



Charting your course

Integrating financial data, data models, and charts of accounts can link reporting strategy with business goals.



Introduction

Imagine your company's financial data is a puzzle, with each piece representing a different aspect of your business.

One piece is the reporting strategy, which dictates how you'll analyze and present your financial data. The next piece is the data model, which serves as the framework for how you'll store and access that data. Finally, there's the chart of accounts, which provides a standardized way of categorizing your financial transactions.

Individually, these pieces might seem manageable, but when they don't fit together, you're left with a jumbled mess of financial data that's difficult to decipher, which can hinder a company's ability to operate efficiently and effectively.

A disconnected reporting strategy, data model, and chart of accounts can be caused by a lack of clear communication and coordination between different departments or individuals responsible for these areas. It can also be the result of rapid growth, mergers and acquisitions, or inadequate planning and design of the reporting and accounting systems.

The answer is putting the pieces together. But that can be challenging, especially when you're dealing with large amounts of financial data. These challenges include resistance to change from employees, technical limitations, data compatibility and accuracy issues, cost and time to implement changes and retrain staff, and the need to maintain continuity of operations during the transition period.

However, companies that can successfully integrate their reporting strategy, data model, and chart of accounts can reap a number of benefits, including:

- Better alignment of financial reporting with business objectives and goals
- Improved accuracy and consistency of financial data across the organization
- Enhanced ability to track and analyze financial performance
- Improved decision-making capabilities based on reliable and timely financial data
- Improved compliance with regulatory requirements and accounting standards
- Increased efficiency and productivity through streamlined processes and systems
- Improved transparency and accountability in financial reporting.

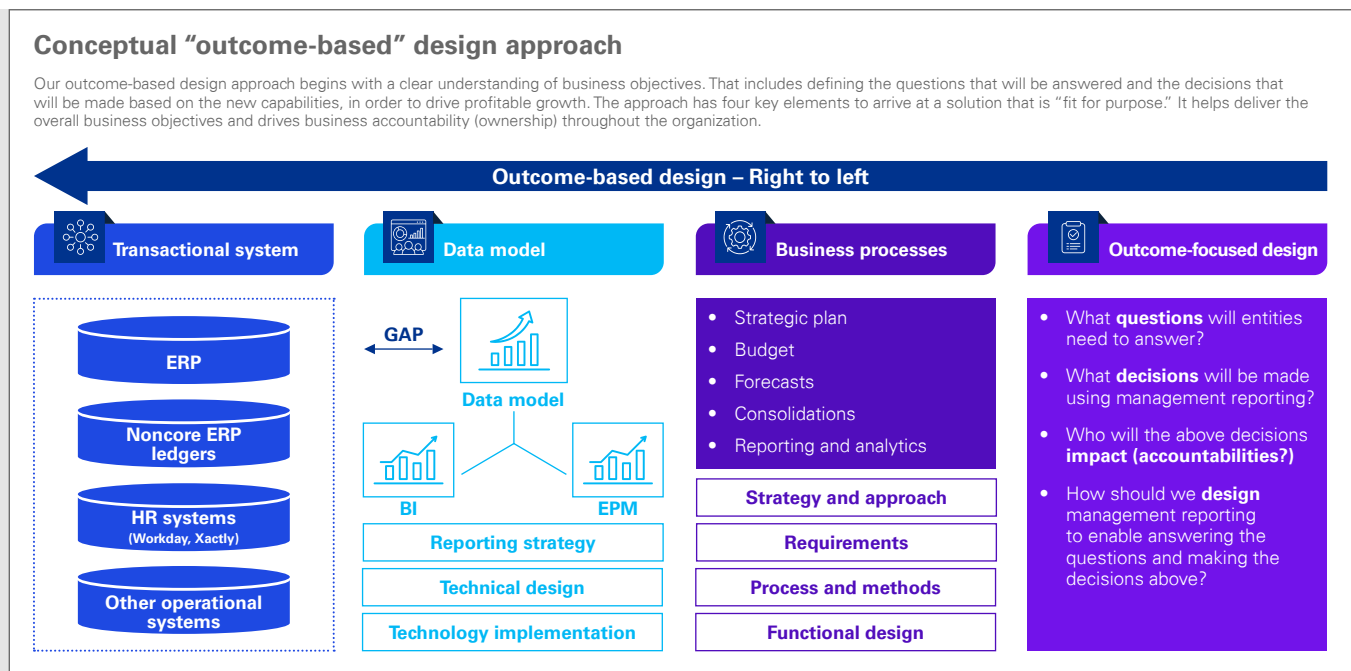


KPMG LLP (KPMG) can help your organization create a thorough reporting strategy that aligns with its business goals, design a data model that captures all the relevant information, and develop a chart of accounts that organizes financial data in a logical and meaningful way. A connected reporting strategy, data model, and chart of accounts results in an aligned financial ecosystem that enables you to make informed decisions, increase efficiency, and drive growth.

