

BUYER CASE STUDY

Spreadsheets Power "Undocumented Applications": ClusterSeven Enforces Control

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IDC OPINION

A priority for many organizations in the wake of numerous financial reporting regulations is the refinement of financial processes and reporting of results. As organizations look at financial reporting processes, the use of spreadsheets is widespread and has been cited by auditors as a significant control weakness for many companies. IDC believes it is prudent for organizations to look at software to manage the spreadsheet environment if they find that any of the following conditions exist:

- Spreadsheets function as "undocumented applications" that contribute to financial results.
- Information managed by spreadsheets is material in value.
- The impact of potential errors in information calculated by spreadsheets poses a risk of misstated results.
- Additional manual controls are adding to an already costly burden of spreadsheet administration.

IN THIS BUYER CASE STUDY

This IDC Buyer Case Study describes a global, United States-based, financial services company's use of ClusterSeven to provide a control environment for key spreadsheet-based financial reporting processes.

A priority for many organizations in the wake of numerous financial reporting regulations is the refinement of financial processes and reporting of results. One financial services firm discussed with IDC the role of spreadsheets in its financial reporting process and its initiative to achieve best practices in financial reporting, which includes increased controls over spreadsheets. The company chose ClusterSeven for its ability to monitor and control spreadsheets.

This study describes the challenges that spreadsheets posed for this organization and the decision to use software to manage the spreadsheet environment. It also describes how financial end users gained new insight, control, and time savings in manipulating spreadsheets, which is leading to a rollout of the solution in other departments.

SITUATION OVERVIEW

Organization Overview

A major financial services investment firm discussed its use of ClusterSeven to manage its spreadsheet environment, which represented a critical part of its financial reporting process. This company had identified approximately 900 spreadsheets that impacted the reporting of financial results, and the potential risk of error in financial results was cited as an internal control weakness by the company's audit firm, which highlighted the issue to management.

Challenges and Solution

A single, consistent source of financial results is nirvana, but the reality is that the process of arriving at financial results is convoluted for most companies. Information is cobbled together from various systems and manipulated with spreadsheets. As scrutiny of internal controls over financial reporting has intensified, the role that spreadsheets plays in arriving at results has been highlighted as a control weakness.

At one such company, the refinement of financial reporting processes has a number of dimensions. Central is the premise that all information should come from a single, consistent enterprise environment. Hence a number of best practices have been targeted, such as the elimination of multiple ERP instances, standardized financial reporting software, and dealing with the reality of spreadsheets in financial processes.

Spreadsheets: Undocumented Applications

Consistent with most finance organizations, this financial services firm recognizes that spreadsheets are a fact of life. Whether current systems don't contain all required data, or end users don't understand or have access to analytic reporting tools, spreadsheets time and time again fill the perceived or real gap in financial reporting processes. Many times, required reporting requirements are routed through IT and, as a result, organizations are slow to react to reporting needs and spreadsheets become the answer.

When this financial services firm assessed the role of spreadsheets in its reporting environment, the follow criteria were used:

- Any spreadsheet that generates a financial statement or regulatory report
- Any spreadsheet that calculates a number during the financial accounting and regulatory reporting process

The result: Approximately 900 spreadsheets were identified.

Identified Risks

If spreadsheets are driving the reporting process, how do you know that, month to month, information is correct? As this financial services firm assessed this question, it became clear that reliance on the numbers was based on a huge manual effort. Spreadsheet owners continually double-check spreadsheet definitions and formulas, cross-reference results, and make corrections that are not auditable.

In addition, there were no controls or standards as to the use of spreadsheets, resulting in multiple versions running rampant. And, from a compliance standpoint, the role of spreadsheets represented a lack of auditability and version control that represented a control weakness.

Taking Action

While the role of spreadsheets in the financial reporting process was clearly associated with the risk of error, it took a key mistake uncovered by the auditors to bring the issue to the forefront. As this financial services firm acknowledged the reality of spreadsheets, it did not try to eliminate them; instead, it applied some standardization and control over them.

While considering building some capabilities in-house, this firm became aware of emerging software solutions on the market designed specifically to manage spreadsheet environments. After a vendor review, the company selected ClusterSeven.

Key considerations during the selection process were:

- A requirement for a standalone application that would function as a "watchdog" for managing spreadsheets, and not just an Excel add-in
- An acceptable architecture for IT
- Intimacy and responsiveness that a small company would provide (ClusterSeven showed responsiveness and insight throughout the selection process, which inspired confidence in future support.)

