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# XBRL in Internal Financial Reporting of Groups of Companies -

new possibilities for integration and standardization of finance &  
accounting processes and IT systems

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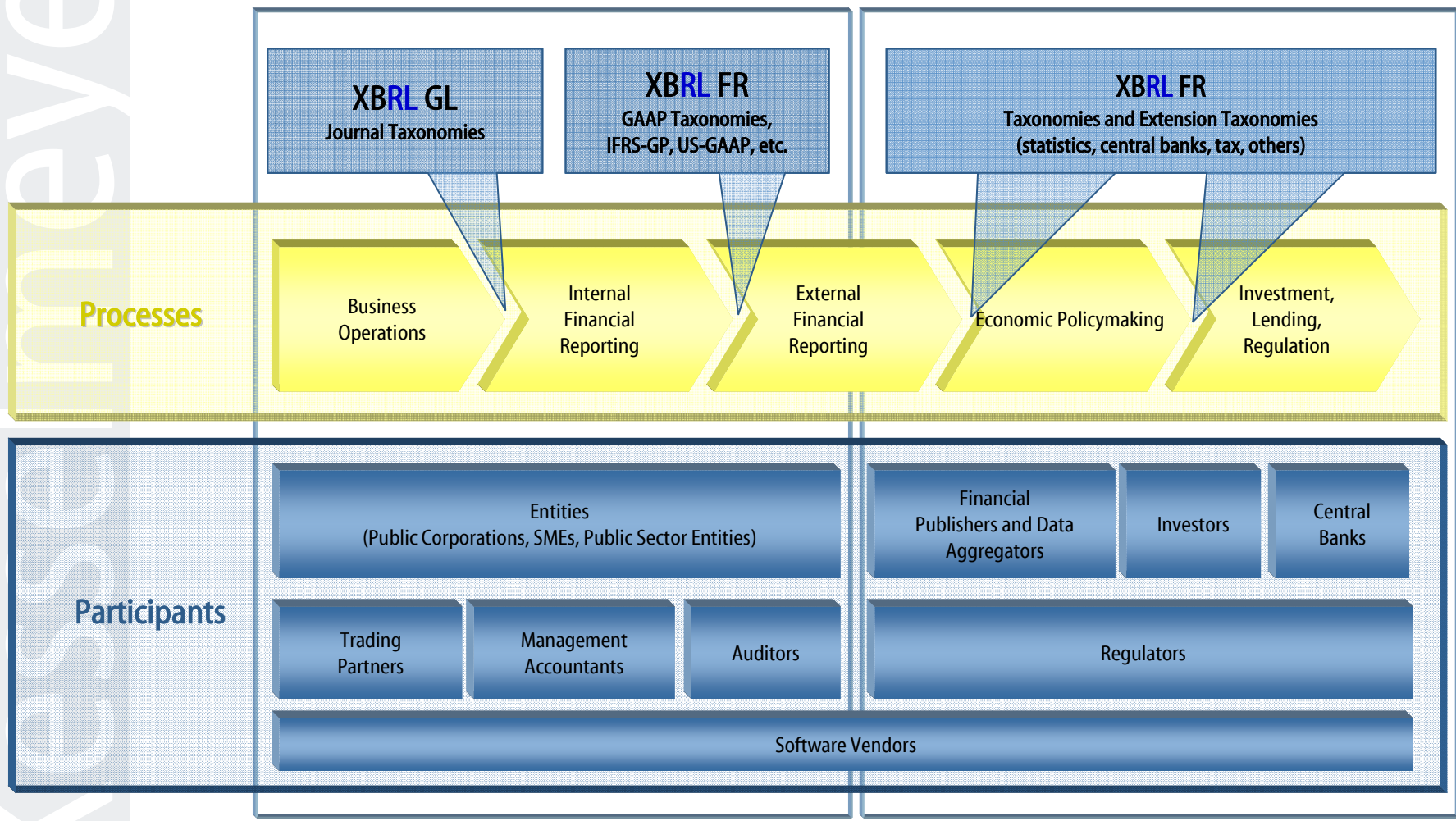
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# Business Reporting Supply Chain



