Data quality – Underestimate it at your peril

By Gary Simon, Managing Editor of FSN Newswire and author of "Fast Close to the Max®."

Capital markets applaud companies that report their quarterly, half-yearly and annual results swiftly after the period close, but with published benchmarks and investor attention focusing almost exclusively on the speed of group financial reporting it is easy to overlook the critical importance of data quality.

However there are signs that the position is changing. In the United States, deteriorating reporting timescales in the face of Sarbanes-Oxley suggests that CFOs are now more likely to delay results announcements pending confirmation that all is well with the data and the controls surrounding it.

But managing data quality is becoming a far more onerous task, particularly in a statutory setting. Recent regulatory changes on both sides of the Atlantic have conspired to make financial reporting a more challenging task – and by extrapolation, regular management accounting has suffered the same fate.

In broad terms, regulation around the world has broadened the scope of information that has to be gathered from reporting entities, increased the frequency with which calls for information are placed on them and grown the complexity of the underlying data.

The rising popularity of so called, 'Narrative Reporting' into novel areas of disclosure such as the environment, corporate social reporting and employee matters together with the current vogue for non-financial KPIs (Key Performance Indicators) has expanded the number of data sources that companies have to contend with. This has greatly magnified the challenge of data quality as companies seek to draw information from a wide pool of manual systems, spreadsheets and specialized applications.

IFRS (International Financial Reporting Standards) has also impacted on reporting disclosure adding to the complexity of the information that has to be marshaled. In particular, changes to segmental reporting requirements have encouraged the growth of multi-dimensional information which is much more challenging to assemble, enter and control. One unavoidable consequence of both Narrative Reporting and IFRS is that together they are responsible for driving up the volumes of information to be captured and increasing the probability of material errors creeping into the Reporting Supply Chain (RSC).

The apparently insatiable appetite of the markets for information to be delivered more quickly simply exacerbates the problems of managing data quality. The RSC has never been under such pressure before and data quality inevitably suffers. So what should you do about it?

Managing improvements in data quality is not 'rocket science' as there are many simple and pragmatic steps that can be taken to ease the situation. In essence, data quality is governed by three main attributes. Firstly, balance level data such as Year-to-Date actuals or monthly forecasts, secondly; metadata i.e. semi-permanent structural information such as cost centers, reporting entities and account codes and, finally; mapping tables which govern the translation of information from a source system (usually in a reporting entity) to the host system i.e. group reporting pack.

Each of these three components of data quality needs careful oversight and control. In broad terms companies should aim to invoke control as early as possible in the reporting cycle, rather than allowing errors to be propagated through the RSC. The major principle here is that it is far easier (and hence quicker) to correct an error close to the origins of the data than at the group center.

Changes to metadata, if left unchecked, frequently jeopardize data quality and can dramatically delay group reporting. It is critical that, for example, a late change to account codes in an operating unit is trapped and corrected before it is rejected. This often requires both Group and local finance personnel to have access to the relevant mapping tables to make agreed changes as soon as the problem arises.

Many companies rely on manual or semi automatic mapping using spreadsheets from reporting entity systems to the group reporting pack but, as a result, suffer the risk of error on a fairly frequent basis. Therefore, the second most important principle in data quality management is to automate interfaces as much as possible. Automated controls eliminate human error and can be relied on to work consistently. The way in which these controls are usually implemented is through the use of modern ETL (Extract, Transform and Load) tools which guide the controlled passage of data from reporting entities to group.

Tackling data quality is not difficult it just needs attention to detail. However for companies that make the effort the rewards are great. Not only is better data quality a laudable objective in itself but it also accelerates the reporting cycle, leaving time in the finance function for much more productive tasks.

About the author

Gary Simon, Group Publisher of FSN and Managing Editor of *FSN Newswire*, is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 25 years experience of implementing management and financial reporting systems. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex financial reporting and information management assignments for global enterprises in the private and public sector. His latest book, "*Fast Close to the Max®*" is now available from FSN Publishing Limited.

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