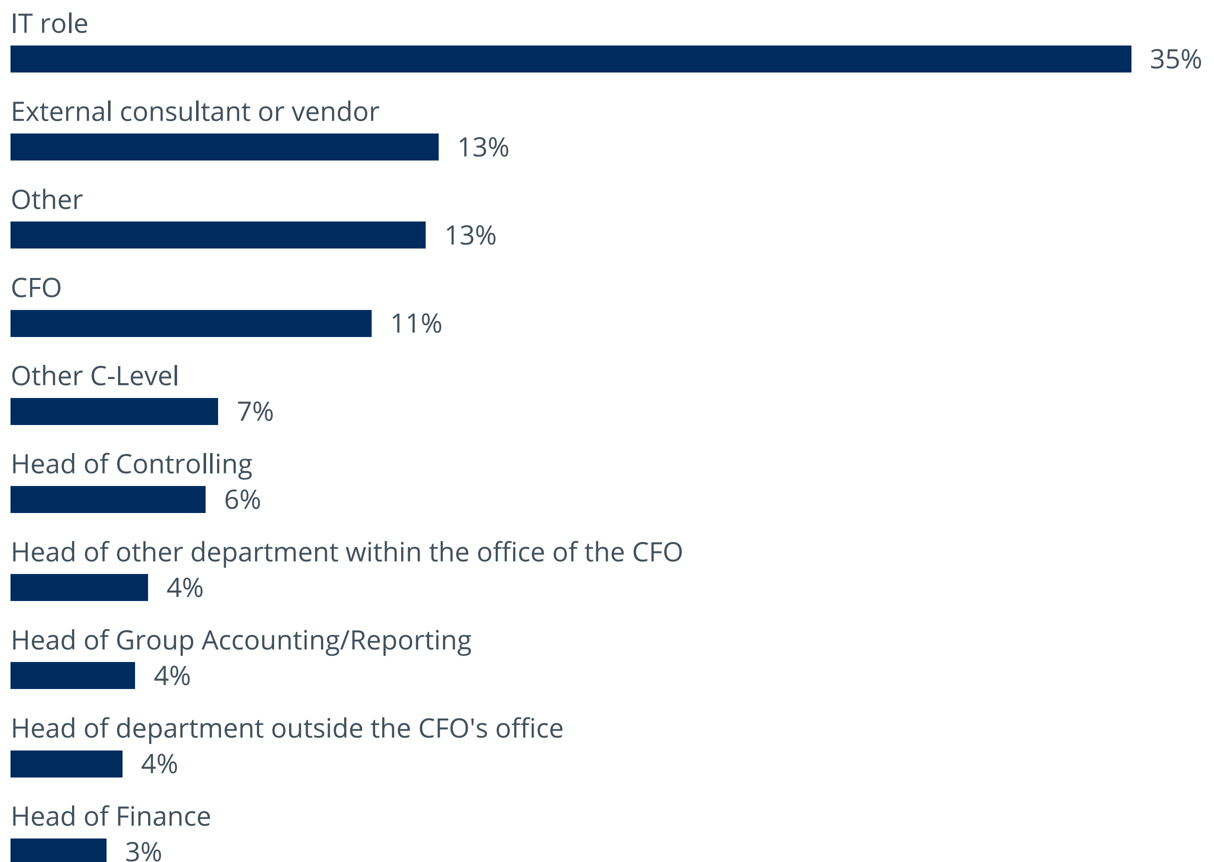

Figure 22: What is your role in the company? (n=231)