# Agenda –

## XBRL in Internal Financial Reporting of Groups of Companies

- Change of financial business processes are very needed
- CFO's alternatives in redesigning financial processes
- Application-Specific Data Model vs. XBRL Standard Model (Willis/Hannon 2005)
- Scenario Matrix
  - Local IT architecture and local financial processes
    - Linkage between IT architecture, business processes in business segments and business segments' autonomy
    - Locally non-integrated/integrated, group wide standardized/non-standardized processes, shared service center and outsourcing
  - Reporting processes to the holding company
    - Different reporting concepts
- Summary

## Change of financial business processes are very needed

### Three Drivers

- Historical drivers:
  - huge number of local and heterogeneous finance IT systems
  - huge number of non standardized processes and data interfaces
- Internal company demands to
  - reduce costs
  - faster reporting (fast close)
  - increase frequency of reporting (quarterly, monthly)
  - increase flexibility
- Regulatory pressure:
  - increasing demands of US-GAAP/IFRS and its impact on processes and data
  - Corporate Governance, SOX 404, 409

## CFO's alternatives in redesigning financial processes

- CFO's alternatives in the past
  - integration of IT systems
  - standardization of different kinds of objects
  - shared service center
  - outsourcing
- XBRL
  - amends alternatives
  - establishes new possibilities to design financial processes.

Source: Ramin/Kesselmeyer/Ott, KoR 3/2006

## Internal Reporting Scenario Application-Specific Data Model vs. XBRL Standard Model (Willis/Hannon 2005)



Application-Specific Solution	XBRL Standards Solution
Language labels are applied at the application level	Language labels are defined in taxonomies (FR)
Linkages of data to company policies are manual and/or application specific, and in most cases, inadequate	Linkages of data to company policies are defined in taxonomies and can be applied across applications.
Data models are application specific	Data models are articulated in taxonomies, which can be applied across applications. Taxonomies are developed in component architecture to promote reusability.
Business rules and controls are embedded within specific applications or applied manually	Business rules are articulated based on standards and are managed across multiple applications
Elimination information is often obtained manually from the data sources below the consolidation application layer	Data are more transparent
Business Performance Management: Key Performance Indicators, KPI's definition are not consistently used	KPI's can be defined in taxonomies and thus consistently applied on group level

# Scenario Matrix – Local IT Architecture and Financial Processes

<i>Scenario Matrix estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>		Reporting Processes to the Holding Company			
<b>Local IT Architecture and Financial Processes</b>					