In this white paper, we'll explore the benefits of this approach and explore the strategies used to help businesses like yours succeed.

Conceptual "outcome-based" design approach defining financial reporting, data models, and charts of accounts

Financial reporting, data models, and charts of accounts all have their own unique roles to play in how a company manages its finances and discloses financial information to its key stakeholders. Despite their separate roles, however, it is critical that these functions operate in cooperation with each other. The lack of interplay can lead to inconsistent and inaccurate reporting, making it difficult for decision makers to make informed choices; lack of visibility into the financial health of the company, making it harder to identify potential risks or opportunities for growth; and wasted time and resources spent on manual data entry and reconciliation, instead of focusing on value-added activities.



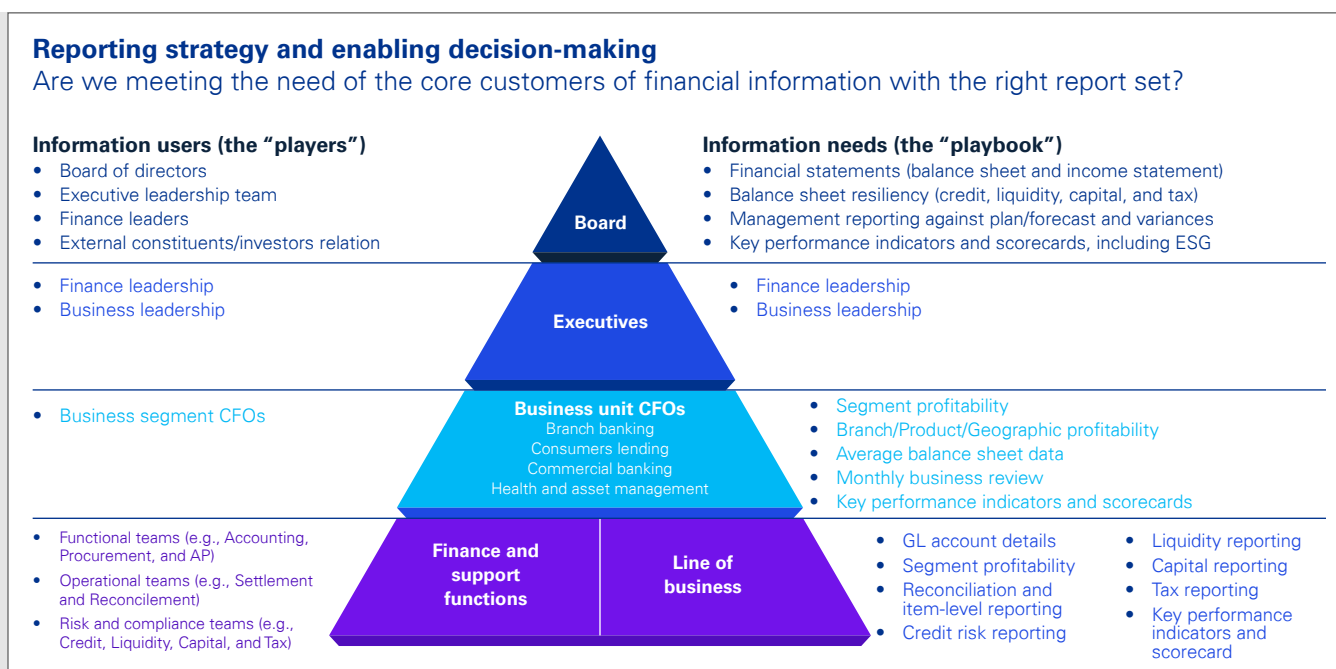
Defining a financial reporting strategy

The first step to integrate these three functions is to create a financial reporting strategy that can best inform the company's internal and external stakeholders with the information they deem most relevant.

Financial reporting provides an accurate and transparent picture of a company's financial health. This information helps management and investors make informed decisions, and it also helps regulators ensure that the company is complying with applicable laws and regulations. Additionally, financial reporting can help a company identify areas where it can improve its financial performance and make more informed business decisions.

The following are some of the key steps involved in defining a reporting strategy around overall business objectives, stakeholders' needs, regulatory requirements, and industry standards.