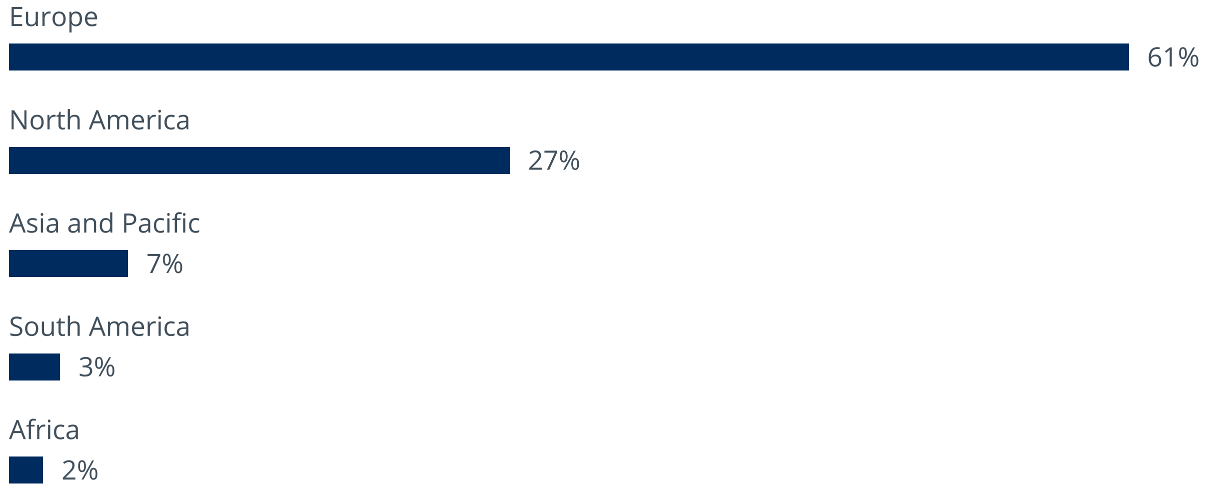

Figure 23: In which country are you located? (n=215)

Appendix B: Best-in-class and laggards

We divided the sample into "best-in-class" and "laggards". This division was made based on the question "How would you rate your company compared to others in terms of its group accounting process?" (see figure 24). Participants who considered themselves to be much better in terms of their group accounting process are referred as "best-in-class" (13 percent) while those who perceived themselves as slightly worse or much worse are classed as "laggards" (22 percent).

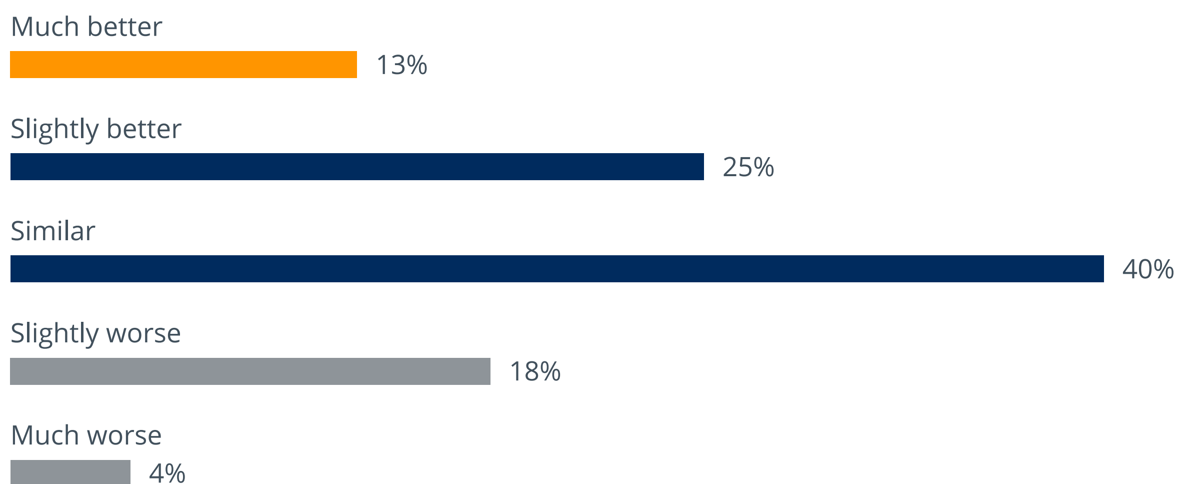

Figure 24: How would you rate your company compared to others in terms of its group accounting process? (n=205)

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