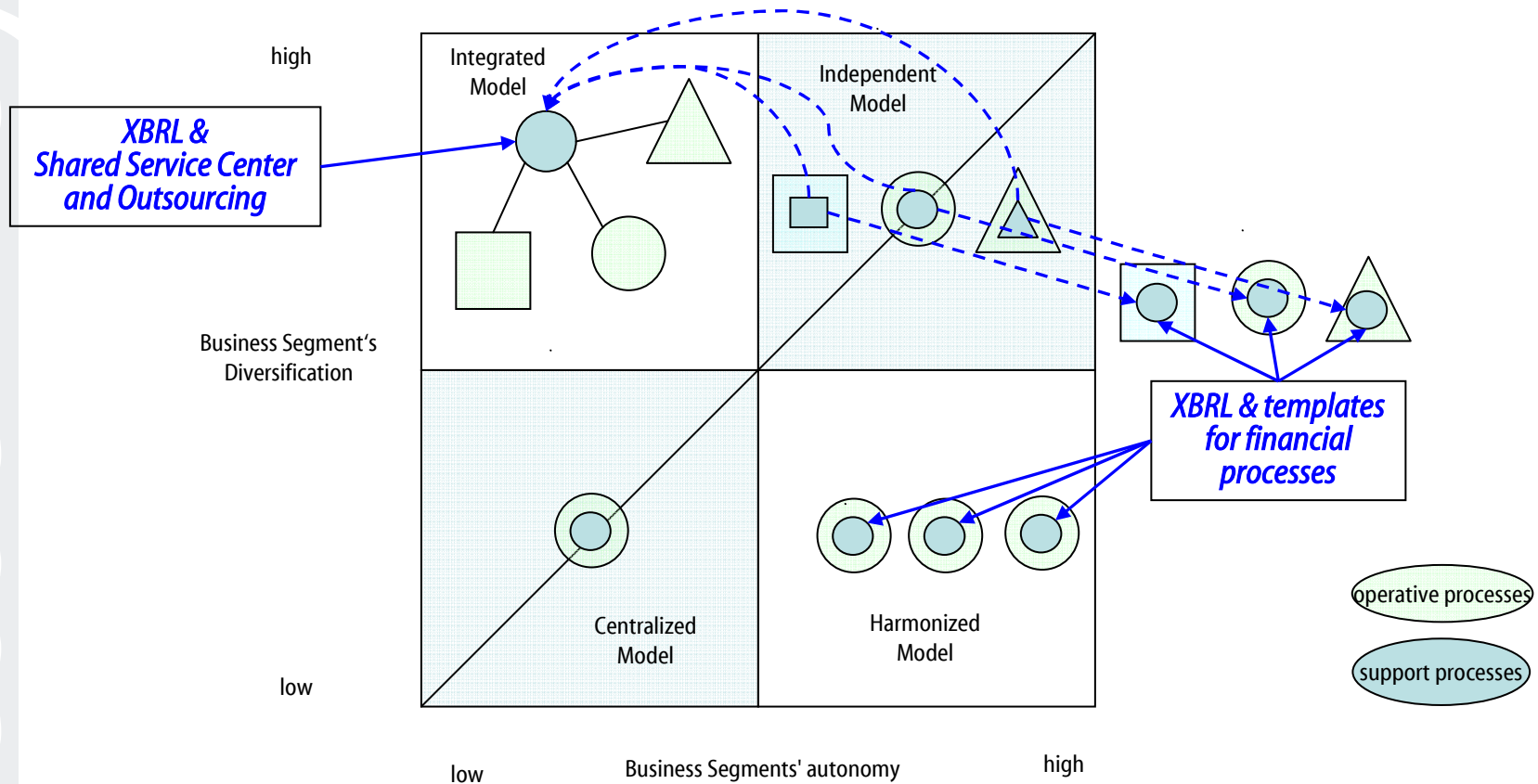
# Linkage between IT architecture, business processes in business segments and business segments' autonomy

- IT architecture – application software:
  - Centralized Model
    - business segment's processes are similar
    - business segments have a low degree of autonomy
  - Independent Model
    - business segment's processes are different
    - business segments have a high degree of autonomy
    - application architecture is independent from each other
  - Harmonized Model
    - business segment's processes are similar
    - business segments have a high degree of autonomy
    - it is efficient to harmonize IT architecture
  - Integrated Model
    - business segment's processes are different
    - business segments have a low degree of autonomy
    - it is efficient to centralize support processes, e.g. in Shared Service Centers

# IT architecture – application software in groups of companies

## group's IT strategy with XBRL

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Based on Werner et al. 2005, p. 51  
extended by Kesselmeier 2006

# Scenario Matrix

Scenario Matrix <i>estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>			Reporting Processes to the Holding Company			
Local IT Architecture and Financial Processes	A. Locally non-integrated IT architectures	good				

	Description	Advantage of using XBRL	Estimated advantages of using XBRL
A. Locally non-integrated IT architectures	No ERP Systems locally, Finance Processes non-standardized	XBRL could help to locally integrate different IT systems	good

# Scenario Matrix

Scenario Matrix <i>estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>			Reporting Processes to the Holding Company			
Local IT Architecture and Financial Processes	A. Locally non-integrated IT architectures	good				
	B. Locally integrated IT architectures	some advantages				

	Description	Advantage of using XBRL	Estimated advantages of using XBRL
B. Locally integrated IT architectures	ERP Systems locally, Finance Processes non-standardized, group chart of accounts for reporting purposes established	Advantages of reporting with XBRL to local externals (e.g. local banks, authorities)	some advantages

