Business Controlling Versus Consolidation

A Prophix Whitepaper

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How Software Promotes Cooperation and Improves the Production of Financial Information

> It is obvious that the Business Controller and Consolidator are two different positions on the finance team.

The differences are already apparent when looking at their responsibilities:

The Business Controller:

- Establishes indicators to measure if the company achieves its objectives (financial and non-financial indicators)
- Measures the actual results
- Flags any variance
- Attempts to analyse differences

The Consolidator:

- Draws up the group's consolidated accounts
- Takes part in the audit of consolidated accounts, which is carried out by external auditors
- Is responsible for filing the accounts with the relevant authorities
- Manages the valuation rules that are applicable to all companies within the group

Although the responsibilities and objectives of the Business Controller and the Consolidator differ, our opinion is that cooperation between the two can improve the quality of data.

This whitepaper discusses the differences between the two positions and explains how the use of professional software can enable them to cooperate efficiently.

Two Distinct Positions in Terms of Approach and Purpose

We will discuss the differences between the Business Controller and Consolidator based on 11 criteria that have the biggest impact:

1. Reporting Frequency
2. The Impact of the Socio-Economic Situation
3. Criteria for Data Comparison and Variance Analysis
4. Scope of Consolidation
5. Viewpoint and Interpretation of Figures
6. Recipients of Information
7. Validation Methods
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10. Adjustments Made to the Reported Data
11. Different Approaches for Intercompany Information

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Reporting Frequency

Reporting is typically carried out monthly. Although in some groups, consolidation is carried out with the same frequency, most groups still consolidate on a quarterly basis. Because of this difference in frequency (and other factors that will be discussed later), the rapidity in presenting data differs equally: management reports require a much faster response time.

Professional software, such as Prophix Consolidation & Reporting, offers the possibility to create different periods and select a specific environment based on the user and their objectives. An important factor here is the use of one software solution with a single database, which improves data accuracy.

▾Figure 1: Production of different environments in Consolidation & Reporting

2 The Impact of the Socio-Economic Situation

The socio-economic climate affects both positions differently. The Business Controller is expected to anticipate the socio-economic effects, while the Consolidator will determine these at an earlier stage and analyse the impact of fluctuations. In other words, actuals will be used for statutory consolidation, and budgets and forecasts for reporting. At Prophix, we make use of different periods based on the nature of the data (ACT, BUD or FOR, see also Figure 1).

3 Criteria for Data Comparison and Variance Analysis

The Consolidator will analyse and present the consolidated figures in comparison with (the same period of) last year. The differences between these periods must be explained in the mandatory appendices and must be 100% accurate and exhaustive. Afterwards, the data will undergo validation by external auditors.

The Business Controller compares actuals against budgets or forecasts. These comparisons result in an analysis of variances and trends with the aim of identifying the causes and – in some groups – suggesting actions or corrections.

In Prophix, the Consolidator has a number of standard reports available for analysing their statutory consolidation. Reports specifying the conversion differences, interests of third parties, and consolidation of equity are standard and provided with the tool. All appendices are also available based on the flows that were provided (by the local accountants).

The Business Controller is more likely to use Insight to help analyse the data in a simple and efficient manner and generate personalised visual reports and distribute them.

