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Adding Up the Difference Between Consolidation and Aggregation

By George McMann,

When finance and accounting professionals pick up the telephone these days, they tend to hear two questions:

1. *How come it takes so long to get the numbers?*
2. *What's behind this number?*

In most companies, answering those questions involves a complex, time-consuming and inefficient search that steers accountants away from their primary activities – analyzing adjustments, accruals, allocations and other accounting issues – that add the most value to their companies.

Sharpening the efficiency and visibility of financial reporting processes requires a keen understanding of the difference between two processes that are often confused: consolidation and aggregation. Enterprises that bolster the aggregation of their financial data with appropriate accounting controls reduce exposure to data errors and deliver more accurate information more quickly to key decision-makers. But strengthening that aggregation requires a platform that reduces the risk inherent in the collection of raw accounting data.

Consolidation

Consolidation is an accounting concept taught to future accountants in college. Enterprises that have multiple companies or businesses must abide by a set of consolidation rules laid out by the Financial Accounting Standards Board and enforced by the U.S. Securities and Exchange Commission (SEC). The primary challenge around the accounting concept of consolidation relates to corporations with multiple companies that buy and sell goods and services amongst themselves. In those transactions, for example, the rules state that revenue is not simply the addition of all the sales.

Fortunately, there are effective software applications from business performance management and financial reporting vendors that automate much of the consolidation process thanks to the accounting controls knitted into their coding. Unfortunately, **automated consolidation tools fail to address aggregation**, which remains a largely manual and foggy process.

Aggregation

Aggregation, which always precedes consolidation, is the process of moving raw transactional data into a central location, such as a database or consolidation tool. Too often, aggregation is conducted manually with spreadsheets and e-mail or with a Web interface, through which accountants at subsidiaries re-key the accounting data located in their spreadsheets and accounting systems.

Why Does it Take So Long to Get the Numbers?

Put simply, accounting has not kept up with technology. Consider a corporation with 10 different subsidiaries: that enterprise will operate at least 10 (and as many as 50 or more) different financial and accounting systems. Pushing that data up to the consolidation system at corporate headquarters takes a long time – so long, in fact, that subsidiaries routinely move the monthly or quarterly closes back a few days to collect and relay all of the necessary accounting data to corporate. If a major sale or expense takes place after the earlier close, subsequent adjustments have to be made (those adjustments are just one of a dozen signs that a company's aggregation requires improvement; see side bar).

What's Behind this Number?

The follow-up question – *What's behind this number?* -- inevitably arises when corporate accountants tackle the consolidation process. **It is difficult to answer because the number's path to the corporate accounting system, its aggregation, is a manually intensive process that rarely leaves a clear audit trail**. For example, if the process of sending an e-mail operated the same way raw accounting data is aggregated, an intermediary would open up the originally transmitted note, read it, retype it into another note and then send it on to its target destination. In an era of heightened corporate accountability, treating the

transmission of raw accounting data as a corporate version of the childhood game "telephone" is likely to raise red flags.

As any accountant, auditor or SEC investigator can attest to, effective accounting controls reduce the number of manual processes because there is too much opportunity for user error. As any executive at a high-performing company will report, quicker access to accurate information delivers major benefits. But those benefits require an automated aggregation process steeped in the same types of accounting controls that guide the consolidation process. And that requires a platform that automates aggregation, provides an audit trail and attracts, rather than repels, end users at the subsidiary level.

Aggregation Can and Should Be Automated

In most cases, companies take drastic measures in addressing the aggregation process – such as forcing subsidiaries to implement the enterprise resource planning (ERP) system used by the parent company. That approach has proven to be expensive, time-consuming, and, in most cases, too unwieldy of a fix.

A more efficient solution involves a piece of software with built-in accounting disciplines and controls that integrates existing systems and:

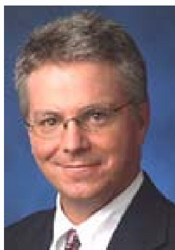
a) Reliably and securely shares financial information in an automated (machine-to-machine) manner;
b) Eliminates the need to re-key accounting data; and
c) Provides an easily accessible audit trail with built-in flags that alerts humans when errors, such as duplicates or omissions, occur.

Further, the solution should not be a one-way data pump, but a conduit that facilitates the transmission of accounting data and financial information back and forth between the corporate accounting department and an enterprise's many companies.

Conclusion

Reliability and security are crucial in light of stricter accounting rules and the ongoing economic and market conditions that continue to boost the value of quick access to accurate performance information. The platform should run without human intervention and generate reports so that accountants and financial managers in all areas of the company can click a button to identify the factors that contributed to key numbers.

Clicking a button is much more efficient than picking up the telephone. Leave the aggregation to machines and free your accountants from their default role as data stewards so that they can flex their expertise.



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Mr. McMann personally designed BizNet Software's core technology, the Datafish Platform, and has over 15 years experience in software development, implementation and consulting. Mr. McMann began his career as a CPA with Ernst & Young and has advised on and managed the implementation of software integration and financial auditing projects with Nortel Networks and Clarus Corporation within the financial, health, insurance and telecommunications sectors.

12 Symptoms of Poor Aggregation

The following are some of the symptoms company's experience that suggest there is a need to improve the way that raw accounting data is aggregated, managed and validated.

1. Executives and Financial Analysts constantly need new and more reports because they do not trust the numbers within the reports they are receiving. They ask for more in-depth reports to see where the number they question came from.
2. There are numerous last minute data loads from external feeder systems before the accountants can begin the closing process.
3. Numerous prior period adjustments are made.
4. Constant re-calculation of accruals and allocations because data is coming in after the accountants have begun their closing adjustments.
5. Numerous pockets of redundant data within the enterprise. Data is located in several places, most notably Excel spreadsheets.
6. A high volume of suspense accounts or the number is beginning to grow.
7. High volume of manual journal entries.
8. The accountants are making a high number of month-end estimates to close the books.
9. Company has multiple chart of accounts.
10. Company is continually adding new accounts to the chart of account.
11. Accountants must work excessive amounts of overtime to close the books.
12. Company has complex treatments, such as calculations for revenue, asset valuations, derivative calculations, M&A activity, and stock option expenses.

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