# Scenario Matrix

Scenario Matrix <i>estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>			Reporting Processes to the Holding Company			
Local IT Architecture and Financial Processes	A. Locally non-integrated IT architectures	good				
	B. Locally integrated IT architectures	some advantages				
	C. Locally integrated and group wide standardized IT architectures	good				

	Description	Advantage of using XBRL	Estimated advantages of using XBRL
C. Locally integrated and group wide standardized IT architectures	ERP Systems locally, finance processes standardized, using templates for processes (best practice processes), group chart of accounts for reporting purposes established	Modularity of taxonomies, extensibility, advantages for reusability and implementation costs for process templates. Advantages of reporting with XBRL to local externals (e.g. local banks, authorities)	good

# Scenario Matrix

Scenario Matrix <i>estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>			Reporting Processes to the Holding Company			
Local IT Architecture and Financial Processes	A. Locally non-integrated IT architectures	good				
	B. Locally integrated IT architectures	some advantages				
	C. Locally integrated and group wide standardized IT architectures	good				
	D. Shared Service Center and Outsourcing	good				

	Description	Advantage of using XBRL	Estimated advantages of using XBRL
D. Shared Service Center and Outsourcing	Finance processes (Public Accounting, Management Accounting/Controlling, taxes) operated by a shared service center or by external service provider	Modularity of taxonomies, extensibility, advantages for reusability and implementation costs. Economies of scale can be realized easier and earlier with XBRL than without XBRL.	good

# Scenario Matrix

Scenario Matrix <i>estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>			Reporting Processes to the Holding Company			
			1. Spreadsheet Reporting Concepts			
Local IT Architecture and Financial Processes	A. Locally non-integrated IT architectures	good	beneficial			
	B. Locally integrated IT architectures	some advantages				
	C. Locally integrated and group wide standardized IT architectures	good				
	D. Shared Service Center and Outsourcing	good				

	Description	Advantages of using XBRL - in addition to those for XBRL in general -	Estimated advantages of using XBRL
1. Spreadsheet Reporting Concepts	Parent company provides reporting structure in a spreadsheet and sends these tables to the subsidiary company, which fills out the tables and sends them back to the parent company. This can occur by email or fax.	<ul style="list-style-type: none"> <li>Subsidiaries can not modify the reporting structure (taxonomy).</li> <li>Headquarters can modify taxonomy on a short term basis (e.g. new validation rules)</li> <li>Import of data can be automatized</li> <li>Data validation at subsidiary level using headquarter's validation rules (taxonomy at headquarter's server)</li> </ul>	beneficial

## Scenario Matrix

Scenario Matrix estimated advantages of using XBRL - per scenario and in combination of scenarios			Reporting Processes to the Holding Company			
			1. Spreadsheet Reporting Concepts	2. Container Concepts		
			beneficial	good		
Local IT Architecture and Financial Processes	A. Locally non-integrated IT architectures	good				
	B. Locally integrated IT architectures	some advantages				
	C. Locally integrated and group wide standardized IT architectures	good				
	D. Shared Service Center and Outsourcing	good				

	Description	Advantage of using XBRL - in addition to those for XBRL in general -	Estimated advantages of using XBRL
2. Container Concepts	<p>a) "pure container-concept": Data is exported in a container by the subsidiary with those who are available gateways in the local finance system. A special reporting program is not used by the subsidiary.</p> <p>b) „container concept with reporting program“: reporting structure can be modified more easily, data validation rules can be integrated at subsidiary level.</p>	<ul style="list-style-type: none"> <li>Headquarters can modify taxonomy on a short term basis (e.g. new validation rules)</li> <li>Data validation at subsidiary level using headquarters' validation rules (taxonomy at headquarters' server)</li> </ul>	good