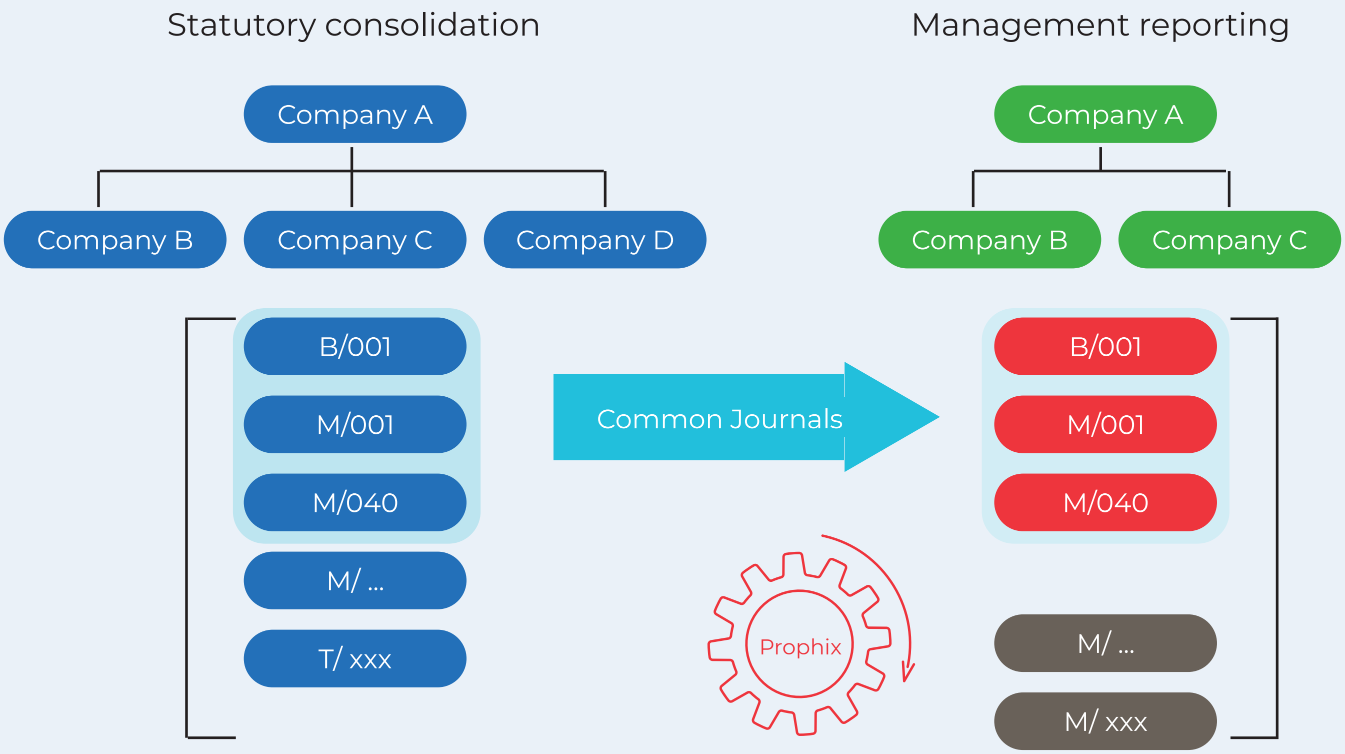
▲ Figure 2: Prophix Insight, Module for Analysis and Visualization of Data

4 Scope of Consolidation (Entities, Companies, …)

For the Business Controller, the scope of consolidation is considered primarily from an economic point of view. It is essential to analyse and monitor the performance of those companies with the greatest economic importance across the group. It is, therefore, not unusual for reporting frequency to vary within a group according to the size and turnover of the entity. The Business Controller's essential criterion is the ability to state variances and trends compared with budgets and to take the necessary action at group level. In this case, the limited influence of some entities often serves to exclude these 'small' companies from the analysis of the figures reported.

The Consolidator, however, is obliged (particularly since the advent of IFRS) to include all companies, or at least those exceeding the criteria related to the group's percentage holding of the company in question. They will consider it more from the perspective of a legal entity (although the advent of IFRS and its segment information is having the effect of bringing these two approaches closer together).

How can these differences be dealt with in consolidation software? Prophix has developed a functionality for this purpose named "Linked Category." Various linked environments can be created with this functionality.



▲ Figure 3: Custom Environment for Management Reporting

This means the user can create a management environment where they determine which items should be identical to the statutory environment (e.g., local data and specific journals), and which items should vary (e.g., scope, specific journals, and exchange rates). The advantage of this is that both the Consolidation Manager and the Group Controller can use the same data.