- Identify stakeholders: A company should to identify its key stakeholders, including investors, creditors, customers, employees, regulators, and the broader public and understand their information needs and preferences.
- Define reporting objectives: Based on the stakeholders' information needs and the company's business objectives, a company needs to define the key objectives of its reporting strategy, such as transparency, accuracy, comparability, and relevance.
- Determine reporting scope and frequency: A company needs to determine the scope of its reporting, including which topics and metrics to report on, and how frequently to report.
- Design reporting format: A company needs to design the format and structure of its reporting, including the use of visual aids, charts, and graphs, and ensure that it is user-friendly and accessible to all stakeholders.
- Establish reporting processes and controls: A company needs to establish robust processes and controls to ensure the accuracy, completeness, and timeliness of its reporting and to comply with relevant regulatory requirements and industry standards.
- Monitor and evaluate reporting effectiveness: A company needs to regularly monitor and evaluate the effectiveness of its reporting strategy and adjust as needed based on feedback from stakeholders and emerging trends in the industry.



Key considerations for designing a data model and chart of accounts

The other two key elements of financial reporting—the data model and chart of accounts—need to be designed to be easily integrated with the financial reporting strategy.

Data models

A financial data model is a framework that defines the structure and relationships of financial data within an organization. It provides a standardized way of organizing and storing financial data, which enables better analysis, reporting, and decision-making. A financial data model typically includes the various data elements, such as accounts, transactions, and balances, as well as the relationships between them. It may also include rules for data validation, aggregation, and reporting. The goal of a financial data model is to ensure consistent and accurate financial data across the organization that can be used for financial analysis and reporting. The financial data model should be designed to meet the organization's reporting needs, facilitate analysis, and ensure data accuracy and consistency.

A key element of the data model is defining what will be the “master data.” A company may define master data as the core data elements that are critical to their financial and business operations and provide a single source of truth. These elements typically include customers, products, vendors, and employee, level attributes among others. Due to the level of granularity, these master data elements are typically defined in addition to the segments outlined within a chart of account design. Master data is often used as a foundation for various operational and financial processes and activities, such as sales, procurement, and financial reporting. It is essential for maintaining data consistency and accuracy across different systems and applications within an organization.

Chart of accounts

A chart of accounts is a listing of the core reporting segments that a company uses to track its financial transactions. It is a critical component of any accounting system, and it is used to record, classify, and summarize financial information. The chart of accounts is important for several reasons. First, it provides a way to track all the company’s financial transactions. Second, it helps to ensure that all the company’s financial transactions are recorded accurately. Third, it helps to ensure that the company’s financial statements are prepared correctly. A chart of account typically includes anywhere from five to seven key components, including legal entity, cost center, account, line of business, location, intercompany, and future use segments. Additionally, three to five optional segments (i.e., product type, customer type, etc.) can be defined based on a company’s unique reporting need.

Ideally, charts of accounts should have the following characteristics:

<p>1</p> <p>Simplicity: Charts of accounts should be simple to use, and future changes should be easy to make.</p>	<p>2</p> <p>Flexible: Charts of accounts should be able to support future business needs as the business grows.</p>	<p>3</p> <p>Single-use design: Each dimension of the charts of accounts should be separate and have a single use.</p>
<p>4</p> <p>Full scope: Charts of accounts should support the full scope of the business, including all locations and business segments.</p>	<p>5</p> <p>Multifaceted: Charts of accounts support both external and management reporting.</p>	<p>6</p> <p>Dynamic: Charts of accounts should be integrated with surrounding source systems to support reporting.</p>

Chart of account leading practices and potential benefits	
Leading practices	Potential benefits
Target the lowest common data without housing an unnecessary amount of detail.	➤ Ability to perform necessary research while reducing the amount of time and effort maintaining data elements.
Each segment should serve a specific purpose and tell one part of the transaction story.	➤ Drives better clarity out of the chart of accounts, aiding in report builds and ad hoc analysis.
Keep the GL charts of accounts’ structure simple, avoiding elements that do not require accounting treatment.	➤ Improves speed of performing journal entries and mapping updates while reducing potential issues with inaccurate postings to nonaccounting segments.
Avoid numbering logic for segments that are volatile.	➤ Reduces the risk of running out of digits or creating the need to redo the charts of accounts when a significant change in business landscape occurs.

Putting all the pieces together

Organizations should take the following steps to ensure that their data models and charts of accounts can work together effectively before moving forward to finally integrate them with their financial reporting:

- **Identify key financial entities:** Determine which entities (e.g., accounts, transactions, and customers) are critical to the organization's financial data model.
- **Normalize data:** Structure data in a way that eliminates redundancy and ensures data consistency, which is especially important for financial data.
- **Determine relationships:** Establish how different entities relate to each other (e.g., one to one, one to many, and many to many) to create a thorough and accurate data model.
- **Incorporate financial calculations:** Ensure that financial calculations are integrated into the data model and consistently applied across all relevant entities.
- **Capture historical data:** Design the data model to capture and store historical financial data, which can be useful for trend analysis and forecasting.
- **Ensure data accuracy and integrity:** Establish processes and workflows to ensure the accuracy and integrity of financial data, such as data validation checks and audit trails.
- **Incorporate security measures:** Implement appropriate security measures to protect financial data, such as access controls and encryption.
- **Incorporate reporting requirements:** Design the data model to support the organization's financial reporting requirements, which may include various types and levels of reporting.
- **Adapt to changing needs:** Creating a flexible data model that can adapt to changes in the organization's financial needs, such as new products, services, or reporting requirements.
- **Collaborate with stakeholders:** Work closely with stakeholders, such as finance teams, auditors, and information technology professionals, to ensure that the data model is aligned with the organization's financial goals and requirements.