# Scenario Matrix

Scenario Matrix <i>estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>			Reporting Processes to the Holding Company			
			1. Spreadsheet Reporting Concepts beneficial	2. Container Concepts good	3. Online Concepts good	
<b>Local IT Architecture and Financial Processes</b>	A. Locally non-integrated IT architectures	good				
	B. Locally integrated IT architectures	some advantages				
	C. Locally integrated and group wide standardized IT architectures	good				
	D. Shared Service Center and Outsourcing	good				

	Description	Advantage of using XBRL - in addition to those for XBRL in general -	Estimated advantages of using XBRL
3. Online Concepts	With reporting systems from the online concept, data is not „assembled“ in a container by the subsidiary and then sent with the container. Instead, the subsidiaries are constantly associated online with the reporting system from the parent company. They work virtually of the parent company’s reporting system.	<ul style="list-style-type: none"> <li>• Similar to the advantages of the container concept</li> </ul>	good

# Scenario Matrix

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Scenario Matrix <i>estimated advantages of using XBRL - per scenario and in the combination of scenarios</i>			Reporting Processes to the Holding Company			
			1. Spreadsheet Reporting Concepts beneficial	2. Container Concepts good	3. Online Concepts good	4. Web Service Concepts excellent
Local IT Architecture and Financial Processes	A. Locally non-integrated IT architectures	good				
	B. Locally integrated IT architectures	some advantages				
	C. Locally integrated and group wide standardized IT architectures	good				
	D. Shared Service Center and Outsourcing	good				

	Description	Advantage of using XBRL	Estimated advantages of XBRL
4. Web Service Concepts	<ul style="list-style-type: none"> <li>Combination of XBRL GL and Web Services Standard</li> <li>Realization of Service Oriented Architecture (SOA) and Enterprise Services Bus (ESB) technology</li> <li>Web Services („a software system designed to support interoperable machine-to-machine interaction over a network“ – W3C Working Group 2004)</li> </ul>	<ul style="list-style-type: none"> <li>Integration of different IT Systems</li> <li>Drill down functionality for management and auditors</li> <li>„...Web services can be used to provide company specific processing, expression of rules, and enforcement of policy by standardizing and bringing central core functions that are made available to the applications of the individual entities“ (See Cohen 2006)</li> <li>Headquarter might get easy access to detailed operative data of subsidiary (consolidation processes, intercompany billing, intercompany price calculation, management accounting on business segments, fair value accounting)</li> <li>Standard processes on standard data</li> <li>Consolidation processes and other processes can be redesigned</li> <li>Reduced number of different processes in groups of companies, reduced burden on internal control systems, higher flexibility, lower costs</li> </ul>	excellent

# Scenario Matrix

<b>Scenario Matrix</b> <i>estimated advantages of using XBRL - per scenario and in combination of scenarios</i>			Reporting Processes to the Holding Company			
			1. Spreadsheet Reporting Concepts	2. Container Concepts	3. Online Concepts	4. Web Service Concepts
			beneficial	good	good	excellent
<b>Local IT Architecture and Financial Processes</b>	A. Locally non-integrated IT architectures	good	good	good	good	excellent
	B. Locally integrated IT architectures	some advantages	possible	good	good	excellent
	C. Locally integrated and group wide standardized IT architectures	good	unlikely	good	good	excellent
	D. Shared Service Center and Outsourcing	good	unlikely	good	good	excellent

# XBRL in Internal Financial Reporting of Groups of Companies - new possibilities for integration and standardization of finance & accounting processes and IT systems

## Summary:

- XBRL amends existing alternatives of redesigning the finance function (integration, standardization, shared service center, outsourcing)
- XBRL amends existing alternatives of reporting processes to the Holding Company
- XBRL GL combined with Web Service Technology (SOA) will be the next step. The combination provides the technical base for new designed financial processes. In the past it was too expensive or technically impossible. However, some issues still have to be solved to realize these benefits.
- Standard Processes (Web Services) on Standard Data (XBRL) is a key .
- XBRL combined with Web Services can reduce the burden of SOX 404
- XBRL combined with Web Service Technology, allows much more flexible financial processes and is perfect for the internal reporting in groups of companies.

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