See Figure 3 for a comparison, where an appropriate environment is being created for management reporting. Local data (B) and journal entries (M) must be available in both environments, while specific journal entries are created in every specific environment.

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Viewpoint and Interpretation of Figures

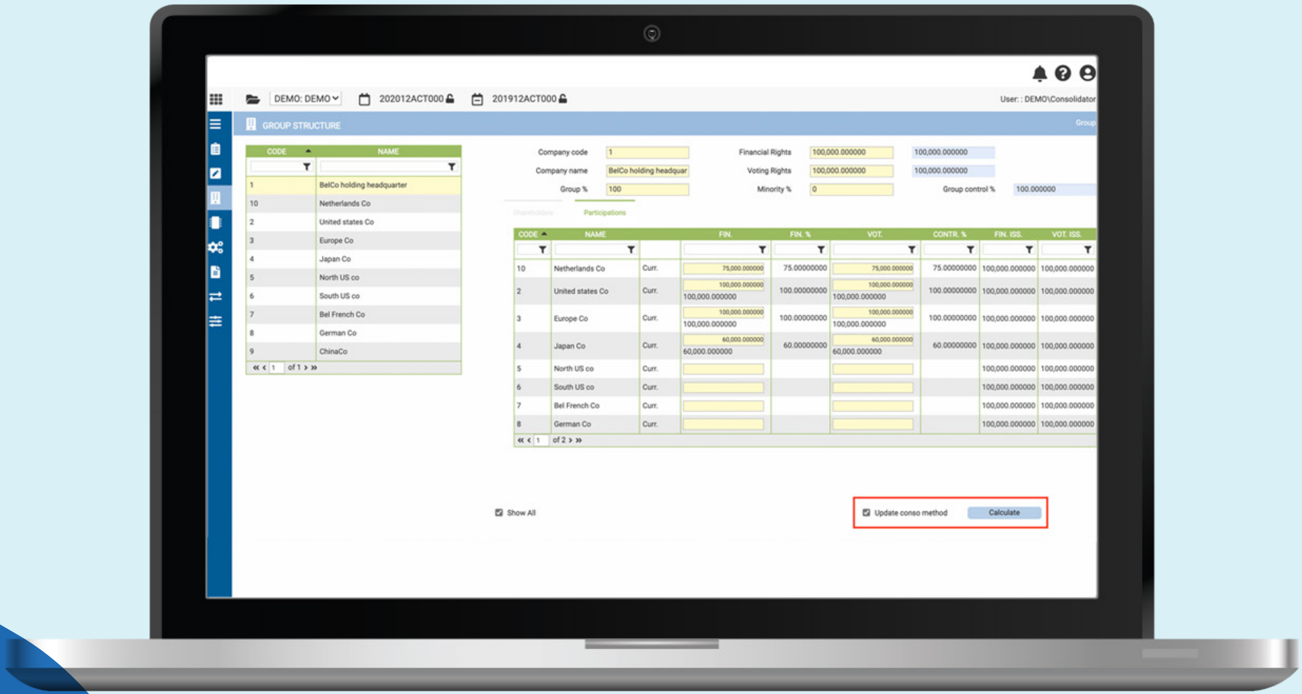
The method used to consolidate companies can also vary greatly depending on the viewpoint of the Business Controller or Consolidator.

