Deloitte Finance Club
The community for Financial Controllers and senior financial executives

Wednesday, 27th April 2016
Deloitte Finance Club

A few facts

• Established in May 1997 as the Financial Controllers’ Club, and renamed Deloitte Finance Club in 2013

• Provides an annual programme of technical updates and hot topic briefings

• Connects our members to relevant experts as well as over 2,200 members across the country
Deloitte Finance Club
Upcoming programme

• **Summer finance checklist 2016**
  Wednesday, 6 July 2016 – 8:30am-10:30am (arrivals from 8am)

• **Holiday finance checklist 2016** (provisional)
  Wednesday, 30 November 2016 – 8:30am-10:30am (arrivals from 8am)
Before we begin
New Leases Standard IFRS 16: a reminder

Time to take action: see last month’s slides

Find out more on how Deloitte’s IFRS 16 team, including our market-leading property advisory business, can help at www.deloitte.co.uk/ifrs16 or by emailing ifrs16@deloitte.co.uk
Lessee accounting

The discount rate

Use the **interest rate implicit in the lease** if it can be readily determined.

The rate that causes the present value of:

a) the lease payments; and

b) the unguaranteed residual value to equal the sum of:

i. the fair value of the underlying asset; and

ii. any initial direct costs of the lessor

Otherwise use the **incremental borrowing rate**

The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

BC acknowledges property yield can be used as a starting point.
Transition: a simple example

Assuming asset would equal liability upon commencement

Retrospective application

- Reduces net assets and PBT will be higher or lower than operating lease expense depending on lease maturity

Transitional relief

- Setting asset equal to liability would mean no effect on net assets – expense in future would typically initially be higher than operating lease expense but then drop below

- Other approach would leave comparatives unchanged and if no movement in discount rate then in simplest scenario produces same effect as retrospective application
Finance for the Future Awards

Call for entries!

What is Finance for the Future?

Finance for the Future was founded by ICAEW and The Prince’s Accounting for Sustainability Project (A4S) in 2012.

In partnership with Deloitte, the global programme highlights the essential role that finance teams play in driving integrated thinking in decision-making and in building sustainable business models.

Deadline for entries: 13 May 2016

Find out more: www.financeforthefuture.co.uk

Watch the video: https://www.youtube.com/watch?v=5LRRNUkL8lw

Past winners:

- Unilever
- Threadneedle Investments
- South West Water
- Scottish and Southern Energy
- Crossrail
- Sussex Community NHS Trust
- Vegware
- Marks & Spencer
- The Crown Estate
- Belu Water
Developing insightful management information
Opportunities and challenges for the Finance function of the future

Paul Albert
Richard Horton
Global finance survey

Management information

In the summer of 2015, we conducted a survey of senior finance executives to understand the challenges they face in delivering impactful management reporting and analysis.

In particular, the survey aimed to help clients answer the following questions:

• How can Finance deliver **accurate and timely reporting** that is also **insightful and actionable**?
• How can **technology aid reporting and analytics**?
• Do organisations have the **skills needed to generate insight and communicate it** to stakeholders?

30% of respondents are CFOs

30% of respondents have revenues **greater than £5 billion**

FSI makes up 16% of respondents

614 finance executives participated

100+ respondents from the UK

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
Global finance survey

Defining management reporting and analysis

There are two distinct elements to management reporting and analysis:
• the information contained in reports and how it is presented; and
• how data and information is efficiently gathered, consolidated, analysed and delivered

Some common organisational needs and challenges…

**Needs**

- Business value driven through insight
- Reporting is proportional to business need
- Deliver better financial planning and insight
- Reliable, automated, trusted data
- Efficiency embedded in the operating model

**Challenges**

- “How can I identify where we are profitable?”
- “We have too many reports and too much information”
- “The planning cycle is long and laborious”
- “It takes a long time to get information that we need”
- “FP&A spend a lot of time doing ad hoc reporting”
Global finance survey

Six steps to build stronger foundations

1. Focus on the right things
2. Decide what info is really needed
3. Design an integrated planning process
4. Define the business partnering strategy
5. Create a data management framework
6. Enable change through op model

Strategy
“Steer the business”

Management
“Report, plan and advise”

Operational
“Enable and embed”
Four key areas to prioritise

Today’s focus

- KPIs and standardisation
- Data quality and technology
- Talent and organisation
- Investment prioritisation
KPIs and standardisation
KPIs and standardisation

Poll question #1

Is your core management reporting standardised across business units and management teams?

