

Financial Reporting
Survey
How does your
company compare?





This is the second year we have conducted a financial reporting survey. Our inaugural survey was well received by our clients and by the reporting community. Therefore, we decided to expand the scope of the survey and have increased the number of participants. This year, nearly 60 companies participated in the survey, 40 of which had participated before.

Financial reporting for Russian companies has undergone a very significant change since the opening up of the economy in the 1990's. Private ownership, attracting investment and raising finance, complex group structures, and ongoing statutory commitments all contribute to demands on financial reporting. For countries such as Russia, and others in the CIS, the scale of change in financial reporting far exceeds the change that their western counterparts have faced.

As auditors and advisers, we see companies at all levels of quality and skill in financial reporting. As such, when discussing possible improvements, we are often asked the question "How do the other companies do it?" This survey was created to allow companies to gain some insight into how others do it.

It is not designed to pass judgment, as each company has its own priorities in terms of depth of reporting, timeliness, requirements, and of course cost – benefit considerations.

We hope you find it useful as a tool for discussion about your own financial reporting. We would be pleased to discuss it further.

Yours sincerely,
Kelly Allin

Partner
Energy and Resources

About the Survey

The purpose of the Survey

The purpose of the survey was to understand and benchmark how financial reporting processes are organized in companies in the Energy and Resources sector. Specifically, we wanted to consider questions concerning:

- Harmonisation of statutory accounting, preparation of financial statements in accordance with IFRS/US GAAP and timing of reporting process. (For convenience, international reporting under IFRS or US GAAP is referred to as IFRS in this survey.)
- The level of IT automation of transformation and consolidation processes;
- The number of people involved in transformation and consolidation processes and the proportion of certified people involved in those processes.

In the Report, we note correlations of the closure dates of statutory books, transformation and consolidation with indicators such as the size of the companies and the level of automation of reporting processes.

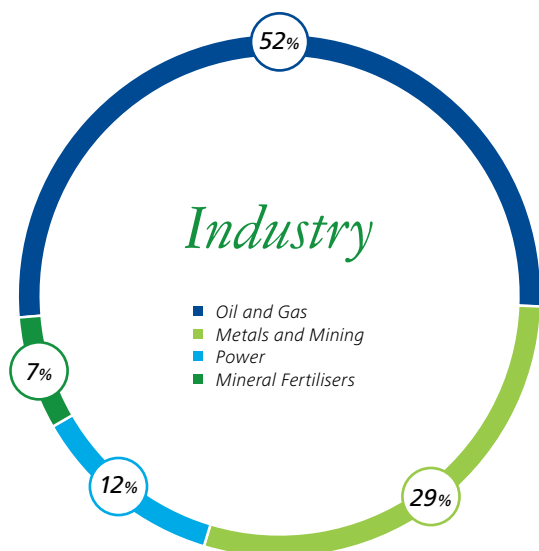
Basis for analysis

During our analysis, it was noted that correlation of the survey results is more demonstrative among respondents in relation to their consolidated revenue, than their sub-industry nature. Therefore, the survey results were presented by company size, based on the consolidated revenue:

- Less than USD 1 bln;
- USD 1-10 bln;
- More than USD 1 bln.

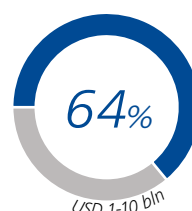
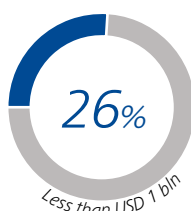


The Participants

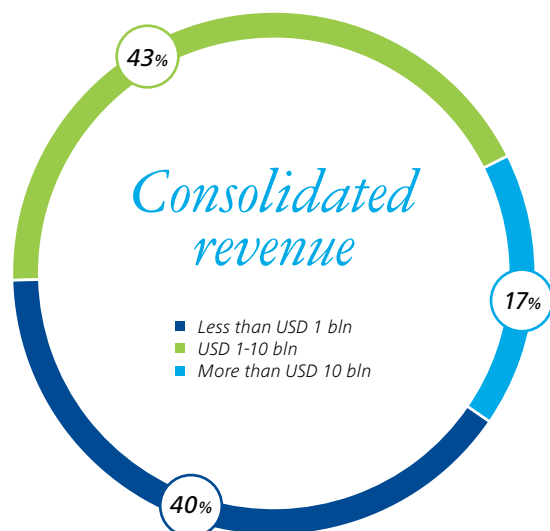


The survey includes 58 companies in the Energy and Resources industry. The majority of participants (52%) represent the Oil and Gas industry (including upstream sector, refineries, petrochemistry and oil field service providers).