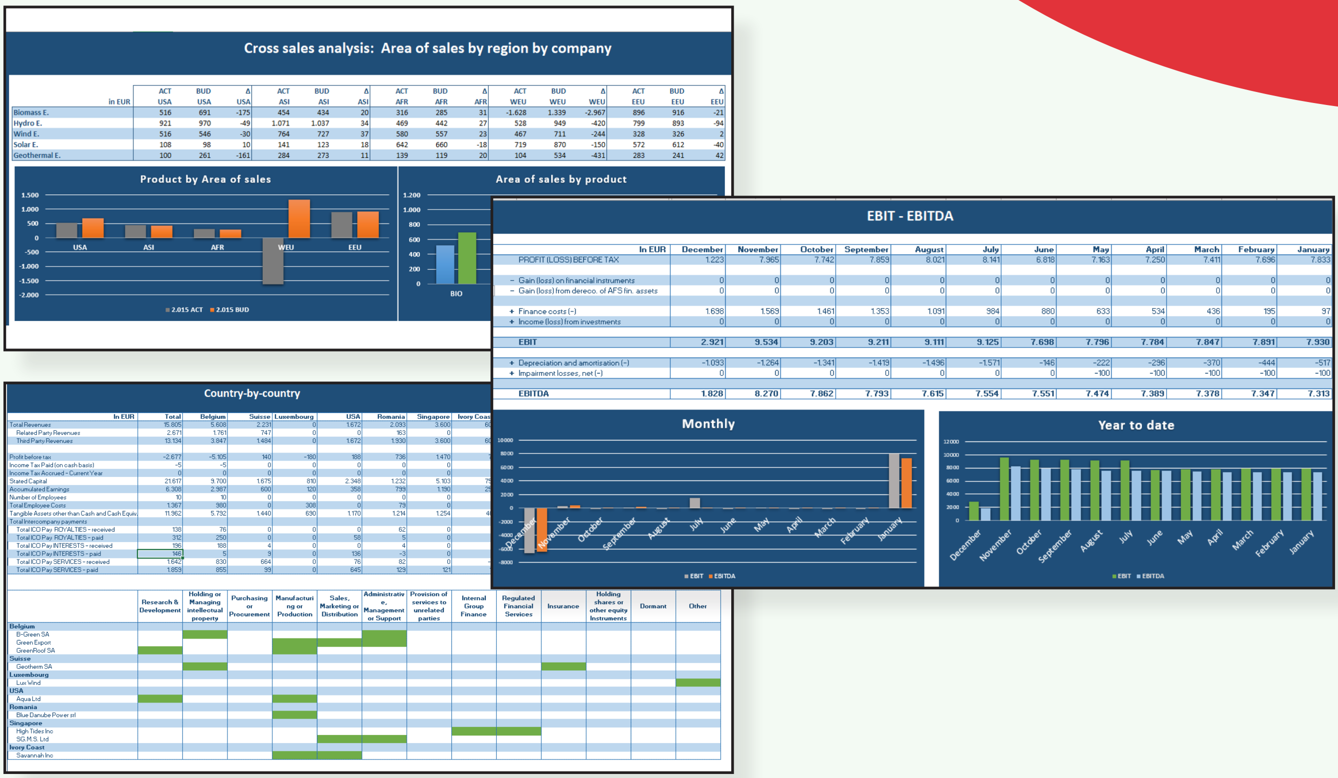
From an economic viewpoint, the Business Controller typically takes full account of companies when preparing budgets and comparing actuals. The Consolidator, however, must apply the consolidation methods based on the group's percentage of control over the subsidiary. This obviously influences the value of consolidated accounts and the resulting ratios.

In Prophix, we will again use the Linked Category functionality to realise this, where the Business Controller can have all entities fully integrated in their management environment.

The correct consolidation method for the Consolidator will be automatically suggested in the software when the shareholders and participants have been defined for each entity.

▾ Figure 4: Automatic Calculation of the Consolidation Method





▲ Figure 5: Example of Different Reports Available in the Tool

6 Recipients of Information

The Business Controller primarily addresses individuals within the organisation with the intention of providing them with the information required for operational decisions.

The Consolidator, however, will primarily provide information to people external to the organisation and its day-to-day operational management, such as auditors, the works council, shareholders, financial analysts, and the CBFA.

With an application, such as Insight (discussed above), the Business Controller can generate and distribute dynamic reports. Prophix also allows users to create PowerPoint templates that only need to be refreshed each month to include the latest information.