• Yes, reports are standardised
• No, reports are not standardised
• Unsure
KPIs and standardisation

70% of survey respondents believe their management reports are standardised across business units and management teams.

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
KPIs and standardisation

Standardised reporting enables more insightful leadership conversations

Standardisation of reports by ability to drive meaningful leadership conversations
Percentage of respondents (n=614)

- MI drives insightful conversations: 73%
- MI does not drive insightful conversations: 46%
- Unsure: 1%
- Reports standardised: 54%
- Reports not standardised: 40%
- Unsure: 7%

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
### KPIs and standardisation

#### Guiding principles for KPI development

<table>
<thead>
<tr>
<th>Align to value drivers</th>
<th>The KPI can be linked to a value driver or group of value drivers. Moreover, performance can be tied to measuring the progress against that value driver.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business wide</td>
<td>The measure will need to be applicable across business.</td>
</tr>
<tr>
<td>Supports decision making</td>
<td>The KPI should lead to a specific action that is at least partially controlled by senior leadership and the business and finance managers. Further, the KPI must be subject to periodic review by members of the senior leadership.</td>
</tr>
<tr>
<td>Quantifiable and measurable</td>
<td>The KPI can be measured numerically for objective comparison to targets, benchmarks, and over time.</td>
</tr>
<tr>
<td>Reflect clear accountabilities</td>
<td>Performance on the KPI can be improved through a clearly understood, specific activity by a defined group(s). Some KPIs may not be directly actionable, but actionable through a drill-down metric.</td>
</tr>
<tr>
<td>Consistent in definition and calculation</td>
<td>The KPI is consistently defined and calculated across the organisation and over time. The need for consistency applies to input data, interpretation, and language used to describe the KPI. The data must be accurate and reliable. If the KPI is to be benchmarked, it should also be calculated consistently to peer companies.</td>
</tr>
<tr>
<td>Relevance over time</td>
<td>The KPI is likely to retain its meaning and usefulness into the foreseeable future, rather than being a one-time indicator of performance or tied to a product or activity that will be short lived.</td>
</tr>
<tr>
<td>Business benefit outweighs cost of production</td>
<td>The benefit derived from measuring the KPI outweighs the costs incurred to report the KPI, including costs to implement any new systems or data stores and develop new processes.</td>
</tr>
<tr>
<td>Alignment with accounting policies and practices</td>
<td>Wherever possible, KPI definitions and calculation methods should align with established accounting policies and practices.</td>
</tr>
</tbody>
</table>
Data quality and technology
Data quality and technology

Poll question #2

Do you have a problem with data quality in your organisation?

• Yes, data quality is an issue
• No, data quality is not an issue
Data quality is an issue in over half organisations
And recognised as an issue by senior leadership

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
Understanding your data governance maturity

From unaware to optimised

Use this simple heat map to determine where your organisation is…

Level 5: Optimised
The organisation has fully realised all opportunities to improve and has methodology in place for continuous improvement. This area will be seen as best practice when compared internally or with industry peers. The area will audit itself periodically to ensure its capability and identify any issues.

Level 4: Managed
The organisation has identified all opportunities to improve and is working towards implementing these. It has begun to use best in class practices and will be able to audit its capability.

Level 3: Proactive
The organisation has identified and is delivering the key opportunities that must be addressed to enable the business but has not identified all opportunities to enhance capability.

Level 2: Reactive
The organisation has identified some of the key opportunities that must be addressed to enable the business but still has other issues which could be hindering the capability of the area.

Level 1: Unaware
The organisation is not aware or has an understanding of its problems but has not addressed any of these yet.
Data quality assessment
Questions to consider

Who owns the data?
Challenge:
*Data is not clearly owned by individuals in the organisation.*

What is your system capability?
Challenge:
*There is no single source of the truth.*

What are your staff capabilities?
Challenge:
*Staff have a poor understanding of data.*

Are processes documented?
Challenge:
*Not all processes have been documented.*

Is data visualisation used?
Challenge:
*Dashboarding capabilities are limited to specific teams and individuals.*

Do policies exist?
Challenge:
*Policies exist but awareness and implementation of these are poor.*

Do standards exist?
Challenge:
*Standards exist but they are not implemented effectively and awareness is poor.*
Does your technology support effective and efficient performance management?