Implementation

The project included a reengineering of spreadsheets to impart more structure around input, calculation, and output. ClusterSeven brought software capabilities to manage this more consistent spreadsheet environment with the goals of:

- Overall monitoring of spreadsheet processes
- Change management and validation
- Auditability
- Version management, archiving, and recovery
- End-user empowerment — the ability to do it themselves

The company supported the ClusterSeven application with workflow capabilities to check in/check out spreadsheets.

Results

Within three months, the investment firm had ClusterSeven up and running, with the initial implementation supporting 50 users and 900 spreadsheets. Reengineering processes are not easy, and establishing control over end-user computing applications such as spreadsheets is a cultural challenge.

While initially the rollout of the application met some resistance, once end users began working with the application, the insight and control over the spreadsheet environment made users realize that they wanted and needed this control. When an error occurs, the ability to audit changes and recreate prior versions that ClusterSeven provides is a significant time savings that end users can't argue with.

The initial implementation was designed to validate that the redesigned spreadsheet management process and the ClusterSeven application were working as planned. Initially, regulatory reporting was the targeted scope for the project, but the company is now expanding use of the application into other areas that represent the highest risk: multinational regulations, management reporting, and other corporate reporting processes.

ClusterSeven Enterprise Spreadsheet Manager is designed to meet the needs of a disparate environment of spreadsheets, as shown in Figure 1.

FIGURE 1

ClusterSeven Enterprise Spreadsheet Management



Source: ClusterSeven, 2007

As spreadsheets are part of many processes that span enterprise systems through the desktop and extending into the Web and mobile computing, this capability should help this financial services firm proactively deal with broader spreadsheet challenges that exist within its business.

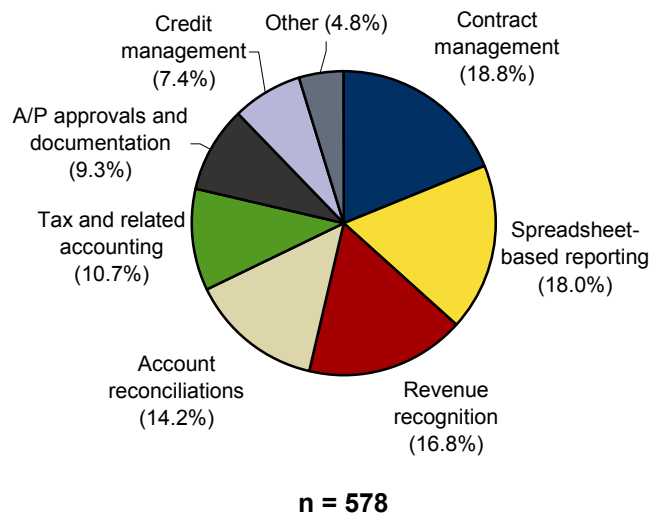
ESSENTIAL GUIDANCE

Financial compliance is a key driver for organizations to mitigate control weaknesses. As this financial services company stated, "Finance will always use spreadsheets." IDC research has validated the fact that the lack of control over spreadsheets is a key concern, as revealed in the results, shown in Figure 2, of a recent IDC survey.

FIGURE 2

Operational Processes Representing the Largest Ongoing Control Risk or Remediation Challenge

Q. Which operational processes represent the largest ongoing control risk or remediation challenge?



Source: IDC and RevenueRecognition.com, September 2007

Whether or not a material error has been detected that can be attributed to spreadsheets, organizations have been required by their audit firms to create an inventory of existing spreadsheets, owners, and change processes, and put in place controls to ensure integrity and remediate control weaknesses.

As evidenced by this case study, the number of key spreadsheets that impact the regulatory reporting process alone can number in the hundreds. Enforcing control and change processes that ensure integrity over spreadsheets can best be accomplished through purpose-built software to manage the spreadsheet environment, and is in essence an emerging best practice for meeting compliance, risk, and efficiency challenges posed by spreadsheets.

As organizations look in the short term to automate compliance processes, investments should also be assessed to meet the long-term goal of ensuring information integrity. Implementing software to manage a critical, and complicated, spreadsheet environment represents a proactive approach to managing information risk, to remediate control weaknesses, and to enhance efficiency.

LEARN MORE

Related Research

- ☒ *Cartesis Governance: Performance Management and Compliance Converge — and Redefine Financial Oversight* (IDC #207404, June 2007)
- ☒ *Worldwide Financial Governance, Risk, and Compliance Applications 2007–2011 Forecast* (IDC #206907, May 2007)
- ☒ *ROI, Automation, and the Financial Close Process* (IDC #204604, December 2006)
- ☒ *Financial Processes and IT: Where Users Are and Where They Are Going* (IDC #203649, September 2006)

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