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Financial Governance Will Emerge to Enhance Financial Controls and Regulatory Reporting

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Financial governance covers a range of applications that are targeted at the CFO and are focused on improving financial processes and controls, particularly in the final stages before disclosure. There are many applications that focus on particular aspects of financial governance. In the next three to five years, a clearly defined market will emerge that will provide application suites addressing this topic.

Key Findings

- The financial governance market will include applications that help the finance function improve the timeliness and quality of financial management processes and reporting; facilitate audits; extend ERP transactional controls; and improve financial risk management.
- There are many vendors that offer point solutions, but none that offer a comprehensive integrated suite — although some have many of the constituent parts. ERP and corporate performance management (CPM)/business intelligence (BI) vendors are in the best position to deliver suites of financial governance applications during the next three to five years.
- As users think more strategically about financial governance, they will rethink how these applications should be sourced. Best-of-breed finance governance, risk and compliance management (GRCM) vendors will consolidate toward the larger ERP and CPM/BI vendors.

Recommendations

- CFOs should not wait for the emergence of mature financial governance offerings if they have tactical issues, such as improved close and reconciliation controls, that need to be addressed.
- CFOs should identify current financial governance pain points and work with the IT organization to make tactical investments that can be justified during a five-year time frame.
- IT professionals must understand the road maps of their strategic ERP, BI and CPM vendors in this area, and take them into account during evaluations.

WHAT YOU NEED TO KNOW

Financial governance is a new market that will emerge in the next three to five years, combining elements of ERP, finance GRCM and CPM suites. It will build additional process controls around financial consolidation to support financial close processes and the production of periodic financial statements for regulators. It will augment the compliance controls in finance GRCM solutions with broader controls that monitor capabilities, and when delivered as a comprehensive solution, it will enable CFOs to better manage financial risk. However, while financial governance solutions mature, CFOs will be faced with the challenge of addressing their most pressing governance issues with a variety of point solutions. IT professionals must help balance these short-term needs with longer-term strategic investments, and should understand the plans of their ERP, BI and CPM vendors to provide solutions in this area.

ANALYSIS

Many CFOs wrestle with the issue of improving governance of financial processes. To improve governance, they have to deploy and integrate disparate applications, usually from different vendors. These typically include elements of the ERP systems, CPM suites, and finance and audit GRC products that address specific tactical needs, but do not provide an overall optimal solution. Gartner originally anticipated that CPM suite vendors would extend their financial consolidation systems to address this need, but this has not happened because compliance is now less of a driver for CPM suite purchases, and CPM vendors are more focused on providing broader performance management solutions, often integrating their applications with BI platforms.

The finance GRCM vendors (see "Magic Quadrant for Finance Governance, Risk and Compliance Management Software, 2007") have focused on applications that address the compliance/governance requirement most in demand. These applications typically have a critical time frame for organizations to respond to, such as the Sarbanes-Oxley (SOX) Act of 2002 or the more recent Japanese Sarbanes-Oxley (JSOX) Act. Because the importance of these compliance requirements tends to change and differ by geography and politics, several of these vendors are expanding their offerings to more-generic governance and compliance solutions, which are evolving into platform-based offerings targeted at the CFO and others (such as the chief audit officer, chief risk officer and chief compliance officer). However, despite some interesting offerings, these solutions still only meet some of the governance needs of the CFO.

Some ERP vendors have built and/or acquired finance GRCM and other GRC offerings to augment their core ERP applications. These vendors also have their own CPM suites. However, none of these have coalesced into a comprehensive offering, although SAP's "Office of the CFO" is a move in this direction (see "SAP Shows Renewed Focus on the Office of Finance"). However, ERP vendor offerings generally require some use of the underlying ERP application stack.

Consequently, we anticipate that a new market will emerge during the next two to three years to address financial governance in a comprehensive manner. These offerings will be targeted directly at the needs of the CFO and finance function. We define the components of a broad financial governance solution as follows:

- **Financial consolidation —** Typically found in CPM suites, these applications enable organizations to reconcile, consolidate, summarize and aggregate financial data based on different accounting standards and federal regulations across multiple legal entities. They also provide reporting tools to support the production of financial statements that represent the overall financial performance of the organization. Vendors in this area include SAP, Oracle, Cognos and Business Objects. Financial consolidation will still play a role in CPM suites, but the focus in that area will be more on providing consistent, consolidated financial and budget/forecast data for management reporting rather than governance and compliance.