- Always or often supports
- Often does not or does not support
Technology supporting insightful reporting
Enabling Finance Business Partners to focus on value-added activities

Technology support for efficient and effective performance management
Percentage of respondents (n=604)

- Always or often supports: 61%
- Does not or often does not support: 35%
- Unsure: 3%

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
Technology exploitation is linked to data quality
Is it difficult to get the most out of technology without good data

Data quality and technology support for efficient and effective performance management
Percentage of respondents (n=605)

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
Maturity of analytics and visualisation tools

Descriptive, diagnostic, predictive & prescriptive

Increasing levels of analytical capability

Prescriptive

Stage of analytical capability

Descriptive

Diagnostic

Predictive

Level of analytics

Examples

Descriptive diagrams, such as reports and dashboards, are used to describe the business.

The goal and actual value could be reported on for a measure, such as on-time delivery.

Examples

Interactive visualisation enables users to ‘drill down’ into the data to discover new insights.

Visual patterns might expose an inconsistent supply chain process.

Examples

The ability to identify explanatory variables that predict the future values of certain measures.

A predictive analytic system could be built to forecast the on-time delivery measure.

Examples

Insights from predictive models are integrated into business processes to take corrective or optimal actions.

Prescribe the best course of action based upon the forecast on-time delivery measure.
Data quality and technology

Examples of where visualisation tools can be used most effectively

Management Information can be presented in a more visual and interactive way:

- **Executive dashboard reporting**—many organizations look to present their executive level information (KPIs and key financials) via dashboards on tablets.
- **Interactive drill down reporting**—this allows users to ‘slice and dice’ on a subset of data by different dimensions and drill down to low levels of detail.
- **Reporting big data sets**—digest large data sets into simple visualization charts.
- **Error/exception reporting**—helps to identify where controls are falling down.

Visualization tools can help to generate analysis and insight from data which is useful for decision making:

- Negotiation of commercial contracts
- Cost to serve analytics
- Customer and product profitability
- Price sensitivity analysis
- **Customer analytics**—understanding the spending habits and behaviours of customers.
Talent and organisation
Talent and organisation

Poll question #4

Where do your Finance Business Partners spend the majority of their time?

• Creating and updating reports
• Analysing and interpreting information
• Interacting and communicating with the business
Talent and organisation

Time spent with the business drives perceived value

**Current Finance Business Partner time spend and preferred time spend**

Percentage of respondents (n=613)

- **Creating and updating reports**
  - Current: 48%
  - Preferred: 69%

- **Analysing and interpreting information**
  - Current: 32%
  - Preferred: 27%

- **Interacting and communicating with the business**
  - Current: 3%
  - Preferred: 18%

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
Talent and organisation

Time spent with the business drives finance staff satisfaction

Finance staff satisfaction and where Finance Business Partners spend the majority of their time

Percentage of respondents (n=604)

- Creating and updating reports: 60% role is rewarding, 31% role is not rewarding, 10% unsure
- Analysing and interpreting information: 77% role is rewarding, 14% role is not rewarding, 9% unsure
- Interacting and communicating with the business: 80% role is rewarding, 14% role is not rewarding, 5% unsure

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
Align operating model to achieve “more with less”
High quality insight is key for effective partnering

High value finance model

Low cost / defined service level
- Shared Services
  - Consolidated organization
  - Operational focus
  - Standardised services
  - Process intensive
  - Multiple businesses or locations e.g. Record to Report, Purchase to Pay

Knowledge based / aligned with value map
- Centre of Excellence
  - Organised by knowledge set
  - Expertise focus
  - “Best Practice” Development
  - Issue/knowledge intensive e.g. Tax, Treasury, Analytics

- Site Support
  - Work is distributed to divisions/entities for specific service needs
  - Required for specific input/data capture
  - Manually intensive e.g. Credit Control

- Business Partner
  - Aligned with function/unit
  - Line/management focus
  - Knowledge & know-how transfer
  - Decision/action intensive

