

## **Bill and Spreadsheets – Article 3 for CIMA Insight**

### **Act IV**

#### **Analysis, analysis, analysis!**

The next day Bill woke up inspired and began his day with an early morning jog through the park, but his mind was still turning over his spreadsheet problems. He hardly noticed that his new found 'friend' wasn't on his bench. 'Well,' thought Bill. 'At least I won't be receiving any wacky advice today'. However, he couldn't have been more wrong, for a bit further on there was his friend in the middle of the football pitch practicing Tai-Chi. Red Beard beckoned him over. 'Come on then, let's hear it' sighed Bill. 'This is going to form the basis of your advice for my problem isn't it?' His friend smirked. 'Correct'.

'You business types could learn a lot from this. Each movement I make is a defensive or offensive gesture – and to understand that you must understand the Yin and Yang concept. The Yin is considered to be the soft, feminine principal while the Yang is hard and more masculine. My posture is constantly changing from the Yin to the Yang aspect, and maybe that's where you are going wrong. Maybe you approach your problems in just one way? I suspect in a left-brain or structured, logical manner? But not everything in life can be rationalised like that. Perhaps you need to step back from the problem and adopt a different stance? Perhaps you might benefit from a more intuitive and creative approach, that is using your right brain? Perhaps through your professional training you are too inclined to the Yang and not enough to the Yin? But whatever the approach you have to assess the situation thoroughly first. After all, you are in the analysis business.

Bill did more than just think and, as he raised his hands in the air for his first attempt at the ancient Chinese art, everything clicked. He had been looking at his problem too rigidly and perhaps hadn't used the right approach at the right time, but equally he hadn't really been looking and listening properly. Next day he called in Freda and the twenty or so other business partners that made up the Financial Planning and Analysis (FP&A) team at Delicious Products.

#### **Constructive conflict?**

Predictably, there was a lot of anger when Bill suggested that as a team they were not providing the business managers with a good enough decision support service. People cited problems with the ERP system design, the way managers sprung requests on them at the last minute and then continually changed their minds about what they wanted. Computer support was patchy. People had different versions of Excel on their desktops, laptops, home machines and PDAs and they could not always transfer files between themselves or to executives properly. The list of grievances was long and complex however, after an hour or so of letting off steam, a picture started to emerge that the business partners knew that things could and should be better but they were so bogged down in running the department on spreadsheets that they did not have time to do anything about the underlying cause. Bill

called a halt to the meeting at that stage and suggested that the group reconvene for an away-day to work through some solutions. In preparation for the meeting he set up a round of meetings to explore the views of the key business managers that the FP&A team supported. He also asked the company's auditors for advice on spreadsheets and received the following reply from the partner.

'I really don't see much future in the use of spreadsheets – with a real increase in governance and requirements for clear audit trails, spreadsheets have really fallen out of fashion

*The rise of ERP systems in the 90's and early 2000s (SAP and Oracle) has greatly reduced reliance on offline spreadsheets, as they are not integrated into the main enterprise systems*

*External regulation has also tightened greatly since the Sarbanes Oxley Act, and the need to prove that process governance together with a robust audit trail is in place. This has also played against the use of spreadsheets.*

Whilst Bill had some sympathy with that position it didn't help him directly with the situation he faced in providing management accounting information. Next Bill asked Freda to undertake an audit of spreadsheet usage and control within the finance function. The following plan was agreed.

### **Spreadsheet audit and control**

#### Stage

- 1 Create a log of all spreadsheets in use: Owner and developer, title, description, purpose, location, current user(s), recipients, links to other spreadsheets/databases
- 2 Assess risk using scale High, Medium, Low
- 3 Redesign processes and document control procedures
- 4 Reduce identified risks to business (High risk first)
- 5 Improve and monitor process controls
- 6 Reduce spreadsheet usage in medium term

The following risk ratings and profiles were agreed

<b>Rating</b>	<b>Purpose</b>
High risk	Used for strategic decision making e.g. annual business review and budget Reporting to external bodies/ parent organisation CAPEX above £100,000

	Ad hoc reports to CEO
Medium risk	Used for tactical decision making e.g. production planning Internal reporting - e.g. monthly management accounts Calculation of material accounting adjustments Supporting/calculating remuneration/rewards (internal Spreadsheets as interfaces with the ERP system - inbound
Low Risk	Spreadsheets as electronic 'analysis paper' Spreadsheets as interfaces with the ERP system - outbound One off data downloads/ basic analysis Control of accounting processes e.g. reconciliation logs Miscellaneous reports to operational management

## Findings

Freda's initial findings from the spreadsheet audit were:

- Some procedures but no details of purpose or design approach
- Mixed inputs and calculations; some use of colour coding
- Similar 'standard' spreadsheets deviating from each other
- No owners; no version control
- Limited use of check totals/ internal 'audit' controls

The subsequent action was agreed. Spreadsheets once logged and documented will in the first instance be checked for accuracy and appropriate controls placed around their operation depending on their risk rating as follows:

Freda suggested the following control framework linked the risk framework on the basis of 'Gold Standard', 'Silver Standard' and 'Basic' controls as follows:

### *Gold Standard controls for high risk spreadsheets*

- Documented design approach, purpose and procedures
- Transfer ownership to Business Intelligence Unit - lock macros and formulae
- Version control controlled and logged
- Inputs, calculations and outputs separate sheets
- Check totals/ links – inputs to outputs; internal audit control
- Protect calculations and outputs
- Limit links between spreadsheets
- If macros necessary fully document in steps
- Maintain master log and ownership
- Standardised reporting migrated to proprietary reporting tools e.g. CPM\*
- 'Gold standard' model/ spreadsheet controls
- Peer review and CFO sign-off

\* CPM = Corporate Performance Management

### *Silver Standard controls for medium risk spreadsheets*

- Basic documentation of purpose and procedures
- Version control/ who amended last
- Inputs, calculations and outputs separate where possible, colour coding an option
- Check totals/ links – inputs to outputs; internal audit controls
- Protect calculations and outputs
- Remove links and no macros
- Peer review and formal sign-off by finance head of section

### *Basic controls for low risk spreadsheets*

- Check totals inputs to outputs, basic note of purpose
- Use proprietary software e.g. 'reconciliation workflow control programme'

It was agreed that the next steps for the spreadsheet review will be:

- Complete review for all areas of Finance Function
- Prioritise high risk spreadsheets and implement full controls
- Spreadsheet log and agree owners
- Documentation processes
- 'Re-standardise' the standard spreadsheets!
- Review spreadsheet skills across Divisional Accounting; develop training plan
- Train team members on best practice
- Increase team knowledge of alternatives for reporting
- Set up a central Business Intelligence Unit to own all high and medium risk spreadsheets
- Create centres of excellence amongst accountants and spreadsheet 'go to experts'
- Survey of user information needs and satisfaction with spreadsheet information.

Bill felt pretty happy with the spreadsheet analysis thus far but he knew that the problem that had manifested in the issue between Sunny and Freda was more than technological. A new emphasis on people skills, communication, and indeed understanding what the numbers mean within specific business context was needed. In that respect he still had a pretty blank sheet of paper and perhaps he needed to get into the Yin of the problem?

The next article will look at how Bill looked at generating insight from information and how the business partners might better connect with the business.