Companies that have publicly traded debt or equity

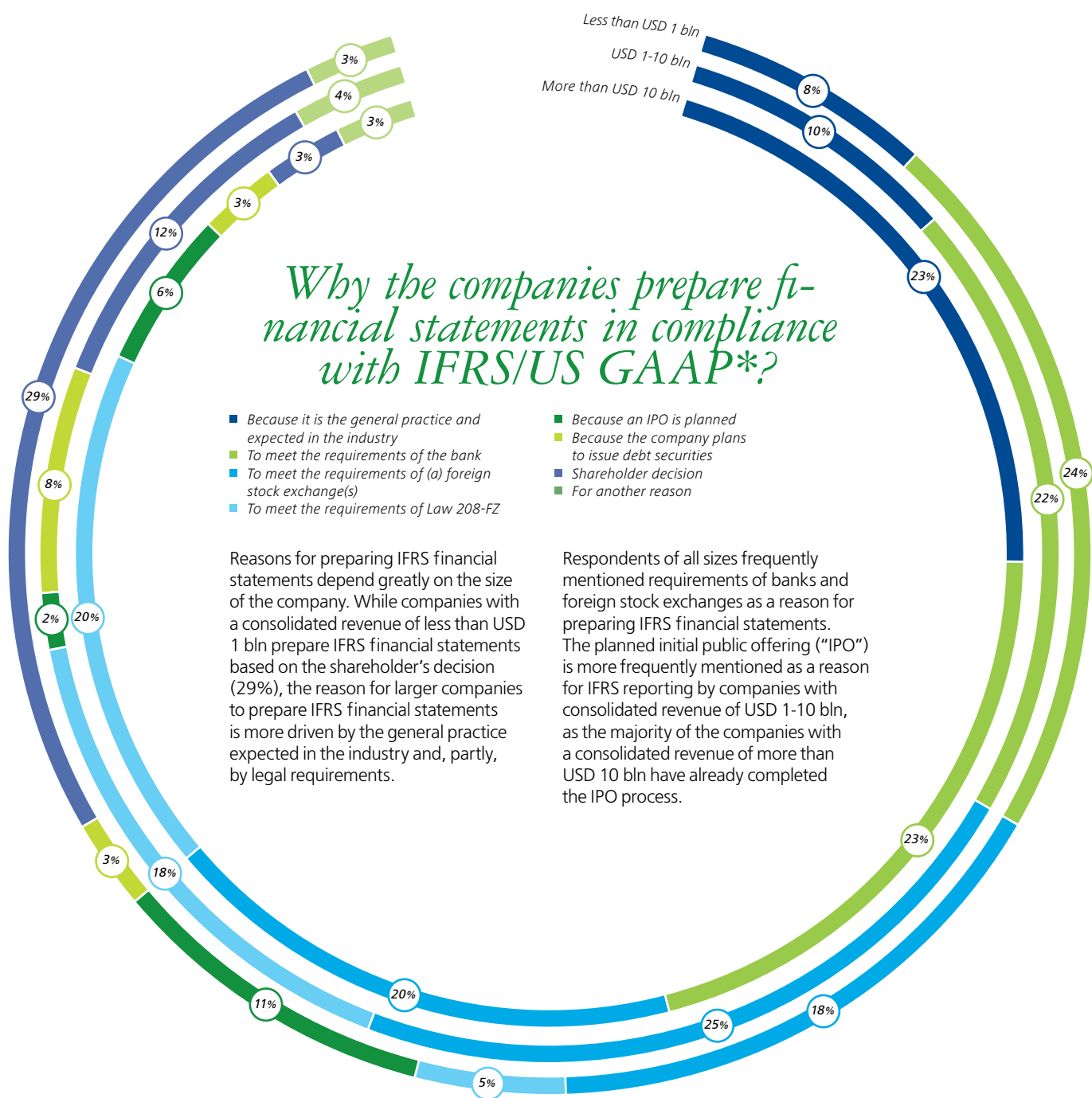


The dynamics show that the number of companies which have publicly traded debt or equity grow with the growth in companies' consolidated revenue.