In Prophix, the Consolidator has a multitude of standard reports available to ensure they can provide external entities (auditors, tax authorities, governments, banks, etc.) with the correct reports: audit trail reports, consolidated balance sheets, profit and loss accounts, cash flow reports, etc.

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Methods to Validate the Information

In relation to the previous point, consolidated data undergoes external control and is subject to a letter of approval that must be filed with the official authorities.

Therefore, it is crucial that the consolidation software assures excellent traceability of data and includes standard audit trail reports that facilitate the provision of correct information.

▲ Figure 6: Audit Trail Report by Company in Prophix Consolidation & Reporting

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Level of Detail

The Business Controller, in their task of analysing differences between budgeted and actual figures, needs sufficiently detailed information to identify causes and provide evidence of their impact upon results. For example, they need to know which products achieved fewer sales, which raw materials proved more expensive than expected, and which customers have ordered less. This information should, therefore, be far more detailed than that required for accounting purposes.

The Consolidator also needs very detailed information on every single account in the balance sheet and profit and loss account. For each of these accounts, they will require an explanation of changes from one period to the next. Additionally, they will need information on the type of transactions affecting these accounts during the reporting period in question. This information may also be, for example, legal in nature.

To deal with this problem, the Business Controller can use analytical dimensions in Prophix that can be created for specific accounts or for the full profit and loss account and balance sheet. Numerous dimensions can be defined based on cost center, profit center, business unit, product or customer, and the number of dimensions can be limited per entity. This ensures that an entity that is only active in one business unit will not be included in all other business units. The Business Controller can also use statistical accounts for integrating non-accounting data, such as volumes and units.

A Consolidator is more likely to use flows in the tool to analyse changes in the preceding year when compared to the current year.

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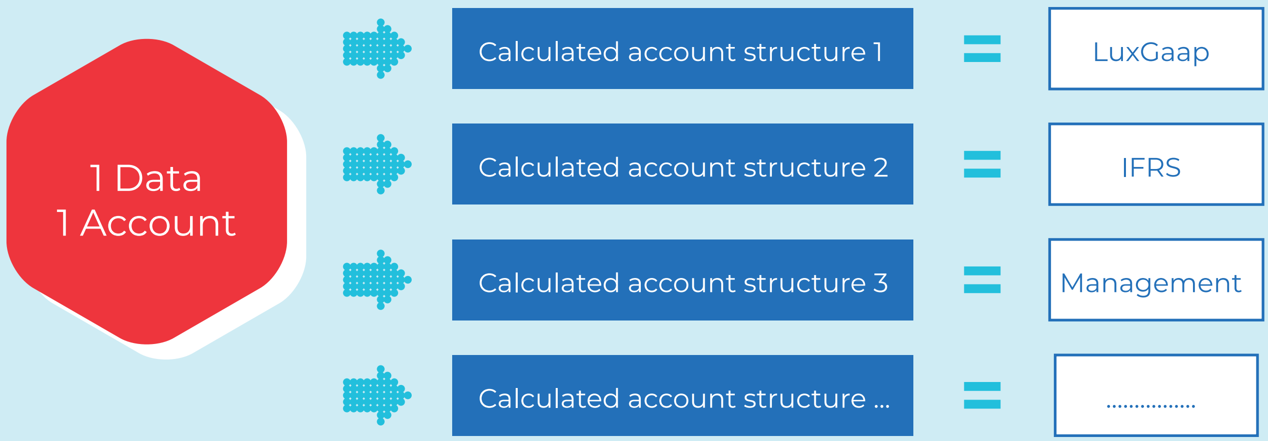
Type of Data Analysed

The Business Controller concentrates primarily on operational data (EBIT type). Due to the detailed nature, they can analyse variances and trends and anticipate the impact of the economic climate on data in future periods.

The Consolidator must focus more on balance sheet data, using the profit and loss account as a validation for consistency in these changes. Furthermore, they will have to deal with different operations that are a part of their remit and are often poorly used by the Business Controller: dividends, reduction in the value of stock, internal transfer of stocks, calculation or assignment of goodwill, currency conversion differences, minority interests, deferred taxes, etc.