- **Intercompany transaction management —** This provides acceptance, rejection and reconciliation of intercompany transactions, ideally at the transaction level (as opposed to the overall account balance level). Most financial consolidation applications include this capability, but some vendors (such as Business Objects and Coda) offer this as a stand-alone module.
- **Reconciliation management —** There are a number of accounts in the trial balance that need to be reconciled during the financial close process as well as predetermined periods throughout the month. These are typically bank and cash accounts, but they also include accounts where there is activity across multiple systems (for example, revenue postings in the finance system may need to be reconciled with transactions in the billing system). This is particularly an issue for organizations with heterogeneous business applications. Vendors of these systems include Movaris and Trintech.
- **Financial controls and compliance —** This covers solutions intended to document the organization's Committee of Sponsoring Organizations (COSO) control response to specific financial compliance process initiatives, such as SOX. Vendors in this area include Paisley Consulting, OpenPages and Movaris. However, a broader solution should also provide financial controls at various steps of the financial management process, such as those from ACL and Oversight Systems. Many of these control-monitoring solutions are rooted in auditing applications and have been refocused to provide continuous control monitoring by comparing information as it moves through various financial processes.
- **Financial close management ("the last mile of finance") —** There are many activities that are part of the financial close that need to be managed and automated. The finance function needs to ensure that key activities have been performed during the close process (for example, review and post accruals). It also needs to automate functions, such as the production of periodic financial reports for regulators (for example, the Form 10-K in the U.S.). Although ERP and financial consolidation systems can manage these processes through their workflow and reporting capabilities, the delivered functionality in this area is usually limited and requires users to "build" the required capabilities by using the vendor's tools. Solutions are emerging from vendors such as Movaris, Trintech, Clarity Systems and Coda that deliver more of this functionality as packaged applications.
- **Access and segregation of duties controls —** These controls are typically found in ERP solutions, but they may need to be augmented with additional security controls to ensure that appropriate security measures are in place. SAP currently has this capability through its ERP and GRC offerings, including the functionality gained from the Virsa acquisition, and SAP competes with best-of-breed vendors such as Approva and Phulaxis.
- **Financial risk management —** Solutions that project an organization's tolerance for financial risk, given a series of parameters. This area is not currently well-served, but we anticipate solutions for it in the next three to five years.
- **Financial analytics —** Solutions that are used to understand in-period as well as period-to-period analysis of financial information. This would include drill-down into

transactional data to understand varying results. Unlike CPM, financial analytics is concerned with detailed analysis of mainly in-process measurements, although it can be used to augment CPM reporting. Solutions in this area include Business Objects, Cognos, Oracle Daily Business Intelligence and The GL Company.

Although most of the components of a financial governance solution exist today, we expect to see the emergence of suites of applications that address all these needs. This obviously makes it easier for finance functions to implement and manage a comprehensive solution, but it will also offer additional benefits. For example, if the production of financial statements was integrated with COSO controls, then users would be able to drill down on a financial statement and determine its compliance with the COSO controls.

SAP and Oracle are in the best position to provide more-complete offerings for financial governance through their ERP, CPM and GRC investments, and many large global organizations will be able to take advantage of these solutions. Ideally, these three areas should be available in an integrated offering to provide a seamless solution for finance. We envision SAP and Oracle will provide comprehensive financial governance solutions within five years. However, it is likely that the larger BI vendors that are also focused on CPM will strengthen their offerings in this space.

Business Objects' recent acquisition of Cartesis gives it better capabilities in this area, while SAS has developed a range of compliance solutions that complement its CPM offering. As of this writing, SAP announced that it will acquire Business Objects and will have those GRC products to rationalize along with its current GRC product set. Still, there will continue to be innovation in this area as best-of-breed vendors, such as Movaris, Trintech, ACL and The GL Company, bring new products to market and continue to stretch the boundaries for financial governance applications.

Although users may have to wait for vendors to bring integrated financial governance suites to market, they can start their initiatives by understanding where there may be opportunities for specific solutions in areas where they are currently lacking. Where there is a tactical need for a point solution, users should not defer evaluations. Instead, they should evaluate the appropriate point solutions. However, they should view such evaluations in two ways: First, the investment should be considered on a five-year basis, because this is the time frame in which more-comprehensive financial governance solutions will become available. Consequently, a tactical investment that has generated a return and has no unamortized cost could be justifiably replaced with a more strategic solution in that time frame. Second, users should give preference to point solutions from CPM, ERP or finance, and audit GRCM vendors with whom they already have a strategic relationship, because these vendors are the most likely sources of more-comprehensive offerings.

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