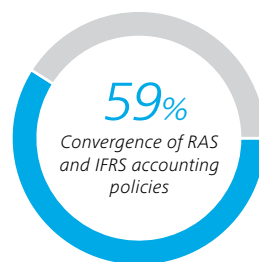
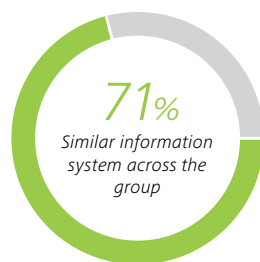
For presentation purposes, the participants were grouped based on consolidated revenue: More than USD 10 billion; USD 1 – 10 billion and Less than USD 1 billion. Given the size of the companies that participated in the survey, there is an expectation that they have numerous reporting needs for a variety of stakeholders. The majority (55%) of the surveyed companies have publicly traded debt or equity, which is indicative of higher expectations placed on the quality and timeliness of financial reports.

Reasons for international reporting



* Hereinafter, IFRS refers to reporting under both International Financial Reporting Standards, and US GAAP, both internationally recognized financial accounting reporting frameworks.

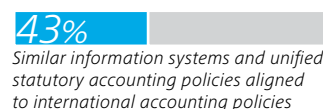
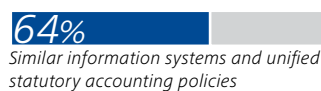
Statutory accounting



Statutory accounting processes harmonization

The unification of statutory (“RAS”) accounting policies among all subsidiaries within a Group is typically the first logical and relatively inexpensive step to make in order to improve further consolidation process, so the vast majority of companies - 84% of respondents – have already done it. Use of similar information systems among all or most significant subsidiaries within the Group is usually made in parallel as another essential improvement. Similar systems are implemented by 71% of respondents and 64% have similar policies and similar systems across their group (see “Combination of activities as a part of statutory accounting processes harmonization”).

The convergence of statutory accounting policies with international accounting standards used for the preparation of consolidated financial statements is a more complex task and requires not only methodological but also IT work (both at the level of transactions recording and at the level of transformation/parallel accounting). Therefore, only 59% of respondents completed such activities and the largest companies are the most active in this area (see “Harmonization of statutory accounting processes by companies”).

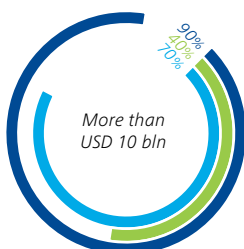


Combination of activities as a part of statutory accounting processes harmonization

Only 43% of respondents have used all three activities to unify and harmonize the statutory

accounting process, while the majority are completing two out of three activities.

- Unified accounting policies
- Similar information system across the group
- Convergence of RAS and IFRS accounting policies



Harmonization of statutory accounting processes by companies

The comparison of the tools for the improvement in statutory reporting in the companies of different revenue size shows that the bigger the company, the harder it is to implement similar information systems among subsidiaries because of a wide variety of business segments and a large number

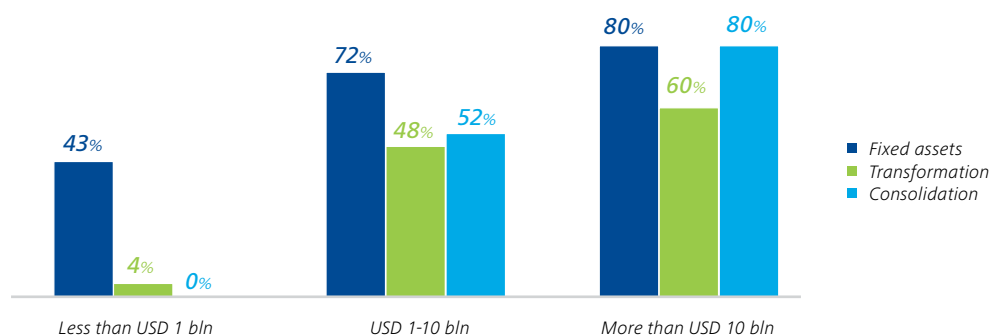
of entities. On the other hand, bigger companies tend to be more concerned about the alignment of statutory accounting with IFRS in order to simplify and shorten the transformation and consolidation process.