The use of the calculated accounts functionality in our tool may be useful for the various types of presentations (statutory, management, EBIT, and CbC). These are specific ‘summation’ structures for displaying specific information. The same account can be assigned to multiple calculated account structures and each report can include specific journals. This ensures that one basic set of data can be used to generate various types of reports.



▲ Figure 7: Representation of the Functionality “Calculated Accounts” in Consolidation & Reporting

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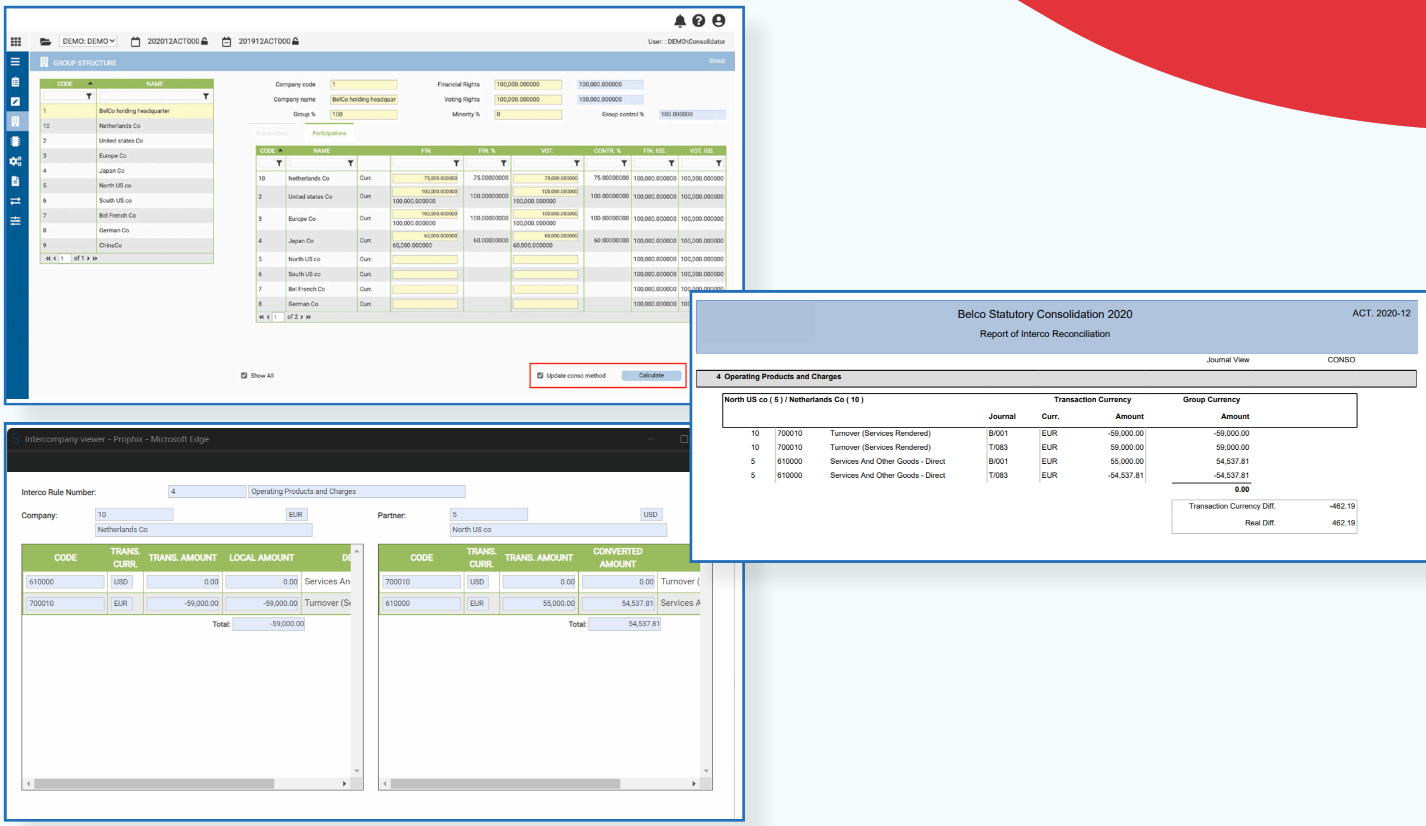
Adjustments Made to the Reported Data