The final step is to integrate a company's reporting strategy, data model, and chart of accounts to ensure accurate and consistent reporting and financial management. Here are some leading practices to achieve that alignment:

- 1** For a reporting strategy, it's important to define clear business objectives, establish key performance indicators (KPIs), and identify the audience for the reports. Understand your audience group within the organization and the level of reporting needed within that group. At each level, varying levels of detail will be required and understanding where the best place to source that data within a technology landscape is critical when designing an appropriate data model and chart of accounts. Many times, we see companies trying to build in very granular-level data within their chart of accounts, whereas we typically see data of this level best reported out of a subledger or data warehouse type layer of reporting.
- 2** Develop a thorough data model that maps out the relationships between different data elements and ensures consistency across the organization. Key areas to focus on within a data model include:
 - Identify the different data sources.
 - Define the relationships between them.
 - Establish a clear data dictionary.
- 3** Align chart of accounts with the data model to ensure that the financial data is classified and reported consistently across the organization. That will require understanding the company's business process and financial reporting requirements.
- 4** Standardize chart of account definitions to ensure that everyone is using the same language when reporting financial data.
- 5** Use a common data dictionary to ensure that everyone is using the same terminology when referring to financial data.
- 6** Implement a governance process to ensure that any changes to the data model or chart of accounts are reviewed and approved by the appropriate stakeholders.
- 7** Regularly review and update data model and chart of accounts to ensure that they remain aligned with the company's evolving business needs.

Reporting system upgrade: a case study

The following case study demonstrates how one organization better integrated its financial reporting, data model, and chart of accounts when it upgraded its planning and reporting system.

A retailer was looking to replace its group consolidation, planning, and reporting system with an updated solution. Since the creation of the existing system, the retailer had added several major subsidiaries and wanted the new system to accommodate robust data integrations, replacing the short-term data inputs used by the old system.

The project was to be the retailer's flagship initiative to start its Future of Finance program and, therefore, needed to be flexible and future-proof to accommodate later phases of its transformation journey.

First, the retailer had to address several challenges. For one, client data was split across multiple, siloed source systems incorporating different account structures and definitions. Finance was still using time-consuming and manual financial, planning, and management reporting, as well as nonstandard data loading and reporting processes and capabilities across business units. Overall, processes were best by poor controls and visibility of source and cause of adjustments. On top of it all, the project was being undertaken as the company was preparing for a potential major merger.

KPMG helped the retailer implement the project through the following steps. First, teams designed and developed a normalized group chart of accounts allowing for optionality around future growth. Then, we

developed a standardized group reporting model that linked cubes that supported individual business unit reporting with long-term plans to assimilate all units into the overall group data model and chart of accounts. The new system also provided the ability to aggregate group actual data into a common enterprise view with full audit history and traceability. Lastly, a detailed budget solution was developed to allow divisional submission of driver-based budgets and forecasts.

The new system offered the retailer the following benefits:

- All required reporting requirements were met, and a clear plan was established for continued improvement via the project.
- The year-end process time was cut by two weeks, with significantly reduced effort throughout despite the COVID-19 crisis.
- Function, product, and channel planning and reporting, which were previously unavailable, were enabled.
- Most of the manual, Excel-based submissions across planning and reporting were automated.
- Accurate and repeatable financial reporting views were now to be produced automatically within 15 minutes of load.
- The system, reporting, data model, and chart of accounts were aligned to business management reporting and planning with enhanced driver and KPI information.

Conclusion

Developing and maintaining an effective financial reporting process requires attention to detail and adherence to leading practices. By implementing the leading practices discussed in this white paper, organizations can improve their financial reporting, data model, and chart of accounts design and optimize their financial management processes and systems.

How KPMG can help

KPMG's Finance Transformation practice supports the growing agenda and increased responsibilities of the CFO. We have the experience, skills, and resources to help organizations strengthen their finance operations by focusing on key priorities including strategic decision support, efficient operations, strategic growth, and governance. Our services can help companies improve transparency and information integrity, as well as help prepare for impending change.

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