Use of information systems in international reporting

The majority of respondents (88%) prepare international accounts by the “transformation” of statutory numbers to IFRS using aggregated manual adjustments. Some major companies use parallel international and statutory accounting (e.g. bookkeeping of two parallel general ledgers); a large number of companies perform parallel accounting of the fixed assets. Thus, the dominant practice in Russia is to prepare IFRS accounts using transformation rather than to run information systems for statutory and international reporting in parallel.

The international accounting function is quite consistently organized centrally within organizations, whereby most transformation, and consolidation work is done by a central team. This means that international accounting is performed by a separate department and certain calculations and postings are not delegated to statutory teams. Only few companies went further and organized shared service centers delegating the international accounting function.

Level of automation of different stages of the IFRS reporting process



Not all companies with consolidated revenues of less than USD 1 bln consider information («IT») systems for IFRS/US GAAP reporting purposes. The first problem that is solved by these companies is the automation of the most time consuming section of IFRS transformation – fixed assets accounting. Only one company of this group uses a more complicated IT-system for the whole transformation and none are performing IFRS consolidation automatically. For the vast majority of relatively small companies, Excel is the tool used for purposes of international reporting.

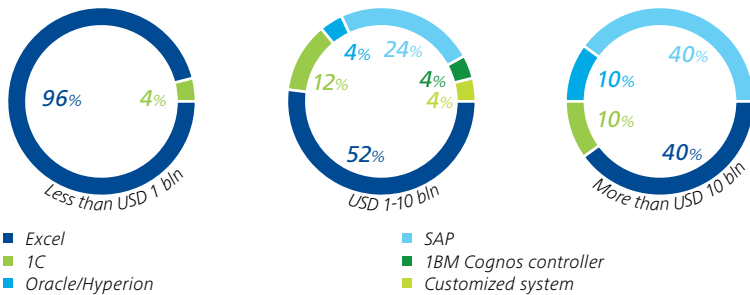
Taking into consideration companies with annual revenues of USD 1 bln and above, there is a significant increase in the use of IT-solutions. It is evident from “Mix of IT solutions used for transformation and consolidation purposes” that consolidation systems are more popular than transformation solutions. This can be explained by the fact that transformation requires a more individual approach and there are no “standard” IT solutions in this area. That’s why the majority of companies first consider IT-systems, which are more readily available, for consolidation, and after their implementation they start developing transformation solutions to the complete automation of the financial reporting business process.

Level of automation of fixed asset accounting for IFRS purposes



The maintaining of fixed assets ledgers for international reporting purposes is automated in the majority of the companies (62%).

Level of automation of transformation process



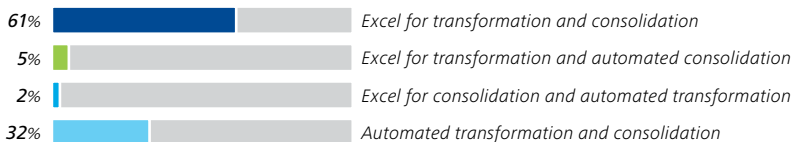
It is worth noting that almost all companies with consolidated revenue of less than USD 1 bln are making transformations in Excel (only one company uses the 1C system for this purpose). With the growth of companies' size, there is a clear trend to automate the transformation process and for the majority of them the SAP system is the preferred choice. Taking into consideration the lack of a "standard" IT transformation solution, it is not surprising to notice that a large number of companies also use customized IT systems for this purpose.

The results concerning IT solutions used for consolidation purposes are similar to those of transformation. 36% of respondents use information systems for the consolidation of their financial reporting and about half prefer SAP.