Insight optimisation enablers

Vision
A clear view of how strategic imperatives translate into financial performance – for the Center of Excellence (CoE) and finance business partnering (FBP) agenda

External Profile
Value of the CoE and the FBP agenda needs senior sponsorship from top down

Information
High quality analytics and MI through optimisation of data, processes, applications and technology – the CoE feeds the FBPs

Capability
Hiring and training the right people with the right skills – for the CoE and business partners
Centres of Excellence (CoE)

Supporting effective Finance Business Partnering

**Centres of Excellence support Finance Business Partners by delivering materials on a calendared basis and providing opportunity driven ad-hoc analysis**

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### CoE does

- Use sufficiently detailed business knowledge and creativity to perform intelligent analysis and analytics, both ad-hoc (on request) and standard (calendared), to support the FBPs in their role partnering with the business
- Provide commentary and ideas on reports, plans and analysis, employing experience, benchmarking and competitor insight to do so
- Focus the prioritisation and delivery of work on the needs of the FBPs and the required business outcomes
- Leverage a standardised approach to reporting and planning, budgeting and forecasting to ensure consistency and trust in data
- Develop, implement and continually improve standardised models and templates for reporting and planning, budgeting and forecasting
- Utilise internal and external market knowledge to perform their role

### CoE does not

- Have or develop the deepest understanding of day-to-day activities that occur in the business
- Deal directly with the business without FBP involvement or direction
- Act as a concierge service that develops unique or tailored deliverables for each Finance Business Partner or per each request
- Implement temporary solutions to existing transactional or technological issues (they will help to permanently address these issues with support of FBPs and the business)
- Develop their own detailed SLAs
Investment prioritisation
Investment prioritisation
Poll question #5

Where are you most likely to invest to improve the management reporting and analysis you provide?

• People
  – Organisational redesign including implementing a CoE
  – Building analytical capability

• Process
  – Process reengineering

• Technology
  – Planning and reporting tools and technology

• Data management and governance
Investment prioritisation

Tools and technology are seen as a key enabler in developing an insight-driven organization

**Investment priorities**

Percentage of respondents (n=541)

- **Technology - planning and reporting tools and technology**: 44%
- **People - building analytical capability**: 21%
- **Data management and governance**: 14%
- **People - organisational redesign including implementing a CoE**: 10%
- **Process - process reengineering**: 9%
- **Other**: 2%

Source: Developing insightful management reporting: Opportunities and challenges for CFOs, Deloitte LLP, March 2016
From hindsight to insight
And eventually to foresight

What does the business need from finance?

Enable leadership to gain foresight

• Increases the transparency of the financial data, which allows for better regulatory and compliance reporting, resulting in enhanced analysis and an accelerated close process

• Provides adequate data granularity and appropriate hierarchies required by different business units

• Enables the identification of cross sell and up sell opportunities through:
  ✓ Integration of propensity models
  ✓ Insight into marketing prospects (leads), quote to issue conversions, and insured profitability
  ✓ Ability to segment parties across product lines
In summary
In summary

Driving the management information agenda, requires a focus on four key areas

- Monitoring and taking action on relevant and consistently reported KPIs that are aligned to business strategy
- Maintaining accurate data in a technology environment that supports efficient analysis
- Providing value to the business with a driven and capable team in a well-organized operating model
- Prioritising and making investments to improve the effectiveness of the organization
Questions and discussion
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Upcoming programme

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Contacts and resources

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Resources

- Deloitte Finance Club home page:  www.deloitte.co.uk/financeclub
- UK Accounting Plus (formerly IAS Plus):  www.ukaccountingplus.co.uk
- Deloitte Monday Briefing:  www.deloitte.co.uk/mondaybriefing
- New Leasing Standard IFRS 16:  www.deloitte.co.uk/ifrs16
Deloitte Finance Club
Recent seminars


- **Holiday finance checklist 2015** – 9 December 2015

- **Tax update and Working capital and cash flow management** – 18 November 2015

- **How technology is disrupting the Finance Function** – 14 October 2015

- **Economic update and Football Finance** – 16 September 2015

- **Summer finance checklist 2015** – 14 May 2015

- **Business Partnering: better decision-making through Finance insight** – 29 April 2015

- **The rise of omnichannel: what it means for Finance** – 25 March 2015
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