Adjustments made by the Business Controller, most typically following a ‘summation’ structure, are used to calculate projections, simulations, and analyse variances and trends. These enable them to identify key areas to work on and to offer solutions.

The Consolidator carries forward the reported information of the subsidiaries and must first apply the valuation rules of the group to ensure continuity of information. They must also ensure that data linked to transactions between various entities within the group are reconciled to prevent any impact on accounts presented to external parties. The adjustments undertaken by the Consolidator will be essentially consolidation driven, contrary to the adjustments made by the Business Controller.



▲ Figure 8: Intercompany Reports for the Detection of Discrepancies

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Different Approaches for Intercompany Information

The Business Controller’s approach is to isolate intercompany information to analyse the exempted data relating to these transactions. As with the budget, their approach will be to start with a purchase and allocate that same amount to the vendor.

The Consolidator has the opposite approach. It is generally the vendor (the company issuing the invoice) who holds sway and who can allocate the purchase transaction to its counterpart in the ERP system. Furthermore, due to the possible volume of transactions, the impact of foreign currencies and other assets, these processes can be highly time consuming for the Consolidator and can sometimes cause problems for auditors. While this information is not relevant for the Business Controller, it must be well managed by the Consolidator and reported correctly by the subsidiaries.

When using a professional tool, the Consolidator has many reports available that enable local accountants to very quickly detect intercompany differences. Where large volumes are concerned, usually a module is used that enables the user to perform reconciliation at the transaction level. This process is described in a separate white paper.

Points of Similarity

Besides the differences in responsibilities and in the use of software described above, we see a potential for collaboration between the Business Controller and Consolidator. Although data is processed differently and for different purposes, the Consolidator and Business Controller need to use a common database and accounting system (offering both the required details). Prophix offers its customers a single software solution for consolidation and management reporting.

A second point of similarity is in the field of exchanging information. The Business Controller is more frequently in contact with the entities (monthly reporting, budgets, forecasts, actuals, etc.) and is more involved with the different subsidiaries. Therefore, they have a better knowledge of the facts when compared with the Consolidator, while the latter is the one who requires this information. This includes, for example, stock management and valuation, methods of depreciation practiced locally by subsidiaries, intragroup profits achieved as a result of the sale of shares between the group's companies, etc. For these different elements, given that the Business Controller has more rapid access to this data, they can play a very important role in providing the information to the Consolidator.

In turn, the Consolidator must ensure that they inform the Business Controller of the entries (dividends, provisions, minority interests, depreciation of goodwill, deferred taxes, etc.) that will have an impact on the results and ratios. These entries may play a dominant role during the transfer of certain subsidiaries of the group.

Therefore, it is essential that the Business Controller and the Consolidator form a close partnership, a mutual understanding of accounting adjustments, use common software (with shared data), and willfully exchange information. This will all contribute to a significant improvement of consolidation processes.

About Prophix

Your business is evolving. And the way you plan your business activities and report on them should evolve too. To empower mid-market companies to achieve their goals, Prophix provides an integrated, cloud-based platform to the Office of Finance; one that delivers planning, budgeting, reporting, forecasting and consolidation solutions. With Prophix, finance leaders improve profitability and minimize risk and puts the focus back on what matters most – uncovering business opportunities. Prophix supports your future with AI innovations that adapts to meet your strategic realities, today and tomorrow. Over 2,500 active customers around the globe rely on Prophix to transform the way they work.

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