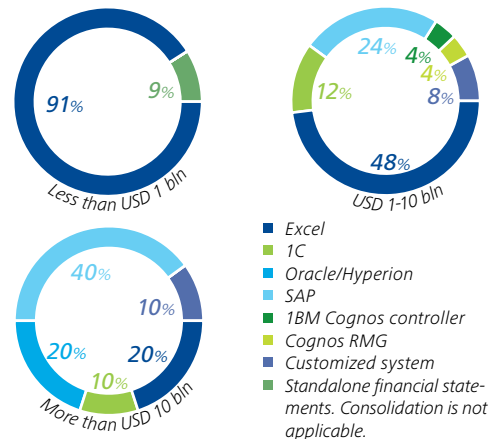
The majority of companies have plans to automate certain process within 1 to 3 years (see "Automation plans of the respondents").

The majority of the companies which use Excel for one or several processes of preparation of IFRS financial statements, plan automation within 1-3 years (see "Automation plans among users of Excel").

Mix of IT solutions used for transformation and consolidation purposes



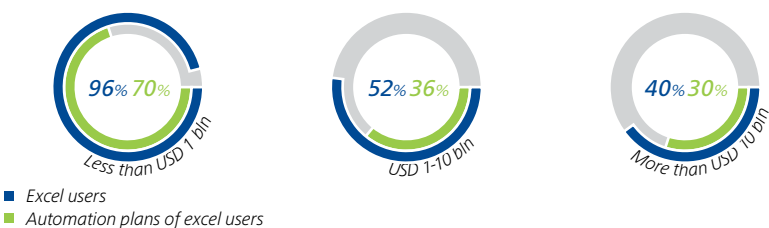
Level of automation of consolidation process



Automation plans of the respondents



Automation plans among users of Excel



* Two companies in the survey are not preparing consolidated financial statements

Period closing

Accelerated IFRS reporting is a basis for timely decision making and provides companies with competitive advantages, which has a direct impact on market capitalization as this not only helps to improve investor confidence but also forms the basis for improving operational efficiency, corporate governance and compliance. Usually, for fast closure purposes, the following processes are analyzed: closure of statutory books, transformation process, consolidation process, approvals and audit. The graphs below show the three main processes (in days), as consolidation and audit (and approval) are performed in parallel by the majority of companies.

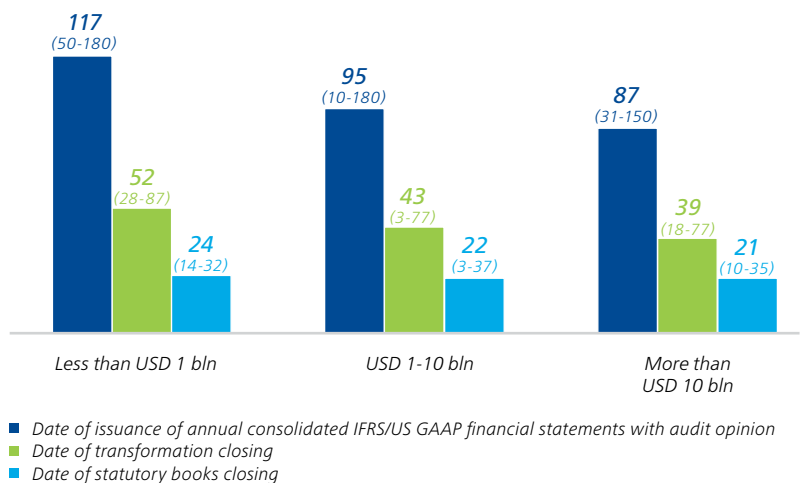
On average, respondents close their statutory books in 22 calendar days and perform transformation of financial statements to IFRS in the next 18-29 calendar days. The difference between the date of transformation closing and the date of issuance of annual consolidated IFRS financial statements includes the time spent on consolidation of financial statements, their auditing and approval within the company.

There is a large range between the “fastest” and the “slowest” of the companies within each sub-group, with the ranges identified in brackets. There are some champions in the reporting process in all groups.

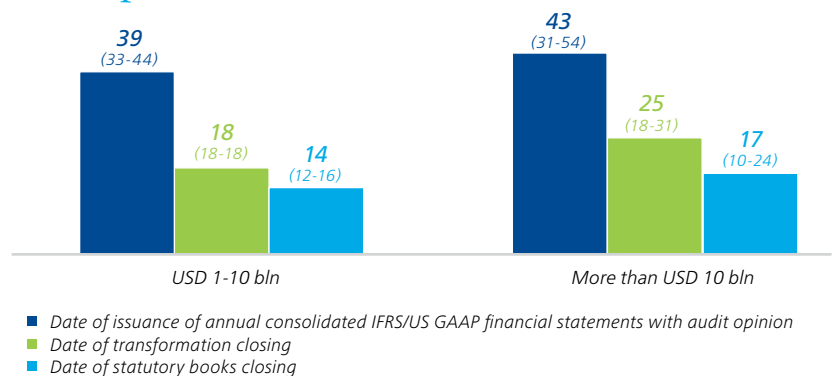
But on average, the bigger the surveyed company, in terms of revenues, the faster it issues annual consolidated IFRS financial statements with an audit opinion. This correlation is mainly explained by the following facts:

- The number of companies that have publicly traded debt or equity grow with the growth in the company’s revenues, which set tougher requirements to reporting dates, as mentioned in ‘The Participants’ section;
- Bigger companies tend to be more concerned about the unification of statutory accounting among subsidiaries and alignment of statutory accounting with IFRS in order to simplify and shorten the transformation and consolidation process, as mentioned in the ‘Statutory accounting’ section;
- Bigger companies more often use IT applications for transformation and consolidation purposes instead of Excel, as mentioned in the ‘IT Systems automation’ section.

Year end closure – average days



Champions



As an overall observation, it can also be noted that while in each area (statutory accounting, transformation, consolidation and approval/work with audit team) there is room for improvement, the greater optimization effects are still in the overall area of consolidation/approval/work with the audit team for the majority of companies.

Note: As the date of issuance of annual consolidated IFRS financial statements with an audit opinion was stated in the survey in calendar days, but days of closure of statutory books and transformation period - in working days and for the average month during the financial year, for the presentation purposes of the abovementioned chart, days of statutory books and transformation closure were recalculated into calendar days and adjusted to 9 days of holidays in January. Therefore, actual days of year end closure of the participants may differ from the days stated in the chart.

Selection. Four respondents were identified as examples of Russian companies that have the earliest dates of issuance of annual consolidated IFRS financial statements with an audit opinion. Two of the four “fastest” companies fell in the category of companies with a consolidated revenue of USD 1-10 bln and the other two were in the category of companies with a consolidated revenue of more than USD 10 bln.

Comment to the chart. There is a difference in the correlation of closing dates and the size of the companies between “Champions” and the entire scope of participants (as presented in the chart “Year end closure”). If the entire scope of participants is analyzed, a larger part of respondents that fall in the category of USD 1-10 bln issue their annual IFRS financial statements and close their statutory books and transformation later than those in the category of more than USD 10 bln.

Level of unification. All “Champions” use unified statutory accounting policies, which are aligned with IFRS. Three of the four “Champions” also use similar information systems in the most significant subsidiaries.

Level of IFRS reporting automation. Two of the four “Champions” conduct parallel IFRS accounting in SAP. The two other companies perform transformation from statutory accounting into IFRS using Oracle and Excel. The consolidation process is automated in all “Champions” either in SAP or special information systems.

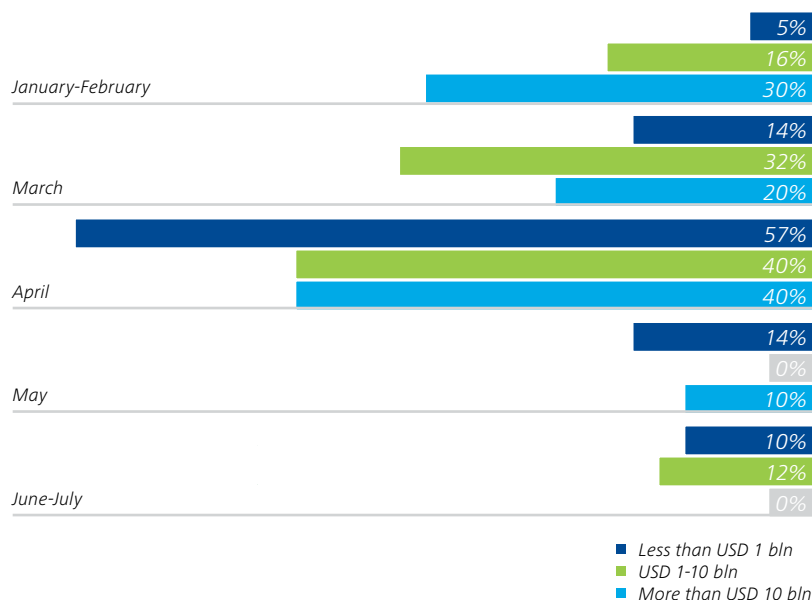
Reporting team. The IFRS reporting team of “Champions” that fall into the category of USD 1-10 bln consist of 5 people on average, and 40 people in “Champions” with a revenue of more than USD 10 bln, some of them hold international certificates such as ACCA, ACA, CPA and DipIFR.

While the majority of participants report in April, bigger companies tend to report earlier than the companies in the category of less than USD 1 bln.

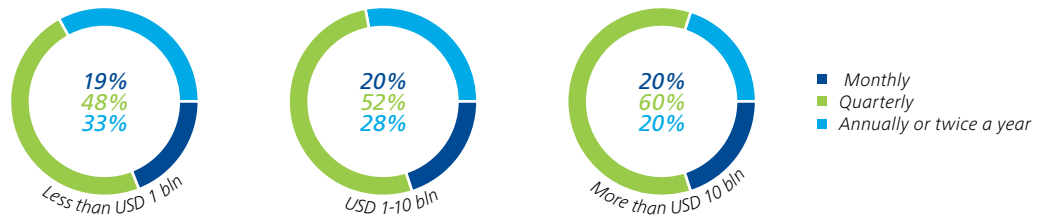
There is a general tendency among companies to shorten the reporting dates and the picture presented above may change in the short run, strengthened by the fact that 60% of the companies responded that they planned automation in the next 1-3 years, as mentioned in ‘Use of IT systems’ section.

More than half of the respondents in each category prepare their consolidated financial statements on a quarterly basis; monthly IFRS reporting and semi-annual/annual reporting is around 20% and 27% on average.

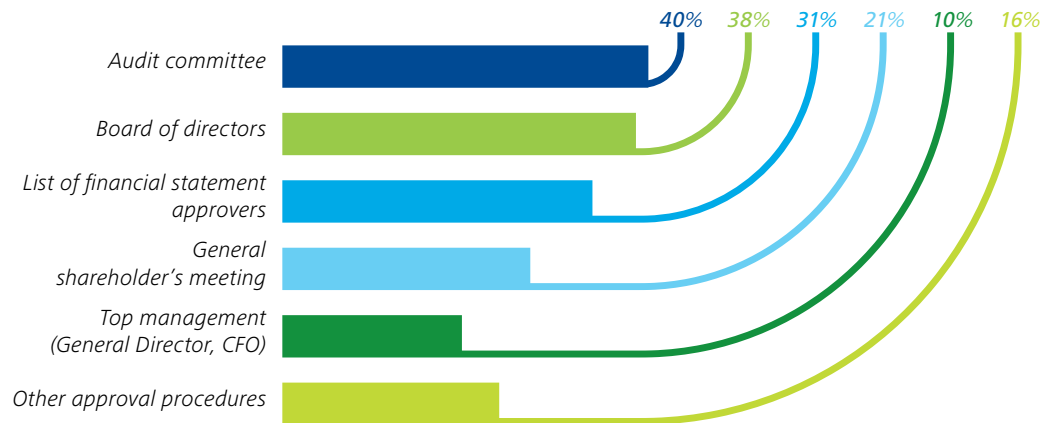
Month of issuance of annual consolidated IFRS financial statements with an audit opinion



Frequency of preparation of IFRS consolidated financial statements



Financial statements approval procedures



Reporting team

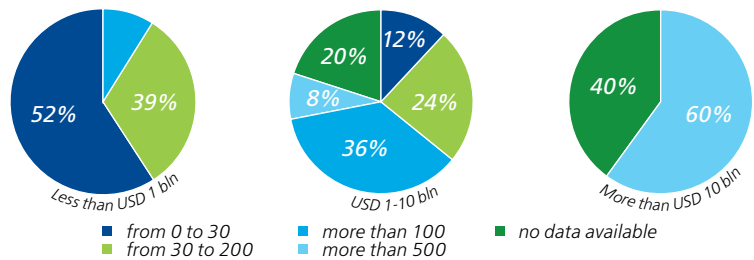
The number of people in the statutory accounting department grows along with the size of the company. As such, the largest companies (with a consolidated revenue of more than USD 10 bln) have more than 500 statutory accountants, while approximately half of the companies in the category of consolidated revenue of less than USD 1 bln have less than 30 accounting staff. In the middle segment, it is more common for companies with consolidated revenue of USD 1-10 bln to have more than 100 statutory experts, but there is a benchmark company, which has 10 statutory accountants in this category.

As the average number of employees involved in IFRS reports preparation grows with the revenue of the company, their proportion to employees in statutory accounting decreases, which is consistent with the greater automation of transformation and consolidation processes implemented in bigger companies and a high level of convergence of statutory and IFRS accounting policies.

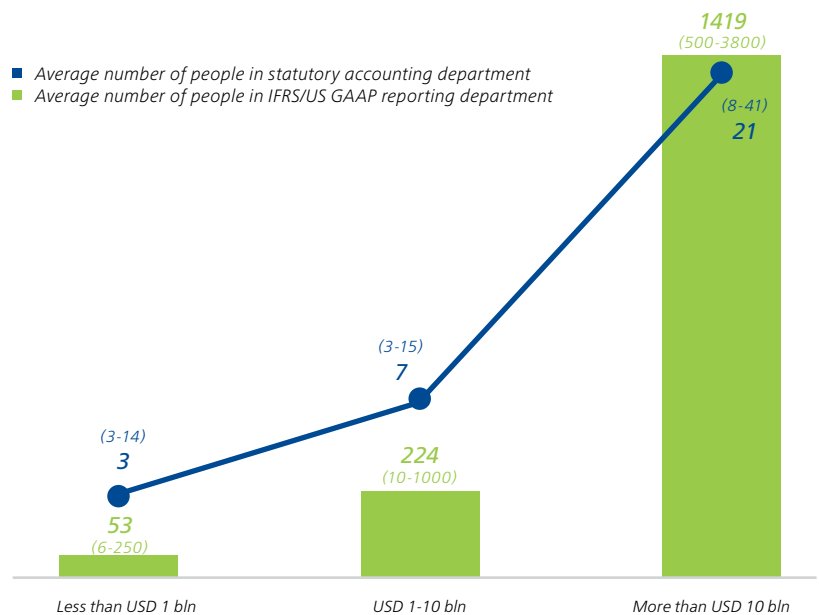
This graph also demonstrates the significant opportunity for potential improvement for companies within each revenue sector.

The chart at "Average number of people involved in preparation of IFRS financial statements" demonstrates the number of international qualifications by type related to the company size. As such, the number of ACCA and CPA holders increases according to the company's growth from 33% to 48% and from 7% to 22%, respectively. On the other hand, the number of DiplIFR qualifications decreases with the size of the company from 57% to 14%, this shows a heavier demand for international qualification from larger size companies.

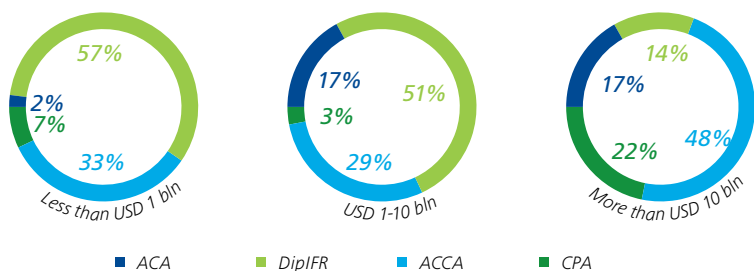
Number of people in statutory accounting department



Average number of people involved in preparation of IFRS financial statements



Professional qualifications in the finance department



Reporting team

As a leading provider of professional services across the industry, we understand ‘best practice’, and are ready to discuss the benefits that it brings.

Our clients continually want to understand how they are performing against their peers. This is true for financial results, and equally so for processes and efficiencies. We hope this survey allows all

the participants to get a sense of how they benchmark against their peers, and assists in driving change where it is considered beneficial to the companies.



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